NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
Moody's: Aa3
Standard & Poor's: AA-
Fitch: AA-
(See "RATINGS" herein.)

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

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Dated: Date of Issuance **Due: February 15, as shown on the inside cover**

The Roseville Natural Gas Financing Authority (the "*Issuer*") is issuing its Gas Revenue Bonds, Series 2007 (the "*Bonds*") under a Trust Indenture dated as of February 1, 2007 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "*Trustee*"), to finance the cost of acquiring a twenty-year supply of natural gas for the City of Roseville, California (the "*City*," and from time to time, the "*Municipality*") at a discount from the Index Price (defined herein) pursuant to an Agreement for Purchase and Sale of Natural Gas dated as of January 24, 2007 (the "*Prepaid Gas Agreement*"), between the Issuer and Merrill Lynch Commodities, Inc. (the "*Seller*"). All of the gas purchased by the Issuer will be sold to the Municipality pursuant to a Natural Gas Supply Agreement dated as of February 1, 2007 (the "*Supply Agreement*"), between the Issuer and the Municipality and is expected to be used in the Municipality's electrical power generating facilities. See "THE GAS SUPPLY ACQUISITION" herein.

Interest on the Bonds is payable semiannually on February 15 and August 15 of each year, commencing August 15, 2007. The Bonds will be issued in book-entry form through the facilities of The Depository Trust Company ("*DTC*"). Payments of principal of, premium, if any, and interest on the Bonds will be made directly to DTC, and will subsequently be disbursed to DTC Participants and thereafter to Beneficial Owners of the Bonds, all as described herein. See "TERMS OF THE BONDS—Book-Entry Only System" herein. The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "TERMS OF THE BONDS" herein.

The proceeds of the Bonds will be used to (i) finance the Prepayment under the Prepaid Gas Agreement, (ii) fund capitalized interest, (iii) pay the premium for the Customer Insurance Policy (defined below) and (iv) pay all or a portion of the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price (defined herein) thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State of California (the "*State*"), the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). The payment obligations of the Municipality under the Supply Agreement are limited obligations payable solely from the Municipality's electrical utility system revenues. In no event will the Municipality be obligated to exercise the power of taxation in order to make such payments. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The obligations of the Municipality to pay the Issuer for gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by Financial Security Assurance Inc. ("*FSA*") pursuant to a financial guaranty insurance policy issued by FSA to the Issuer and assigned by the Issuer to the Trustee (the "*Customer Insurance Policy*"). The Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered or deemed delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC." herein.

The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the "*Seller Guarantor*") pursuant to a guarantee (the "*Seller Guarantee*") in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the "*Funding Agreement*"). The Funding Agreement provides that the Seller will advance funds to the Issuer under certain circumstances in the event there is a deficiency in the Termination Fund or a deficiency in the Debt Service Fund. Under certain other circumstances, the obligation of the Seller to make any such advance to cover fund deficiencies is within the sole determination and discretion of the Seller. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "*Funding Guarantee*") provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "—The Prepaid Gas Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Bonds are offered, when, as and if issued by the Issuer and accepted by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Issuer by the City Attorney of the City of Roseville, California (the "*City Attorney*") as Issuer's Counsel. Certain legal matters will be passed upon for the Municipality by the City Attorney. It is expected that the Bonds will be available for delivery through DTC on or about February 6, 2007.

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

Merrill Lynch & Co.

Official Statement Dated: January 24, 2007

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Maturities, Amounts, Interest Rates, Yields and CUSIPS†

MATURITY (February 15)	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	CUSIP†
2009	$ 6,645,000	4.000%	3.770%	777863AA9
2010	6,650,000	4.000	3.830	777863AB7
2011	6,915,000	5.000	3.850	777863AC5
2012	7,265,000	5.000	3.880	777863AD3
2013	7,675,000	5.000	3.930	777863AE1
2014	8,030,000	5.000	3.970	777863AF8
2015	8,435,000	5.000	4.000	777863AG6
2016	8,860,000	5.000	4.050	777863AH4
2017	9,345,000	5.000	4.090	777863AJ0
2018	9,780,000	5.000	4.130	777863AK7
2019	10,275,000	5.000	4.160	777863AL5
2020	10,800,000	5.000	4.190	777863AM3
2021	11,385,000	5.000	4.220	777863AN1
2022	11,920,000	5.000	4.240	777863AP6
2023	12,520,000	5.000	4.260	777863AQ4
2024	13,155,000	5.000	4.280	777863AR2
2025	13,865,000	5.000	4.290	777863AS0
2026	14,530,000	5.000	4.310	777863AT8
2027	15,265,000	5.000	4.330	777863AU5
2028	16,035,000	5.000	4.340	777863AV3

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
311 Vernon Street
Roseville, California 95678

DIRECTORS AND OFFICERS OF THE ISSUER*

Jim Gray	Mayor/Chair
Gina Garbolino	Mayor Pro Tem/Vice Chair
Richard Roccucci	City Council Member/Board Member
Carol Garcia	City Council Member/Board Member
John Allard	City Council Member/Board Member
Craig Robinson	City Manager/Executive Director
Sonia Orozco	City Clerk/Secretary
Russ Branson	Administrative Services Director/Treasurer

TRUSTEE

The Bank of New York Trust
Company, N.A.
San Francisco, California

FINANCIAL ADVISOR

McDonald Partners, Inc.
Alamo, California

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

* The Issuer is a joint action agency created by the City and the City of Roseville Redevelopment Authority. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City. See "THE ISSUER" herein.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Municipality, FSA, the Seller, Seller Guarantor or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Municipality since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY STATE SECURITIES COMMISSION.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. (“FSA”) contained under the caption “THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.,” none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

The CUSIP numbers are included in this Official Statement for the convenience of the owners and potential owners of the Bonds. No assurance can be given that the CUSIP numbers for a particular maturity of Bonds will remain the same after the date of issuance and delivery of the Bonds. None of the Issuer, the Trustee or the Underwriter assumes any responsibility for the accuracy of such numbers.

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INTRODUCTION

This introduction is only a brief review of, and is qualified by more complete information contained elsewhere in, this Official Statement, including the cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

This Official Statement, including its appendices, is furnished to provide certain information in connection with the issuance and sale of $209,350,000 in aggregate principal amount of Gas Revenue Bonds, Series 2007 (the "*Bonds*") of the Roseville Natural Gas Financing Authority (the "*Issuer*"). The Issuer is a joint exercise of powers agency and public entity of the State of California that has been organized for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City of Roseville, California (the "*City*" and, from time to time, the "*Municipality*") at a discount from the Index Price (which means, for each Delivery Month and each day within a Delivery Month, the first of the month index for such Delivery Month stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey). See "THE ISSUER" and "THE GAS SUPPLY ACQUISITION."

Certain capitalized terms used in this Official Statement are used with the meanings assigned to such terms in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." In addition, certain capitalized terms used to describe provisions of the Prepaid Gas Agreement and the Supply Agreement (each defined herein) are defined under the caption "THE GAS SUPPLY ACQUISITION" or in such respective documents.

The Bonds will be issued under a Trust Indenture, dated as of February 1, 2007 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "*Trustee*"). The net proceeds from the sale of the Bonds will be used to make a lump sum prepayment (the "*Prepayment*") to Merrill Lynch Commodities, Inc. (the "*Seller*") to acquire a supply of natural gas (the "*Gas Supply*") for delivery over a period of twenty years for its customer, the Municipality. The Gas Supply is being purchased by the Issuer from the Seller pursuant to an Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "*Prepaid Gas Agreement*"), between the Issuer and Seller. The Gas Supply being purchased pursuant to the Prepaid Gas Agreement will be sold by the Issuer to the Municipality pursuant to a Natural Gas Supply Agreement, dated as of February 1, 2007 (the "*Supply Agreement*"), between the Issuer and the Municipality.

The Issuer is entering into the Prepaid Gas Agreement and the Municipality and the Issuer are entering into the Supply Agreement in order to secure for the Municipality a fixed quantity of natural gas. The Municipality will pay the Issuer a variable price based on a specified discount to the monthly market index for the Municipality's delivery point, the Pacific Gas and Electric Company Citygate ("*PG&E Citygate*"), for all gas delivered or deemed delivered under the Supply Agreement (the "*Contract Price*"). Failure by the Municipality to pay for gas delivered within two Business Days of when such payment is due will result in an immediate termination of the Supply Agreement and an obligation of the Seller to remarket the Gas Supply pursuant to the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Supply Agreement."

The foregoing descriptions of the Prepaid Gas Agreement and the Supply Agreement are very brief summaries of the provisions of such agreements. Prospective purchasers of the Bonds should carefully review the summaries of certain provisions of the Prepaid Gas Agreement and the Supply Agreement contained under the caption "THE GAS SUPPLY ACQUISITION."

The price received by the Issuer for gas sold to the City will be hedged by a commodity price swap agreement (the "*Commodity Swap*") between the Issuer and JPMorgan Chase Bank, N.A. (the "*Swap Counterparty*"), under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement. "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

In order to hedge its exposure under the Prepaid Gas Agreement, the Seller will enter into a separate commodity price swap agreement (the "*Seller Swap Agreement*") with the Swap Counterparty under which the Seller will pay a fixed gas price to the Swap Counterparty in return for the Swap Counterparty's payment to the Seller of a variable gas price based on the first of the month market index for PG&E Citygate. Nothing in the Seller Swap Agreement relieves the Seller of its obligation to perform under the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

The Indenture authorizes the Issuer and the Trustee to enter into a Forward Purchase Agreement with a Qualified Provider to purchase securities which are Qualified Investments with moneys to be deposited in the Debt Service Fund during the term of such Forward Purchase Agreement. The timely performance of the Qualified Provider may be necessary for the Issuer to have adequate funds to pay debt service on the Bonds. See "BONDOWNERS' RISKS—Performance of Qualified Provider" and "—Structured Financing." The Issuer and the Trustee will enter into a debt service forward delivery agreement dated as of February 1, 2007 (the "*Wachovia Forward Purchase Agreement*") with Wachovia Bank, National Association ("*Wachovia*").

The obligations of the Municipality under the Supply Agreement are generally limited to the payment of the Contract Price for gas delivered or deemed delivered to the delivery point specified in the Supply Agreement. The Municipality is obligated to make payments to the Issuer under the Supply Agreement if and only if gas is actually delivered (or deemed delivered) to the delivery point set forth in the Supply Agreement. The Municipality's payment obligations pursuant to the Supply Agreement are payable as operation expenses from the revenues of the Municipality's electric utility system. The Municipality's payments for gas delivered or deemed delivered pursuant to the Supply Agreement (and only such payments) will be guaranteed by Financial Security Assurance Inc. ("*FSA*") pursuant to a financial guaranty insurance policy issued by FSA in favor of the Issuer (the "*Customer Insurance Policy*"). Other payments that may be payable by the Municipality to the Issuer under the Supply Agreement will not be covered by the Customer Insurance Policy. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Upon the occurrence of any of certain "Triggering Events" under the Prepaid Gas Agreement or (a) the imposition of certain taxes or (b) certain changes in applicable law and, in either case (a) or (b), the parties have been unable to equitably adjust their rights and obligations in light of such circumstances as provided in the Prepaid Gas Agreement (the "*Section 17 Events*"), the Prepaid Gas Agreement may be terminated and, upon such termination, amounts due by a party to the other party, including the Termination Amount (as defined in the Prepaid Gas Agreement) to be paid by the Seller, is to be invoiced and paid in accordance with the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION." The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the "*Seller Guarantor*") pursuant to a guarantee (the "*Seller Guarantee*") in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR AND THE SELLER GUARANTEE."

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the "*Funding Agreement*"). The Funding Agreement provides that the Seller will advance funds to the Issuer: (a) in the event that upon the early termination of the Prepaid Gas Agreement the amount in the Termination Fund, after the deposit in the Termination Fund of the Termination Amount due by the Seller under the Prepaid Gas Agreement and the transfer to the Termination Fund of amounts in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund, is less than the Redemption Price necessary to redeem the Bonds, including accrued interest to the Early Redemption Date and the amount necessary to pay a termination payment, if any, to the Qualified Provider, unless such deficiency was caused by a payment default by the Swap Counterparty (a *"Covered Termination Deficiency"*) or (b) in the event that there is a deficiency in the Debt Service Fund on any date because the Issuer has failed to receive regularly scheduled swap payments under the Commodity Swap due to the occurrence of (i) a termination event under the Commodity Swap where the Swap Counterparty is the affected party or (ii) an Issuer default under the Commodity Swap, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Commodity Swap is either terminated in accordance with its terms or, if the Commodity Swap is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence (a *"Covered Swap Deficiency"*). If there is a shortfall in the Debt Service Fund, the Swap Payment Fund or the Termination Fund for any other reason (a "*Covered General Deficiency*")*,* the Seller has the right, within its sole determination and discretion, to make an advance to cover such Fund deficiency. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "*Funding Guarantee*") provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

The Indenture precludes the Issuer from issuing any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incurring obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other of its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

This Official Statement and the Appendices hereto include and incorporate by reference financial and other information about the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA that may be relevant to a potential purchaser of the Bonds in considering the Municipality's ability to make the payments required to be made by it under the Supply Agreement, the Seller's ability to meet its gas delivery and payment obligations under the Prepaid Gas Agreement, the Seller Guarantor's ability to meet its obligations under the Seller Guarantee and the Funding Guarantee, FSA's ability to make payments under the Customer Insurance Policy and the Swap Counterparty's ability to make payments under the Commodity Swap.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement contains brief descriptions of, among other matters, the Issuer, the Municipality, the Seller, the Seller Guarantor, the Customer Insurance Policy, FSA, the Funding Agreement, the Bonds, the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Seller Swap Agreement, the Swap Counterparty, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries contained herein and in the Appendices hereto of various statutes, of the Indenture, and other documents are intended as summaries only and are qualified in their entirety by reference to such provisions, statutes, and documents; additionally, references herein to the Bonds are qualified in their entirety to the form thereof included in the Indenture. Copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available upon request, and upon payment to the Issuer of a charge for copying, mailing and handling, from Roseville Electric Utility, 2090 Hilltop Circle, Roseville, California 95747, Attention: Mr. Tom Green, (916) 774-5600. During the period of the offering of the Bonds, copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available, upon request and upon payment of a charge for copying, mailing and handling to Mr. Mark Widener, Merrill Lynch & Co., Global Markets and Investment Banking, 3455 Peachtree Road, The Pinnacle, Suite 200, Atlanta, Georgia 30326, (404) 264-3860.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer, the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Municipality or the Underwriter to give any information or to make any representations other than those contained herein in connection with the offer and sale of the Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer, the Municipality or the Underwriter.

BONDOWNERS' RISKS

Investment in the Bonds is subject to certain risks. Particular attention should be given to the risk factors described under this caption. Any one of these factors, among others, could affect the payment of principal and interest due on the Bonds and the market price of the Bonds. The extent of any such effect cannot be determined at this time. For additional information and investment considerations, see "APPENDIX A—INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM."

Limited Obligations of the Issuer

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). The transaction represented by the Prepaid Gas Agreement, the Supply Agreement, and the Commodity Swap represents the only significant business of the Issuer, and the Issuer has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. Accordingly, no financial or operating information with respect to the Issuer is included in this Official Statement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability" and "THE ISSUER."

Early Redemption of Bonds

Upon the occurrence of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to deposit the Termination Amount with the Trustee, for the account of the Issuer, which will be used, together with other funds, to redeem outstanding Bonds prior to their scheduled maturity as described under the caption "TERMS OF THE BONDS—Mandatory Redemption."

The Bonds are also subject to mandatory redemption prior to maturity if the Trustee receives notice to the effect that redemption of all or a portion of the Bonds is necessary to preserve the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. The Issuer, the Seller and the Municipality have made certain covenants and by contract terms are bound to take certain actions to minimize the likelihood of such a mandatory redemption. See "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement" and "—The Supply Agreement."

Financial Position of Municipality

The Municipality's obligations under the Supply Agreement are limited obligations payable solely as operating expenses of the Municipality's electric utility system. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability." While there can be no assurance that the ratings on the City's outstanding certificates of participation secured by net revenues of the Municipality's electric utility system will not be reduced or withdrawn, the electric utility system currently has outstanding ratings of A1/A+/A+ by Moody's Investors Service Inc. ("*Moody's*"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("*S&P*"), and Fitch Ratings ("*Fitch*"), respectively. See "APPENDIX A—ELECTRIC SYSTEM FINANCIAL INFORMATION—Indebtedness Payable from Net Revenues of the Electric System."

Although certain payment obligations of the Municipality under the Supply Agreement are insured by FSA pursuant to the Customer Insurance Policy, no assurance can be given that in the event the Municipality fails to make any such payment, the Contract Price will be such that the Customer Insurance Policy limit will not be exceeded. Such circumstances could result in an early termination of the Prepaid Gas Agreement and, in turn, the early redemption of the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.—Customer Insurance Policy Limit." See also "TERMS OF THE BONDS—Mandatory Redemption" and "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement." Any delay in payment under the Customer Insurance Policy could cause a delay or default in payments by the Issuer of principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information with respect to the Municipality and with respect to FSA contained in this Official Statement, including the Appendices, in assessing the capacity of the Municipality to make the payments it is required to make under the Supply Agreement and FSA's capacity to make the payments required under the Customer Insurance Policy.

Decline in Municipality Natural Gas Requirements

The gas that the Municipality will be obligated to purchase in any month ranges from 2,500 to 12,000 MMBtu/day, or approximately 53 percent of the Municipality's projected annual natural gas requirement. Although the Municipality is required to purchase and pay for all gas delivered or deemed delivered to it pursuant to the Supply Agreement, it is possible that the Municipality's gas purchase requirements under the Supply Agreement in any month will exceed its natural gas requirements for that month. The City may fail to complete or operate the electric generating facility that is intended to use all of the gas, *i.e.*, the natural gas-fired, combined-cycle electrical generating facility being constructed at Roseville Energy Park (the "*Project*"). Material delays in the Project schedule, a failure to complete the Project, or a failure of the Project to live up to performance expectations do not relieve the Municipality from its obligation to receive gas and to make payments under the Supply Agreement. If the Municipality cannot use gas delivered under the Supply Agreement on any day, the Municipality will resell the gas, either directly or in certain circumstances through remarketing by the Seller, and will bear all risk that the price received for its sale of surplus gas delivered under the Supply Agreement will be below the Contract Price.

Financial Position of Seller and Seller Guarantor

The Seller or Seller Guarantor will be obligated to make certain payments to the Trustee, for the account of the Issuer, upon a failure of the Seller to deliver or the Issuer to take gas under the Prepaid Gas Agreement, whether or not such failure is caused by Force Majeure (as defined in the Prepaid Gas Agreement). In addition, upon termination of the Supply Agreement due to a default by the Municipality, the Seller is obligated under the Prepaid Gas Agreement to remarket the Gas Supply and remit all remarketing proceeds to the Trustee. The ability of the Issuer to pay principal of and interest on the Bonds when due will depend upon the timely payment by the Seller or the Seller Guarantor of such Gas Payments (as defined in the Prepaid Gas Agreement) including, in the event of the termination of the Supply Agreement, remarketing proceeds, to the Trustee.

In the event of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to make a termination payment, and all of the outstanding Bonds will be subject to mandatory redemption prior to maturity. In addition, in the event a Covered Termination Deficiency exists, the Seller or Seller Guarantor is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay the Redemption Price of the Bonds (and accrued interest to the Early Redemption Date (defined herein), if any) will depend upon the payment by the Seller or Seller Guarantor of the Termination Amount and the Mandatory Termination Advance, if any, to the Trustee.

In the event there are insufficient funds in the Debt Service Fund and such failure is due to a Covered Swap Deficiency, the Seller, or the Seller Guarantor, is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay principal and interest when due will depend upon the timely payment by the Seller, or the Seller Guarantor, of the Mandatory Swap Advance to the Trustee.

No assurance can be given that the future financial position of the Seller or the Seller Guarantor will enable either of each to make such payments in a timely manner. Any delay in payment by the Seller or the Seller Guarantor could cause a delay or default in payments of the principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE SELLER, THE SELLER GUARANTOR, THE SELLER

GUARANTEE AND THE FUNDING GUARANTEE" in this Official Statement in assessing the capacity of the Seller and the Seller Guarantor to make the payments required to be made under the Prepaid Gas Agreement, the Funding Agreement, the Seller Guarantee and the Funding Guarantee.

Financial Position of Swap Counterparty

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely receipt of payments made under the Commodity Swap by the Swap Counterparty. The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the Swap Counterparty is required to post collateral as described herein. No assurance can be given that the future financial position of the Swap Counterparty will enable it to post sufficient collateral or make regular swap payments in a timely manner. A default by the Swap Counterparty will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days or, (b) if such assignment does not occur within 30 days, a termination of the Commodity Swap and an automatic termination of the Prepaid Gas Agreement. If the Swap Counterparty fails to make a swap payment and has failed to post collateral as required by the Commodity Swap, there may be a shortfall in the Debt Service Fund or the Termination Fund that is not required to be covered by the Seller under the Funding Agreement. In such event, there could be a delay or default in payment by the Issuer of principal and interest due on the Bonds.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Supplier are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made to a qualified replacement counterparty, the Commodity Swap will terminate, and an automatic termination of the Prepaid Gas Agreement will occur. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge" in this Official Statement in assessing the capacity of the Swap Counterparty to make the payments required to be made or to post collateral as required under the Commodity Swap.

Performance of Qualified Provider

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely performance by the Qualified Provider under the Forward Purchase Agreement for the Debt Service Fund. The Indenture requires that if the Qualified Provider is no longer rated at least Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, then the Forward Purchase Agreement is to require the Qualified Provider to post collateral or make such other security arrangements as the Issuer shall determine are appropriate for its interests. The Wachovia Forward Purchase Agreement provides that if Wachovia is no longer rated at least Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, then Wachovia is to post collateral, obtain a guarantee or assign the agreement to another Qualified Provider. The Indenture further requires that the Issuer (a) replace the Forward Purchase Agreement in the event that the rating of the Qualified Provider does not meet the minimum requirement and adequate security has not been provided and (b) adjust the Contract Price in the Supply Agreement in the event a substitute Forward Purchase Agreement generates lower investment income. Any delay by the Issuer in fulfilling its obligation to adjust the Contract Price, if necessary, could cause a delay or default in payments of principal and interest due on the Bonds.

Structured Financing

The Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Commodity Swap and the Forward Purchase Agreement have been structured so that the Revenues available to the Issuer, together with the amounts on deposit in certain of the Funds held by the Trustee under the Indenture and other amounts available to the Issuer, are expected to be sufficient at all times to provide for the timely payment of the scheduled debt service requirements on the Bonds, the Issuer's payment obligations to the Swap Counterparty under the Commodity Swap and the Issuer's obligations under the Prepaid Gas Agreement. The Issuer's ability to meet its obligations on the Bonds and those agreements will depend primarily upon the performance by the Seller of its gas delivery and other obligations under the Prepaid Gas Agreement (or the Seller Guarantor under the Seller Guarantee), timely payment by the Municipality under the Supply Agreement (or FSA under the Customer Insurance Policy), timely payment by the Swap Counterparty under the Commodity Swap, timely performance by the Qualified Provider under the Forward Purchase Agreement, and the performance by the Seller of its obligations under the Funding Agreement (or the Seller Guarantor under the Funding Guarantee).

The principal sources of the Revenues pledged to the payment of the Bonds are the amounts to be received by the Issuer from the sale of the gas to the Municipality under the Supply Agreement, payments received by the Issuer under the Commodity Swap, and the investment earnings received under the Forward Purchase Agreement. Whether those Revenues will be sufficient to enable the Issuer to meet all of its payment obligations on the Bonds and under the Prepaid Gas Agreement and Commodity Swap over the entire term of such agreements will depend upon various factors, including but not limited to:

- The prospects and financial and operational performance of the Seller, or the Seller Guarantor, and the continuing ability of each to timely meet its obligations under the Prepaid Gas Agreement, as well as its obligations under the Funding Agreement, for the term of the Bonds;

- Performance of the Municipality under the Supply Agreement;

- The prospects and financial and operational performance of the Swap Counterparty, or any replacement swap counterparty, and its continuing ability to timely meet its obligations under the Commodity Swap; and

- The ability of the Qualified Provider to meet its obligations under the Forward Purchase Agreement then in effect.

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SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth in the following table.

SOURCES:	
Par Amount of the Bonds	$209,350,000.00
Original Issue Premium	15,454,116.15
TOTAL	$224,804,116.15
USES:	
Prepayment of Prepaid Gas Agreement	$212,661,363.06
Capitalized Interest	10,391,964.17
Costs of Issuance[1]	1,750,788.92
TOTAL	$224,804,116.15

[1] Includes underwriter's discount, rating agency and legal fees, Customer Insurance Policy premium and other expenses.

TERMS OF THE BONDS

The Bonds are to be issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, and under and subject to the terms and conditions of the Indenture. Appendix C contains a summary of certain provisions of the Indenture. Prospective purchasers of the Bonds should read Appendix C for a more complete understanding of the terms of the Bonds.

General

The Bonds are issuable in fully registered form only, without coupons, in authorized denominations of $5,000 and any integral multiple thereof. The Bonds will be dated as of the date of issuance and will bear interest from that date to maturity at the rates per annum shown on the inside cover page of this Official Statement, payable on August 15 and February 15 of each year, commencing August 15, 2007 (each, an "*Interest Payment Date*"). The Bonds are scheduled to mature on the dates and in the amounts set forth on the inside cover page of this Official Statement.

Mandatory Redemption

Redemption Upon Early Termination. The Bonds are subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date (defined as the date which is the last day of the month which follows the month in which the Early Termination Date occurs) at a Redemption Price equal to the Amortized Value (defined below) thereof as of the Early Redemption Date, plus unpaid accrued interest to the Early Redemption Date.

"*Amortized Value*" means, with respect to any Bond to be redeemed, the principal amount of such Bond multiplied by the price of such Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of the Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bond and a yield equal to such Bond's original reoffering yield, which, in the case of certain dates, produces the amounts for all of the Bonds set forth in Appendix G hereto. See "APPENDIX G—SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS."

Redemption for Remediation. The Bonds are subject to mandatory redemption prior to maturity in whole or in part, on any Interest Payment Date, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date, if required under certain circumstances to maintain the tax-exempt status of the Bonds. In general, those circumstances relate to the failure to apply the Gas Supply for a Qualifying Use (as such term is defined in the Prepaid Gas Agreement).

Optional Redemption

The Bonds are subject to redemption at the option of the Issuer in whole on any date or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) on any Interest Payment Date, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (described below) for such Bonds minus 0.25 percent.

The "*Applicable Tax-Exempt Municipal Bond Rate*" is the "Comparable AAA General Obligations" yield curve rate for the stated maturity date as published by Municipal Market Data five Business Days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the annual yield to maturity, calculated using semi-annual compounding, of those tax-exempt general obligation bonds rated in the highest Rating Category by Moody's and S&P with a maturity date equal to the stated maturity date of such Bonds.

Notice of Redemption

When the Trustee receives notice from the Issuer of the Issuer's decision to optionally redeem Bonds, or when redemption of Bonds by the Trustee is required due to early termination of the Prepaid Gas Agreement or for remediation, each as described above, the Trustee is to give notice, in the name of the Issuer, of the redemption of such Bonds by first-class mail, postage prepaid, not less than 30 days (15 days in the case of any mandatory redemption under the Indenture) and not more than 45 days (30 days in the case of any mandatory redemption under the Indenture) prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose, as of the Regular Record Date. The notice will identify the Bonds to be redeemed and state (i) the redemption date, (ii) the Redemption Price or the manner in which it will be calculated, (iii) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (iv) the address at which the Bonds must be surrendered, and (v) that interest on the Bonds called for redemption ceases to accrue on the redemption date. The Trustee is not to give any notice of redemption with respect to a redemption of Bonds at the option of the Issuer, unless upon the giving of such notice, the Trustee holds funds sufficient to pay the Redemption Price of the Bonds to be optionally redeemed.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption. See "Book-Entry Only System" below.

Bonds Redeemed in Part

Upon surrender of a Bond redeemed in part, the Issuer will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds in Authorized Denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Notwithstanding anything in the Indenture to the contrary, so long as the Bonds are held in the Book-Entry System, the Bonds will not be delivered as set forth above; rather, transfers of Beneficial Ownership of such Bonds to the person indicated will be effected on the registration books of the Securities Depository pursuant to its rules and procedures. See "Book-Entry Only System" below.

Selection of Bonds to be Redeemed

If less than all of the Bonds of like maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed are to be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; provided, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed will be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee will treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

Registration and Exchange of Bonds; Persons Treated as Owners.

So long as the Bonds are maintained in book-entry form, the beneficial owners thereof will have no right to receive physical possession of the Bonds, and transfers of ownership interests in the Bonds will be made through book entries by The Depository Trust Company and its Participants, as described below under the subcaption "Book-Entry Only System."

The Trustee will maintain registration books for the registration and the registration of transfer of the Bonds. The transfer of any Bond may be registered only upon the books kept for the registration and registration of transfer of Bonds upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner in person or by his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer the Issuer will execute and the Trustee will authenticate and deliver in exchange for such Bond a new registered Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by this agreement.

The Trustee will not be required to make any such registration or registration of transfer of a Bond during the 15 days immediately preceding an interest payment date. Prior to due presentment for registration of transfer of any Bond, the Trustee will treat the registered owner as the person exclusively entitled to payment of principal and interest and the exercise of all other rights and powers of the owner.

Upon surrender thereof at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, Bonds may, at the option of the owner thereof, be exchanged for Bonds of the same maturity, of authorized denominations and bearing interest at the same rate. Every such exchange will be at the expense of the Issuer, except that the Trustee will, if requested by the Issuer, make a charge to any owner of a Bond requesting such registration in the amount of any tax or other governmental charge required to be paid with respect thereto.

Debt Service Requirements

Set forth in the following table are the debt service requirements (excluding capitalized interest funded with bond proceeds) on the Bonds in each year.

Year Ending February 15	Principal Amount	Interest[1]	Total
2009	$ 6,645,000.00	10,133,600.42	16,778,600.42
2010	6,650,000.00	10,068,750.00	16,718,750.00
2011	6,915,000.00	9,802,750.00	16,717,750.00
2012	7,265,000.00	9,457,000.00	16,722,000.00
2013	7,675,000.00	9,093,750.00	16,768,750.00
2014	8,030,000.00	8,710,000.00	16,740,000.00
2015	8,435,000.00	8,308,500.00	16,743,500.00
2016	8,860,000.00	7,886,750.00	16,746,750.00
2017	9,345,000.00	7,443,750.00	16,788,750.00
2018	9,780,000.00	6,976,500.00	16,756,500.00
2019	10,275,000.00	6,487,500.00	16,762,500.00
2020	10,800,000.00	5,973,750.00	16,773,750.00
2021	11,385,000.00	5,433,750.00	16,818,750.00
2022	11,920,000.00	4,864,500.00	16,784,500.00
2023	12,520,000.00	4,268,500.00	16,788,500.00
2024	13,155,000.00	3,642,500.00	16,797,500.00
2025	13,865,000.00	2,984,750.00	16,849,750.00
2026	14,530,000.00	2,291,500.00	16,821,500.00
2027	15,265,000.00	1,565,000.00	16,830,000.00
2028	16,035,000.00	801,750.00	16,836,750.00

[1] Net of capitalized interest on the Bonds (including investment earnings). See "SOURCES AND USES OF FUNDS."

Book-Entry Only System

Information concerning The Depository Trust Company ("*DTC*") and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer, the Underwriter, or the Trustee.

The Bonds will be available only in book-entry form in Authorized Denominations. The Depository Trust Company, New York, New York, will act as the initial securities depository for the Bonds. The Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Bank 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 Exchange Act. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's Participants (the "*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (the "*NSCC*," "*FICC*," and "*EMCC*," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the "*NYSE*"), 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 (the "*Indirect Participants*" and, together with the Direct Participants, the "*DTC Participants*"). DTC has S&P's highest rating: AAA. The rules applicable to DTC and DTC 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 Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 such Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be prepared and delivered as described in the Indenture.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be required to be prepared and delivered to DTC.

NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE

PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANTS OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OR ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

This Section describes the security and sources of payment for the Bonds. The information contained below includes descriptions of certain provisions of the Indenture. Reference is made to Appendix C for a more complete summary of certain provisions of the Indenture. Capitalized terms used in this Section and not otherwise defined in this Official Statement are used with the meanings assigned thereto by the Indenture.

Limited Obligations; Limitations on Liability

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture).

All payment obligations of the Municipality under the Supply Agreement, including the Municipality's obligation to pay the Contract Price to the Issuer for gas delivered or deemed delivered under the Supply Agreement, are limited obligations payable solely from the Municipality's electric utility system revenues. The Municipality has no obligation to make any payment to the Issuer for gas not delivered or deemed delivered to the Municipality in accordance with the Supply Agreement.

The City's obligation to pay the Contract Price for gas delivered or deemed delivered pursuant to the Supply Agreement will be classified as an operation expense of its electric utility system. Operation expenses, which also include payments for electric generation and transmission service to joint action agencies in which the City's electric utility system participates, are payable prior to outstanding obligations of the City in the principal amount of approximately $270 million payable from net revenues of the electric utility system.

Certain financial and operating data with respect to the Municipality's electric utility system, which may be relevant to an evaluation of the Municipality's ability to meet its payment obligations under the Supply Agreement, is included in Appendix A. The audited financial statements of the City of Roseville, California for the fiscal year ended June 30, 2006 is included as Appendix B. See "FINANCIAL STATEMENTS."

The Trust Estate

As security for payment of the principal of and premium, if any, and interest on the Bonds, the Issuer has pledged and assigned to, and granted a security interest to the Trustee in, the following described property (the "*Trust Estate*"):

(a) the proceeds of the sale of the Bonds (subject to the application of funds for the purposes and on the terms and conditions set forth in the Indenture);

(b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Seller Guarantee, the Supply Agreement, the Funding Agreement and the Funding Guarantee;

(c) the Revenues (defined below);

(d) any Termination Amount,

(e) any amounts paid as a Mandatory Termination Advance; and

(f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Revenues," as defined in the Indenture, means (i) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Seller Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of gas or otherwise with respect to the Gas Supply (but excluding therefrom: (A) any Termination Amount; (B) any Unearned Amount (defined herein); (C) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds for remediation; (D) amounts paid under the Supply Agreement after the termination thereof; and (E) any upfront payment made by a Qualified Provider); (ii) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (iii) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (iv) any Commodity Swap Receipts received by the Issuer; and (v) any amounts paid under the Funding Agreement or the Funding Guarantee (but excluding therefrom any amounts paid as a Mandatory Termination Advance (as defined in the Funding Agreement)).

Revenues and Flow of Funds

Pursuant to the Indenture, the Issuer has established the following Funds to be held by the Trustee (with the exception only of the Operating Fund, which shall be held by the Issuer):

(i) the Project Fund;

(ii) the Cost of Issuance Fund;

(iii) the Revenue Fund;

(iv) the Debt Service Fund;

(v) the Swap Payment Fund;

(vi) the Rebate Fund;

(vii) the Redemption Fund;

(viii) the Termination Fund; and

(ix) the Operating Fund.

Within the Funds held by the Trustee, the Trustee may create one or more accounts or subaccounts in any Fund as may facilitate the administration of the Indenture.

Project Fund

There will be paid into the Project Fund, from the proceeds of the Bonds, the amount specified in the Indenture (and set forth hereinabove under "SOURCES AND USES OF FUNDS"). Amounts in the Project Fund will be used to make the Prepayment to the Seller in accordance with the Prepaid Gas Agreement.

Cost of Issuance Fund

Money in the Cost of Issuance Fund will be used by the Trustee to pay Costs of Issuance as provided in the Indenture. Upon the receipt by the Trustee of a certificate of Written Request of the Issuer requesting the Trustee to close the Cost of Issuance Fund, the Trustee will transfer any moneys remaining in the Cost of Issuance Fund to the Debt Service Fund.

Revenue Fund

All Revenues are to be deposited promptly by the Trustee upon receipt thereof into the Revenue Fund. In each month during which there is a deposit of Revenues into the Revenue Fund (but in no case later than the respective dates set forth below), the Trustee is to credit to the following Funds in the following order of priority (except as provided in (ii) below, with the full amount to be transferred to any Fund in a month to be transferred to such Fund before any transfer is made to a fund with a lower priority), the amounts set forth below (such transfers to be made in such a manner so as to assure good funds in such Funds on the respective dates set forth below):

(i) To the Debt Service Fund: not later than the 25th of such month, or if such day is not a Business Day, then the next succeeding Business Day, the Scheduled Debt Service Deposit for such month, as set forth in the relevant schedule attached to the Indenture; provided, that if any moneys from the initial draw on the Customer Insurance Policy have been deposited in the Revenue Fund in such month, the Trustee shall transfer to the Debt Service Fund the Scheduled Debt Service Deposit for such month and the next succeeding month;

(ii) If the Issuer has issued obligations to refund Bonds that are payable from the Revenues on a parity with the Bonds, to the debt service fund or funds for such refunding obligations the amounts required to be deposited in such funds pursuant to the proceedings and documents pursuant to which such refunding obligations were issued; provided, that if there are not sufficient moneys in the Revenue Fund to make the full transfers required by this clause (ii) and clause (i) above, such transfers shall be made *pro rata* based on the respective amounts due;

(iii) To the Swap Payment Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount, if any, required so that the balance credited to the Swap Payment Fund equals the amount necessary for the payment of the Commodity Swap Payment, if any, coming due in such month;

(iv) To the Rebate Fund: not later than the last day of such month, the amount, if any, required so that the balance credited to the Rebate Fund equals the amount required to be on deposit in the Rebate Fund;

(v) To the Redemption Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount specified in a written direction of the Issuer for the optional redemption of Bonds; and

(vi) To the Operating Fund: not later than the last day of such month, the remaining balance in the Revenue Fund after making the foregoing transfers to the Debt Service Fund, the Swap Payment Fund, the Rebate Fund and the Redemption Fund.

The Scheduled Debt Service Deposits shall be adjusted as directed by the Issuer to reflect the optional redemption of Bonds and the redemption of Bonds for remediation purposes.

Debt Service Fund

The amounts credited to the Debt Service Fund from the Revenue Fund will be applied on each Bond Payment Date to the payment of Debt Service payable on such Bond Payment Date. Any amount remaining in the Debt Service Fund after each date for payment of maturing principal, other than Bond proceeds or the interest thereon to be to be retained therein for purposes of making future payments, are to be transferred to the Operating Fund.

Swap Payment Fund

Amounts credited to the Swap Payment Fund will be applied from time to time by the Trustee to the payment of the Commodity Swap Payments. Amounts credited to the Swap Payment Fund that the Issuer at any time determines to be in excess of the requirements of such Fund are to be applied to make up any deficiencies in the Debt Service Fund. Any balance of such excess not required to be so applied is to be transferred to the Revenue Fund.

Rebate Fund

The Trustee is to apply amounts in the Rebate Fund to the payment when due of the Rebate Requirements. Within the Rebate Fund, the Trustee will maintain such accounts as directed by the Issuer as necessary in order for the Issuer and the City to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions described herein, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and none of the Issuer, the City, the Trustee or the Owners has any rights in or claim to such moneys.

Redemption Fund

The Trustee is to deposit all amounts which are not Revenues received from the Issuer for deposit into the Redemption Fund, including amounts deposited in connection with a mandatory redemption of Bonds for remediation and optional transfers from the Operating Fund or any other source of funds. Amounts on deposit in the Redemption Fund are to be applied by the Trustee to the mandatory redemption of outstanding Bonds for remediation and/or for the optional redemption of Bonds as directed in a written direction of the Issuer.

Termination Fund

In the event an Early Termination Date is established for the Prepaid Gas Agreement, the Issuer will direct the Seller to pay the Termination Amount directly to the Trustee for the account of the Issuer. The Trustee will deposit the Termination Amount into the Termination Fund. On the 25th day of the month in which the Bonds are subject to mandatory redemption, after making any payments to be made from the Debt Service Fund and/or the Swap Payment Fund on such date, the Trustee is to transfer all moneys in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund to the Termination Fund. The amounts deposited into the Termination Fund are to be applied by the Trustee to the mandatory redemption of all outstanding Bonds on the Early Redemption Date pursuant to the Indenture.

To the extent that the balance in the Termination Fund is not sufficient to pay: (i) the Redemption Price plus accrued interest on the Bonds to be redeemed on the Early Redemption Date, and (ii) any amount due to the Qualified Provider under the Forward Purchase Agreement as a result of the termination of the Prepaid Gas Agreement, and such deficiency is a Covered Termination Deficiency, the Trustee is to provide notice to the Seller of a Covered Termination Deficiency under the Funding Agreement and draw the full amount of such deficiency as a Mandatory Termination Advance thereunder. The full amount of the Mandatory Termination Advance is to be deposited in the Termination Fund.

Operating Fund

The Issuer is to apply amounts credited to the Operating Fund to any one or more of the following (as the Issuer determines and without any order of priority):

(i) payment of administrative or other expenses of the Issuer;

(ii) rebates to the City;

(iii) the purchase or redemption of Bonds and expenses in connection therewith; and

(iv) any other lawful purpose of the Issuer.

Any purchase of Bonds (or portions thereof) by or at the direction of the Issuer pursuant to the Indenture may be made with or without tenders of Bonds and at either public or private sale, in such manner as the Issuer may determine.

Payments Under the Customer Insurance Policy

If the Trustee has not received payment from the Municipality of all or any portion of the Contract Price payments due by the second Business Day following the 25th day of any month (beginning on February 25, 2008), or if such day is not a Business Day, the next succeeding Business Day, the Trustee will make a claim under the Customer Insurance Policy for the unpaid portion of such Contract

Price payments on such date. The Trustee will deposit any amount received from FSA in the Revenue Fund and apply such amounts as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Revenues and Flow of Funds." The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, which may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Payments Under the Seller Guarantee

If at any time a payment is due to the Issuer by the Seller under the Prepaid Gas Agreement and the Trustee has not received the full amount of such payment, the Trustee will immediately make a demand for payment under the Seller Guarantee for the amount unpaid.

Pursuant to the Prepaid Gas Agreement, the Issuer or the Seller is to provide notice to the Trustee if either party establishes an Early Termination Date (defined herein) for the Prepaid Gas Agreement. In connection with the establishment of an Early Termination Date, the Issuer and the Seller are required by the Prepaid Gas Agreement to prepare and deliver to the Trustee invoices specifying amounts payable in connection with the termination of the Prepaid Gas Agreement. If any of such invoices specifies that amounts are payable by the Seller and the Trustee has not received the full amount of such payment by the end of the second Business Day following the Early Termination Date, the Trustee will make a demand for payment from the Seller Guarantor under the Seller Guarantee for the amount unpaid. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Seller Guarantee."

Payments Under the Funding Agreement

The Funding Agreement provides that in the event of a Covered Termination Deficiency or a Covered Swap Deficiency, the Seller will make a Mandatory Termination Advance or a Mandatory Swap Advance, as applicable, to the Trustee on the day which is one day after the Seller's receipt of notice of the Covered Termination Deficiency or the Covered Swap Deficiency (or if such day is not a Business Day, the next succeeding Business Day). In the event of a Covered General Deficiency under the Funding Agreement, the Seller may at its sole option advance funds to the Issuer in respect of such Covered General Deficiency. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement."

Payments Under the Funding Guarantee

If the Trustee has not received payment from the Seller of an advance due in respect of a Covered Termination Deficiency or a Covered Swap Deficiency, as applicable, the Trustee will immediately demand payment from the Seller Guarantor under the Funding Guarantee for the payment of such amount. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Funding Guarantee."

THE GAS SUPPLY ACQUISITION

General

The purchase of a portion of the Municipality's natural gas requirements from the Issuer for a twenty-year period will enable the Municipality to acquire a fixed supply of that portion of its natural gas requirements at a discount from the Index Price.

Deliveries of the natural gas to be purchased by the Municipality commence on January 1, 2008 and continue through December 31, 2027. The daily quantity of gas (the "*Daily Contract Quantity*") to be purchased by the Municipality during this period will vary from month to month, but not from year to year, and is set forth in Appendix D hereto. The Municipality has projected that the Daily Contract Quantity to be delivered in any month (the "*Monthly Contract Quantity*") will range from 25 percent to 65 percent of its monthly natural gas requirements. On an annual basis, the quantity of gas to be delivered under the Gas Supply Agreement represents 53 percent of the Municipality's projected natural gas requirements. In making this projection, the Municipality has assumed that its natural gas requirements will remain constant over the twenty-year period.

At this time, the City has no contractual commitment to purchase all or any portion of its remaining gas requirements from any particular supplier; however, the City intends to enter into one or more gas purchase agreements in order to secure the remaining portion of its natural gas requirements. The City has covenanted in the Supply Agreement to use all the gas purchased under the Supply Agreement to satisfy its natural gas requirements prior to the use of gas under any additional contract. The Supply Agreement does not prohibit or restrict the Municipality from entering into other gas supply agreements in the future, including agreements with the Seller, for all or any portion of its natural gas requirements.

The Prepaid Gas Agreement

Set forth below is a summary of certain provisions of the Prepaid Gas Agreement. This summary does not purport to be complete, and reference is made to the entire Prepaid Gas Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

Consideration for Delivery of Prepaid Gas; Security for Performance of Obligations

In consideration of Seller's agreement to deliver the Gas Supply under the Prepaid Gas Agreement, the Issuer (who is referred to in the Prepaid Gas Agreement as the "Purchaser") will pay to the Seller the Prepayment by wire transfer on the Closing Date.

The payment obligations of the Seller arising under or in connection with the Prepaid Gas Agreement are to be guaranteed by the Seller Guarantor pursuant to the Seller Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

Non-performance by Seller

If the Seller fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (a "*Seller Delivery Default*"), the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Issuer Failure to Receive Gas; Remarketing of Gas by the Seller

The Issuer's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of gas required to be received at such Delivery Point on such day from the Seller, is a "*Purchaser Receipt Failure*" under the Prepaid Gas Agreement. In such event, the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Optional Remarketing

So long as the Supply Agreement is in effect and no Anticipatory Tax Event Period has occurred and is continuing and no Tax Event (as such terms are defined in the Prepaid Gas Agreement) has occurred, if requested by the Issuer in writing, the Seller is to remarket that portion of the Gas Supply specified by the Issuer from time to time in each notice ("*Optional Remarket Gas*") as follows:

(a) Monthly Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more months by the Monthly Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Index Price.

(b) Daily Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more days by the Daily Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Spot Price.

Mandatory Remarketing

<u>Anticipatory Remarket Gas</u>. While the Supply Agreement is in effect, if the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by Municipality for a Qualifying Use at a price specified in the Prepaid Gas Agreement. If the Seller is unable to remarket such gas for a Qualifying Use, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

<u>Tax Event Remarket Gas</u>. While the Supply Agreement is in effect, if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by the Municipality for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price. If the Seller is unable to remarket such gas for a Qualified Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

<u>Termination Remarket Gas</u>. Upon receipt of notice that the Supply Agreement is no longer in effect, the Seller is to use commercially reasonable efforts to remarket all of the gas at the highest possible price, but in any event no less than the Contract Price; except that (a) if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Seller is obligated to remarket all of the gas for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price; and (b) if the Seller cannot remarket the gas for a Qualifying Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not

adversely affect the Tax-Exempt Status of the Bonds, the Seller is to remarket the gas to itself or a third party at the Contract Price.

Remediation

To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, the Issuer is obligated to apply, or caused to be applied, the Gas Supply for a Qualifying Use. To the extent certain amounts of gas are not applied for a Qualifying Use, the corresponding price paid for such gas ("*Proceeds Subject to Remediation*") may be applied to a Remediation Use. "*Remediation Use*" means, with respect to Proceeds Subject to Remediation, either: (a) the purchase of gas with such Proceeds Subject to Remediation and the sale of such gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of such moneys by the Municipality to the purchase of gas, which gas is applied by the Municipality for a Qualifying Use; or (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)(B)(2).

Under the Supply Agreement, the Municipality will establish and maintain a Remediation Fund so long as any Bonds are outstanding under the Indenture. The Municipality is to deposit in the Remediation Fund all amounts received with respect to gas remarketed for a Non-Qualifying Use. The Municipality is to use commercially reasonable efforts to cause all Proceeds Subject to Remediation in the Remediation Fund to be applied for a Remediation Use within twelve months of the date on which such funds were deposited in the Remediation Fund.

In the event that funds have been on deposit in the Remediation Fund for more than twelve months, or the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality is to make all Proceeds Subject to Remediation available to the Seller to apply to a Remediation Use within the limitations of the Prepaid Gas Agreement.

In the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, the Municipality is to transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by the Issuer and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds. See "TERMS OF THE BONDS—Mandatory Redemption" herein.

Force Majeure

Except with regard to a party's obligation to make payment(s) due under the Prepaid Gas Agreement, neither party will be liable to the other for failure to perform an obligation under the Prepaid Gas Agreement, to the extent such failure was caused by Force Majeure. During any Delivery Month in which all or a portion of the Monthly Contract Quantity is not delivered or received due to Force Majeure, the Seller is to pay the Issuer, in the manner provided for in the Prepaid Gas Agreement, an amount equal to the product of (i) the quantity of the Monthly Contract Quantity not taken because of the Force Majeure and (ii) the Index Price. Payment of such amount will satisfy Seller's obligation to deliver, and Issuer's obligation to receive, the gas that was not delivered or received due to Force Majeure.

Billing and Payment; Guarantee of Seller's Payments by the Seller Guarantor

On or before the 15th day of each month, from February 2008 to and including the month following the termination of the Prepaid Gas Agreement, the Seller is to prepare and deliver to the Issuer and the Trustee an invoice with respect to amounts accruing during the preceding month. In preparing such invoice, all amounts, charges and adjustments, other than Gas Payments and the proceeds of remarketing, contained in the Seller's statement are to be netted such that a single payment will be made by the party owing the net amount.

Unless a different time of payment is specified for a particular payment, payments are to be made by the party owing the payment on or before the 25th day of the month in which such invoice is delivered ("*Payment Date*"); provided, that if the Payment Date is not a Business Day, payment is due on the next succeeding Business Day. All payments by the Seller are to be made to the Trustee for deposit in the Revenue Fund except as follows: Termination Payments are to be made to the Trustee for deposit in the Termination Fund; Unearned Amounts are to be made to the Issuer for deposit in the Operating Fund; the proceeds of remarketing and net amounts owed by the Seller from remediation sales of gas or electricity by the Seller while the Supply Agreement is in effect are to be paid to the Municipality.

Triggering Events; Termination of the Prepaid Gas Agreement

Automatic Triggering Events. Under the Prepaid Gas Agreement, an automatic Triggering Event is to be deemed to have occurred upon the occurrence of any of the following events: (a) the early termination of any commodity price swap to which the Seller is a party due to the Seller's default or a termination event under which the Seller is the affected party, or (b) the early termination of the Commodity Swap for any reason other than the Issuer's default.

Triggering Event at the Option of the Issuer. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Issuer upon the occurrence of any of the following events:

(a) The Seller, and the Seller Guarantor on the Seller's behalf, fail to pay either: (1) any Gas Payment as invoiced or (2) fail to pay any undisputed amount due under the Prepaid Gas Agreement other than a Gas Payment, on the second Business Day following the applicable Payment Date or, if such Payment Date is not a Business Day, on the next succeeding Business Day.

(b) A Bankruptcy Event occurs with respect to the Seller or the Seller Guarantor.

(c) Any representation or warranty given by the Seller proves to have been false or misleading when made and such misrepresentation or warranty has had or could reasonably be expected to have a material adverse effect on the Seller's ability to perform its obligations to deliver gas or make any payment required under the Prepaid Gas Agreement related to the delivery of gas or the making of payments under the Prepaid Gas Agreement.

(d) For reasons other than Force Majeure or a Purchaser Receipt Failure, the Seller delivers (a) no gas (other than replacement gas deemed delivered by the Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for a period of five (5) consecutive days for which gas is required to be delivered, or (b) less than fifty percent of the gas required to be delivered on any particular day (not including replacement gas deemed delivered by Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for ten (10) cumulative days during any contract year during the Term of the Prepaid Gas Agreement.

(e) The occurrence of an Excess Gas Event. An "*Excess Gas Event*" means that subsequent to the issue date of the Bonds and after a Tax Event has occurred, due to events that occurred (or did not occur) or other changes in expectations, the gas to be delivered under the Prepaid Gas Agreement is no longer required for Qualifying Uses as evidenced exclusively by the following: (i) the Issuer or (while the Supply Agreement is in effect) the Municipality is unable to apply the gas then remaining to be delivered under the Prepaid Gas Agreement for a Qualifying Use; and (ii) the Seller does not remarket gas under the Prepaid Gas Agreement for a Qualifying Use at prices at least equal to the applicable prices set forth in the Prepaid Gas Agreement.

Triggering Event at the Option of the Seller. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Seller upon the occurrence of any of the following events: (a) the termination of the Commodity Swap due to the Issuer's default, or (b) the termination of the Seller Swap Agreement for reasons other than Seller's default.

Right to Establish Early Termination Date. Upon an Automatic Triggering Event described hereinabove, the Issuer shall, and in the case of a Triggering Event that is deemed to have occurred at the option of the Issuer or the occurrence of any of the Section 17 Events affecting the Issuer, the Issuer may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Seller and the Trustee specifying the relevant Triggering Event and the Early Termination Date. Upon a Triggering Event that is deemed to have occurred at the option of the Seller, as described hereinabove, or the occurrence of any of the Section 17 Events affecting the Seller, the Seller may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Issuer and the Trustee specifying the relevant Triggering Event and the Early Termination Date. In any case, the termination date so established is to be referred to as the "*Early Termination Date*," and the Term of the Prepaid Gas Agreement shall cease on the Early Termination Date. An Early Termination Date is to be the last day of a calendar month.

Payments on Early Termination; Redemption of Bonds

Accrued Amounts. Within two Business Days following the Early Termination Date, each party to the Prepaid Gas Agreement will submit to the other and the Trustee an invoice specifying any and all amounts known to be owed to it (and, with respect to payments other than Gas Payments, not disputed pursuant to the Prepaid Gas Agreement) by the other party under the terms of the Prepaid Gas Agreement, whether or not such amounts are otherwise then due and payable, including without limitation (i) invoiced amounts, and (ii) uninvoiced amounts and/or amounts payable for physical deliveries or settlements that occurred prior to the Early Termination Date, and the applicable party is to pay the amount so specified in the manner set forth in the Prepaid Gas Agreement.

Termination Amount and Unearned Amount. In the event an Early Termination Date has been established due to (i) the termination of any commodity swap to which Seller is a party due to the Seller's default or a termination event under which the Seller is the affected party, or (ii) the exercise of the Issuer's option to terminate after the occurrence of a Triggering Event at the Option of the Issuer, or (iii) a notice of termination by the Seller due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller will deposit the Termination Amount with the Trustee for deposit in the Termination Fund and the present value of the discount the Issuer would have received but for the early termination of the Prepaid Gas Agreement (the "*Unearned Amount*") with the Issuer for deposit in the Operating Fund.

Remarketing Proceeds and Termination Amount. In the event an Early Termination Date has been established due to (i) the termination of the Commodity Swap for reasons other than the Issuer's default, or (ii) the exercise of the Seller's option to terminate after the occurrence of a Triggering Event at the Option of the Seller, or (iii) a notice of termination by the Issuer due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller is to deliver to the Issuer, and the Issuer is to take delivery of, an amount of gas with a value equal to the Termination Amount at such Delivery Point or Delivery Points as shall be designated by the Seller. The Seller is then to immediately remarket such gas on behalf of the Issuer. The Seller is not to be obligated to acquire, deliver and remarket such gas if the Seller determines, in its sole judgment, that such acquisition, delivery and/or remarketing would adversely affect the market price for gas at any Delivery Point or Delivery Points for such gas. In all events, within two Business Days following the Early Termination Date, the Seller will deposit with the Trustee the amount, if any, received from the remarketing of gas pursuant to such provision of the Prepaid Gas Agreement plus the positive difference, if any, obtained by deducting such amount from the Termination Amount.

The Supply Agreement

Set forth below is a summary of certain provisions of the Supply Agreement. This summary does not purport to be complete, and reference is made to the entire Supply Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Supply Agreement shall be effective commencing on the date of its execution and continue in effect until December 31, 2027, unless terminated earlier due to certain defaults, as set forth therein, or the termination of the Prepaid Gas Agreement.

Delivery and Receipt Obligations; Payment by the Municipality

Beginning January 1, 2008, and on each day thereafter during the remaining Term of the Supply Agreement, the Issuer is to deliver, or cause to be delivered, and Municipality is to receive the Daily Contract Quantity pursuant to the terms of the Supply Agreement.

Consideration

The Municipality is to pay the Contract Price for all gas delivered or deemed delivered by the Seller. The Municipality is to pay the Contract Price payments irrespective of any dispute or claim of Force Majeure disputed by the Issuer.

Issuer Delivery Default

If the Issuer fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (an "*Issuer Delivery Default*"), the Municipality will have no obligation to pay for any of the Gas Supply that was not delivered as a result of such Issuer Delivery Default.

Municipality Receipt Failure

The Municipality's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the Delivery Point of the quantity of gas required to be received at such Delivery Point is a "*Municipality Receipt Failure*" under the Supply Agreement. The Municipality will be liable for the Contract Price for all gas as to which there is a Municipality Receipt Failure. Pursuant to the Prepaid Gas Agreement, upon the failure of the Issuer to meet its obligation to receive any gas to be delivered thereunder for any reason other than Force Majeure, the Seller is obligated to make certain payments to the Issuer. The Issuer will agree in the Supply Agreement to credit against the Contract Price payments due from the Municipality in any month the amount paid by the Seller in such month with respect to an Issuer Receipt Failure.

Billing

The payment of the monthly net amount payable by the Municipality for gas delivered or deemed delivered under the Supply Agreement is to be made by the Municipality on the 25th day of the next succeeding month; provided, that if such payment date is not a Business Day, payment is due on the next succeeding Business Day. Except as otherwise provided in the Supply Agreement with respect to payments due to the Seller from the Remediation Fund, all payments by the Municipality are to be made to the Revenue Fund.

Security for Performance of Obligations

The obligation of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed under the Customer Insurance Policy. The Customer Insurance Policy insures only the Contract Price payments required to be made by the Municipality and does not insure any other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Source of Municipality's Payments

The Municipality will agree in the Supply Agreement to make the payments it is required to make thereunder from the revenues of its electric system, and only from such revenues, and as a charge against such revenues, as an operating expense of its electric system and as a cost of fuel for its electric generating units; provided, that the Municipality, in its discretion, may apply any legally available monies to the payment of amounts due under the Supply Agreement. The Municipality will covenant and agree in the Supply Agreement that it will establish, maintain, and collect rates and charges for its electric system so as to provide revenues sufficient, together with all available electric system revenues, to enable the Municipality to pay to the Issuer all amounts payable under the Supply Agreement and to pay all other amounts payable from the revenues of the Municipality's electric utility system, and to maintain any required reserves.

Termination of Supply Agreement

Notwithstanding anything in the Supply Agreement to the contrary, the Supply Agreement will automatically terminate, without the necessity of any action by, or notice to, either party upon the termination of the Prepaid Gas Agreement or upon the failure of the Municipality to make a Contract Price payment within two Business Days of the date such payment is due.

Covenants of the Parties Regarding Federal Tax Issues

Notwithstanding anything in the Supply Agreement to the contrary, the parties thereto agree to comply with any certifications made to, or procedures required by, Tax Counsel to protect the Tax-Exempt Status of the Bonds regarding the sale, delivery, purchase or receipt of gas pursuant to the terms of the Supply Agreement, the application of any Proceeds Subject to Remediation or any other proceeds in connection with the gas, and any other matters affecting the Tax-Exempt Status of the Bonds.

Special Obligations of Issuer

Notwithstanding anything to the contrary contained in the Supply Agreement: (i) the obligation of the Issuer to deliver gas under the Supply Agreement is limited to the delivery of gas which the Issuer receives under the Prepaid Gas Agreement; (ii) the obligation of the Issuer to pay any amount under the Supply Agreement or to give credits against amounts due from the Municipality under the Supply Agreement is limited to amounts the Issuer receives under the Prepaid Gas Agreement or otherwise available to the Issuer in connection with the transaction for which such payment or credit relates; (iii) any imbalance, transportation, tax, or indemnification charges for which the Issuer is responsible under the Prepaid Gas Agreement are to be considered imbalance, transportation, tax, indemnification charges incurred by the Issuer under the Supply Agreement; and (iv) any event of Force Majeure affecting the delivery of gas by the Seller under the Prepaid Gas Agreement will be considered an event of Force Majeure affecting the Issuer with respect to the delivery of gas under the Supply Agreement.

The Commodity Price Hedge

The Commodity Swap

The variable price received by the Issuer for gas sold to the City will be hedged by the Commodity Swap under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement.

The monthly floating and fixed payments that are to be made by the Issuer and the Swap Counterparty under the Commodity Swap will be netted pursuant to the terms of the Commodity Swap. Net payments required to be made by the Swap Counterparty under the Commodity Swap (*i.e.*, "Commodity Swap Receipts") are Revenues of the Issuer and are required to be deposited to the Revenue Fund created by the Indenture. Pursuant to the Indenture, net payments required to be made by the Issuer under the Commodity Swap (*i.e.*, "Commodity Swap Payments") are payable from Revenues immediately subsequent to the application of such Revenues to the required deposits to the Debt Service Fund. See "TERMS OF THE BONDS—Revenues and Flow of Funds."

The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch, respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the terms of the Commodity Swap require the Swap Counterparty to post collateral in the amount of the fixed swap rate times the monthly volume of gas that is the subject of the Commodity Swap for the most recent, current and next month. Such collateral will cover the maximum exposure to a default by the Swap Counterparty for a period of three consecutive months.

Pursuant to the terms of the Commodity Swap, a default by the Swap Counterparty or a termination event under which the Swap Counterparty id the affected party will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days, or if such assignment is not achieved in the specified time, (b) a termination of the Commodity Swap and the automatic termination of the Prepaid Gas Agreement.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Seller are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made, the Commodity Swap will terminate and an automatic termination of the Prepaid Gas Agreement will occur.

The Seller Swap Agreement

Concurrently with the Issuer's execution and delivery of the Commodity Swap, the Seller will enter into the Seller Swap Agreement with terms representing an offsetting match of the related commodity hedge transaction entered into between the Issuer and the Swap Counterparty.

Information Regarding the Swap Counterparty

Set forth below is certain publicly available information with respect to the Swap Counterparty. No representation is made by Issuer as to the accuracy or completeness of the information. The Swap Counterparty has not guaranteed, nor is it responsible for payment of, the Bonds.

The Swap Counterparty, JPMorgan Chase Bank, National Association (referred to in this subsection as the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered, and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2006, the Bank had total assets of $1,173.7 billion, total net loans of $401.9 billion, total deposits of $613.3 billion, and total stockholder's equity of $92.0 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income as at September 30, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2005, of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co., as amended, and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information above regarding the Swap Counterparty relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this subsection of the Official Statement is correct as of any time subsequent to its date.

The Funding Agreement

Set forth below is a summary of certain provisions of the Funding Agreement. This summary does not purport to be complete, and reference is made to the entire Funding Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Funding Agreement provides that the Seller is obligated to make advances to the Issuer to cure Covered Termination Deficiencies and Covered Swap Deficiencies.

In the event a Covered Termination Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Termination Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Termination Advance is to be the amount necessary so that the amount on deposit in the Termination Fund on the Early Redemption Date will be sufficient to pay the Redemption Price and accrued interest to such Early

Redemption Date of the then outstanding Bonds and any termination payment that may be due to the Qualified Provider. See "TERMS OF THE BONDS—Revenues and Flow of Funds—Termination Fund."

In the event a Covered Swap Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Swap Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Swap Advance is the amount of the regularly scheduled swap payment that would have been made by the Swap Counterparty under the Commodity Swap had a termination event with respect to the Swap Counterparty or an event of default with respect to the Issuer not occurred.

The Funding Agreement also provides the Seller with the right to make one or more Optional Advances to cure any Covered General Deficiency. As provided in the Indenture, the Trustee is to give notice to the Seller within two Business Days upon becoming aware that a Covered General Deficiency exists and specifying the amount necessary to cure such Covered General Deficiency. Upon receipt of such notice the Seller may, in its sole discretion, but is not obligated to, make an Optional Advance. The Seller is to notify the Trustee and the Issuer of its decision whether or not to make an Optional Advance on the Business Day next following the day of receipt of such notice from the Trustee. If the Seller agrees to make an Optional Advance, the Seller will make such Optional Advance to the Trustee, on the second Business Day next following the day of receipt of such notice from the Trustee. The amount of each Optional Advance is to be the amount necessary to cure the Covered General Deficiency.

Amounts advanced pursuant to the Funding Agreement are to be deposited in accordance with the provisions of the Indenture relating to such advances. See "TERMS OF THE BONDS—Revenues and Flow of Funds." The term of the Funding Agreement is the same as that of the Indenture. The Seller's payment obligations under the Funding Agreement will be guaranteed pursuant to the Funding Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

THE ISSUER

Relationship to the City

The Issuer is a joint exercise of powers agency and public entity of the State created by the City and the City of Roseville Redevelopment Authority on December 6, 2006 for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City.

Board Members and Officers of the Issuer

The names of the officers and members of the Board of Directors of the Issuer are set forth in the following table:

NAME	POSITION	OCCUPATION	DIRECTOR TERM EXPIRES
Jim Gray	Mayor/Chair	Retired	2010
Gina Garbolino	Mayor Pro Tem/Vice Chair	Bank Vice-President	2010
Richard Roccucci	City Council Member/Board Member	Electrical Engineer/Consultant	2008
Carol Garcia	City Council Member/Board Member	Business Owner	2008
John Allard	City Council Member/Board Member	Bank Vice-President	2008
Craig Robinson	Executive Director	City Manager, City of Roseville	N/A
Sonia Orozco	Secretary	City Clerk, City of Roseville	N/A
Russ Branson	Treasurer	Administrative Services Director, City of Roseville	N/A

The directors and officers of the Issuer serve without compensation (except reimbursement of expenses), and no part of the Issuer's net earnings, income or assets may inure to the benefit of any private entity or person.

The Issuer's Limited Liability

The Issuer will enter into the Supply Agreement with the Municipality solely to facilitate the financing of the purchase of the Gas Supply. Under the Indenture, the Issuer assigns its rights and interests under the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee and the Funding Guarantee to the Trustee for the benefit of the owners of the Bonds. The owners of the Bonds will have no right to look to the Issuer, or any of its non-pledged assets, for any payment due on the Bonds. Furthermore, none of the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee, the Funding Guarantee and the Indenture creates a pecuniary liability on the part of any directors or officers of the Issuer.

As of the date of this Official Statement, the transaction represented by the Bonds, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap represent the only significant business of the Issuer.

Restriction on Additional Obligations

The Issuer currently has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. The Issuer has covenanted in the Indenture that it will not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE

The Seller and Seller Guarantor

Set forth below is certain publicly available information with respect to the Seller and the Seller Guarantor. The obligations of the Seller are limited to those set forth in the Prepaid Gas Agreement and the Funding Agreement, and the obligations of Seller Guarantor are limited to those set forth in the Seller Guarantee and the Advance Guarantee. Neither the Seller nor Seller Guarantor has guaranteed, nor is either responsible for the payment of, the Bonds.

The Seller, Merrill Lynch Commodities, Inc., is an indirect subsidiary of the Seller Guarantor, Merrill Lynch & Co., Inc. The payment obligations of the Seller under the Prepaid Gas Agreement and certain obligations of the Seller under the Funding Agreement are guaranteed by the Seller Guarantor. The Seller Guarantor is a diversified financial services holding company, which is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "*SEC*"). For further information concerning the Seller and the Seller Guarantor, see the consolidated financial statements of the Seller Guarantor and its subsidiaries included in the Annual Report on Form 10-K of the Merrill Lynch & Co., Inc. for the fiscal year ended December 30, 2005, subsequently filed quarterly reports, and any other documents which are publicly available, including any financial statements of the Seller Guarantor and its subsidiaries, that are included therein or attached as exhibits thereto, filed by Merrill Lynch & Co., Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the most recent Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds. Merrill Lynch & Co., Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-07182. Copies of Merrill Lynch & Co., Inc.'s SEC filings (including Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2005 and subsequently filed quarterly reports) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; and (ii) at the SEC's public reference room in Washington D.C.

The Seller Guarantee

Pursuant to the Seller Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any and all amounts payable by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Seller Guarantee, covenants that the Seller Guarantee will not be discharged except by complete payment of the amounts payable under the Prepaid Gas Agreement.

The Funding Guarantee

Pursuant to the Funding Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any advance to be made pursuant to the Funding Agreement to the Issuer by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Funding Guarantee, covenants that the Funding Guarantee will not be discharged except by complete payment of the amounts payable under the Funding Agreement.

THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.

Description of Customer Insurance Policy

The obligations of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by FSA pursuant to the Customer Insurance Policy issued by FSA in favor of the Issuer and the Trustee, as assignee of the Issuer.

Customer Insurance Policy Limit

The aggregate amount payable by FSA pursuant to the Customer Insurance Policy is subject to a policy limitation contained in the Customer Insurance Policy, which maximum insured amount is $29,760,000. In general, the policy will cover the Municipality's obligations to pay for two consecutive months of gas with the maximum monthly volumes up to a Contract Price of $40.00/MMBtu. The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, that may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Description of FSA

The following information has been supplied by FSA for inclusion in this Preliminary Official Statement. No representation is made by Issuer as to the accuracy or completeness of the information.

FSA accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding FSA and its affiliates set forth under this heading. In addition, FSA makes no representation regarding the Bonds, the tax-exempt status thereof, or the advisability of investing in the Bonds.

FSA 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, FSA'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, FSA'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 FSA 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 FSA 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 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 Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Bonds or the advisability of investing in the Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

ABSENCE OF BOND LITIGATION

There is no litigation of any nature pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof or any proceedings of the Municipality in connection therewith. The Underwriter will receive certifications from representatives of the Issuer and the Municipality at the closing of the sale of the Bonds to the effect that no such litigation is pending or, to their knowledge, threatened or anticipated.

APPROVAL OF LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Bonds are subject to receipt of the opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, in substantially the form set forth in Appendix E to this Official Statement, which will be delivered with the Bonds. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California, and for the Issuer and the City by the City Attorney of the City.

TAX MATTERS

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE

The Municipality, for and on behalf of itself and the Issuer, has covenanted in a Continuing Disclosure Certificate (the "*Undertaking*") for the benefit of the Beneficial Owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "*Rule*"*)* adopted by the SEC under the Exchange Act. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Undertaking, including termination, amendment and remedies, are set forth in the Undertaking, the form of which is attached to this Official Statement as Appendix F. Pursuant to the Supply Agreement, the Municipality has agreed to provide to the Issuer, upon its request, annual operating and financial information relating to its electric utility system as required by the Rule to the extent the Rule is applicable to issuance of the Bonds. Failure by the Municipality to comply with its undertaking is not a default under the Supply Agreement, but any such failure entitles the Issuer and the owner or owners of any of the Bonds to take such actions and to initiate such proceedings as shall be necessary and appropriate to cause the Municipality to comply with its undertaking as set forth in the Supply Agreement, including the remedies of mandamus and specific performance.

The Municipality is obligated under undertakings pursuant to the Rule with respect to certain of its outstanding indebtedness. Such undertakings generally require the filing of annual report within seven months after the end of each fiscal year, or January 31 of each year based on the City's current fiscal year ending on June 30. There has been one instance in the previous five years, for the fiscal year ending June 30, 2003, in which the Municipality has failed to file the annual report under its continuing disclosure undertaking within the required time period. The report was due on January 31, 2004 and was filed on February 19, 2004. In addition, the Municipality did not timely file a notice of the failure to file the January 31, 2004 annual report as required by previous undertakings.

The Municipality has now filed all annual reports required to be filed as of the date of this Official Statement. The Municipality has agreed to put procedures in place to ensure that in the future, the obligations of the Municipality under its continuing disclosure undertakings will be satisfied in a timely manner.

A failure by the Municipality to comply with the Undertaking will not constitute an event of default under the Indenture, and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. A failure by the Municipality to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

FINANCIAL STATEMENTS

No financial statements for the Issuer are included herein. The financial statements of the City of Roseville, California for the year ended June 30, 2006 attached hereto as Appendix B have been audited by Maze & Associates, A Professional Corporation, Pleasant Hill, California, for the period indicated in their report thereon included in Appendix B.

FINANCIAL ADVISOR

McDonald Partners, Inc. (the "Financial Advisor") has assisted the Issuer with various matters relating to the planning, structuring and delivery of the Bonds. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or any other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "*Underwriter*") has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at an aggregate underwriting discount of $1,008,153.28 from the initial public offering prices set forth on the inside cover page hereof. The obligation of the Underwriter to purchase the Bonds is subject to certain terms and conditions set forth in the purchase contract entered into between the Underwriter and the Issuer. Specifically, the Underwriter is obligated to purchase all the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter.

CERTAIN RELATIONSHIPS

The Seller, Merrill Lynch Commodities, Inc., is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Underwriter, Merrill Lynch, Pierce, Fenner & Smith Incorporated, is also a wholly-owned subsidiary of Merrill Lynch & Co., Inc. The financial obligations of the Seller are guaranteed by Merrill Lynch & Co., Inc., to the extent set forth in the Seller Guarantee and the Funding Guarantee. Neither the Seller nor Merrill Lynch & Co., Inc. has guaranteed or is responsible for the payment of the Bonds. The obligations of the Seller and, by virtue of the Seller Guarantee, Merrill Lynch & Co., Inc., are limited to those set forth in the Prepaid Gas Agreement. Neither Merrill Lynch & Co., Inc. nor the Seller takes any responsibility for the information set forth herein other than the information set forth under the caption "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

As described under the caption "THE ISSUER—Relationship with the City," the Issuer is a joint action agency, whose members include the City and the City of Roseville Redevelopment Agency and whose Board of Directors is the same as the City Council of the City and the Board of Directors of the City of Roseville Redevelopment Agency. The officers of the Issuer are employees of the City.

The City Attorney for the City is an employee of the City. The City Attorney is representing both the Issuer and the City in connection with the issuance of the Bonds and the transactions represented by the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap.

RATINGS

The Bonds have been assigned the ratings set forth on the cover page of this Official Statement. Each of these ratings reflects only the view of the rating agency assigning it; any explanation of the significance of the rating should be obtained from the rating agency itself. The Issuer and the Municipality furnished to the rating agencies certain materials and information relating to the Bonds, themselves, FSA, the Seller and Seller Guarantor. Generally, rating agencies base their ratings on such materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any downward change in or withdrawal of a rating could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The summaries and explanations of provisions of law and documents in this Official Statement, including the information in the appendices, do not purport to be complete, and are qualified by this reference to such provisions, including the provisions in the Indenture and the other documents discussed above under the caption "INTRODUCTION," where information is provided regarding how to obtain copies of such documents for a full and complete statement of their terms.

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

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: /s/ W. Craig Robinson

Title: Executive Director

APPENDIX A — INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM

THE CITY OF ROSEVILLE

Financial and economic data for the City of Roseville are presented in this Appendix for information purposes only. The Bonds are not a debt or obligation of the City, but are a limited obligation secured solely by the funds held under the Indenture.

The City of Roseville is located in Placer County, in California's Sacramento Valley near the foothills of the Sierra Nevada mountain range, about 16 miles northeast of Sacramento and 110 miles east of San Francisco. The City, with a population estimated to be approximately 105,000 at January 1, 2007, is the largest city in Placer County, as well as the residential and industrial center of the County.

There is a wide variety of land uses within the City. Most of the City's residential neighborhoods are located west of Interstate Highway 80; industrial facilities, including Hewlett-Packard, NEC Electronics, Inc. and SureWest Communications are concentrated in the north Roseville area.

Municipal Government

The City was incorporated on April 10, 1909 and is a charter city. The City operates under the council-manager form of government, with a five-member City Council elected at large for staggered four-year terms. At each election, the council member receiving the most votes is appointed mayor pro-tempore for two years and becomes mayor for the final two years.

City services include, among others, police and fire protection, library services, street maintenance, and parks and recreation. The City also owns two golf courses and provides its own electricity, water, sewer and refuse services to its citizens.

Population

Between 2001 and 2005, the City's population increased 25.5 percent, compared to a 21 percent increase for the County and 6.8 percent for the State for the same period. The City's growth in population is shown below.

City of Roseville
Population
2001 through 2005

Year	City of Roseville	Placer County	State of California
2001	82,200	254,900	34,385,000
2002	85,800	265,700	35,000,000
2003	93,300	283,500	35,612,000
2004	96,900	296,579	36,271,091
2005	103,185	308,431	36,728,196

Source: California State Department of Finance.

Major Employers

The following table sets forth the largest employers in the City as of June 30, 2006:

CITY OF ROSEVILLE
Major Employers
June 30, 2006

Employer Name	No. of Employees
Hewlett-Packard	3,857
Kaiser Permanente	3,062
Sutter Roseville Medical Center	1,922
Union Pacific Railroad	1,328
City of Roseville	1,233
Roseville Joint Union High School District	975
Roseville Elementary School District	840
NEC Electronics	800
PRIDE Industries	800
Wal-Mart	690

Source: City of Roseville Economic and Community Services Department.

THE ELECTRIC SYSTEM

History and Background

The City, through Roseville Electric, has been providing electrical power to its residents, businesses, and the City's street lighting system since 1912.

To provide a reliable supply of electric energy to its customers, the City participates in several resources developed by Northern California Power Agency (the "NCPA"), a consortium of municipal electrical utilities, and also purchases electric capacity from federal hydroelectric projects under a long term contract.

The remainder of the City's source of power supply is currently obtained through purchases on the open electricity market. See "Sources of Power Supply." The City is currently constructing a 160 MW natural gas fired generation plant ("Roseville Energy Park") that is expected to commence commercial operation in the summer of 2007.

See "THE ELECTRIC SYSTEM- Sources of Power Supply" below.

Organization and Management

Supervision by City Council and Roseville Public Utilities Commission. The City's Electric System is under the supervision of the City Council. The five-member Roseville Public Utilities Commission serves as an advisory board to the City Council on matters relating to all utilities owned and operated by the City. The City Council appoints all five members of the Public Utilities Commission. The Electric Utility Director manages the Electric System and reports to the Public Utilities Commission and the City Manager.

Senior Management. The Electric System's senior management consists of the following executives:

Tom Habashi, Electric Utility Director. Tom Habashi has served as Electric Utility Director since 1998. Mr. Habashi is a registered electrical engineer with a Bachelor of Science in Electrical Engineering and a Masters in Business Administration. He began his career as a junior engineering aide with the City of Burbank in 1981 and was promoted to assistant electrical engineer later that year. Mr. Habashi joined the Palo Alto Utilities Department as a Power Engineer in 1984 and was promoted to Senior Power Engineer in 1986, Senior Resource Planner in 1987, Manager of Resource Planning in 1992 and Assistant Director of Utilities, Resource Management in 1995.

David Brown, Assistant Electric Utility Director-Distribution. David Brown has served as Assistant Electric Utility Director-Distribution since June 2001. He began working for Roseville Electric in 1987 after graduating from California State University, Sacramento with a Bachelor of Science degree in Electrical Engineering. He is responsible for the distribution operations of the Electric System which include operating and maintaining the City's electric distribution system, preparing budgets, managing 70 employees, and planning system improvement projects and overseeing their design and construction. Mr. Brown is a registered electrical engineer in the State of California.

Tom Green, Assistant Electric Utility Director—Power Supply. Tom Green served as Power Supply Manager for Roseville Electric from April 2001 until assuming his current position in March 2005. Mr. Green is responsible for managing the City's electric supply portfolio including power market assessment, risk management, power plant generation, power purchases and sales, settlements, transmission, and administration. He is also responsible for the management of contractual relations with the Western Area Power Administration of the federal government (hereinafter, "Western"), NCPA and the California Independent System Operator ("ISO"). Prior to joining the City, Mr. Green was employed 13 years by NCPA where he led marketing and contractual activities related to bulk electric power services provided to NCPA members. Previously, he was employed for 11 years by the State of California, Department of Water Resources in the Department's Energy Division. Mr. Green graduated from California State University, Sacramento with a Bachelor of Arts Degree in Government.

Michelle Bertolino, Assistant Electric Utility Director, Administrative and Retail Services. Michelle Bertolino has worked at Roseville Electric since 2002. She is responsible for management of administrative and retail energy services which include financial analysis and forecasting, energy and load research and forecasting, ratemaking, budget development, demand side management, development of public benefits activities, energy efficiency programs and customer service activities including key and major account representation. Prior to joining the City, Ms. Bertolino was employed by the Sacramento Municipal Utility District and San Francisco Public Utilities Commission. She graduated from the University of California, Santa Barbara and attended the Graduate School of Management at the University of California, Davis. She received her Certified Public Accountant license from the State of California.

Employees

As of June 30, 2006, approximately 127 City employees were assigned specifically to the Electric System. Certain functions supporting the Electric System operations, including meter reading, customer billing, collections and accounting, are performed by the Finance Department of the City.

Most of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers. The current Memorandum of Understanding with the International Brotherhood of Electrical Workers expired on December 31, 2006. There have been no strikes or other work stoppages at the City, including the Electric System. A new four-year tentative agreement has been reached, subject to ratification by the International Brotherhood of Electrical Workers and the City Council of the City.

Retirement benefits to City employees, including those employees assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System (CALPERS) of California. As of June 30, 2006, the City had an unfunded pension liability of approximately $55.6 million (indicating the prior year's unfunded amount) including approximately $41 million in the miscellaneous category. The allocation of such liability to the electric department varies from year to year; for fiscal year 2005-2006 approximately 17 percent of the miscellaneous category was allocable to the Electric System.

Service Area, Customer Base and Demand

Service Area. The Electric System serves an area of approximately 36 square miles, coterminous with the City's borders. During fiscal year 2005-2006, it served 48,524 customers, as further described in Table 1 below. See "THE CITY OF ROSEVILLE" above for background and demographic information about the City.

Demand. As shown in Table 1 below, electricity use increased 2.5 percent during fiscal year 2004-2005 and 5.9 percent during fiscal year 2005-2006. The City attributes this growth to the vibrant economy in Roseville as well as market factors affecting electric consumption practice for the residential and small commercial market segments.

Customer Base. Since 2002 the Electric System's customer base has increased by 18 percent, or an average of nearly four percent per year. This growth rate has been a result of expansion in all sectors of the economy, and the strong residential growth trend which added over 6,600 residential units during that time frame.

The City has experienced significant commercial growth in the last four years including retail shopping areas, hotels and office space that have contributed to the City's economy.

Projected Growth in Customer Base. By the end of fiscal year 2006-2007, electricity use in the City is expected to increase by more than four percent compared to fiscal year 2005-2006 levels. See "THE ELECTRIC SYSTEM—Sources of Power Supply—Future Power Supply Resources" and "ELECTRIC SYSTEM FINANCIAL INFORMATION—Projected Operating Results."

The City attributes this projected increase to growth in most sectors of the local economy. Over the next five years growth is expected to continue. Retail, commercial, medical facilities and hotels are planned or under construction. Residential development also is expected to continue throughout the City, with over 7,000 new residences anticipated over the next five years. Future development is expected to include (a) areas west of the City limits annexed to the City and to be developed in accordance with the West Roseville Specific Plan, which includes approximately 3,300 acres and is approved for approximately 7,000 proposed residential units, (b) approximately 6,000 residential units at various infill locations within the City limits, and (c) a proposed annexation known as the MOU Remainder Area, which may bring over 2,000 dwelling units over the next five years and an additional 5,000 thereafter, as well as over 100 acres of commercial development.

The City is expecting several existing electricity customers to experience significant growth over the next few years. Kaiser Hospital and Sutter Hospital are increasing their operations significantly with the addition of medical office buildings, beds, an emergency room and a new surgery and intensive care unit addition. The bulk of the new load is expected by 2008. In addition, the Westfield Galleria Mall in Roseville is planned for expansion. The County of Placer is replacing its small justice facilities in the City with a regional Justice Center, including law enforcement offices, detention facilities, and courthouse. The Justice Center is currently projected to phase in from 2007 through 2009.

The City anticipates that the effect of the annexation and expected growth on the Revenues of the Electric System will be offset by increases in operating expenses in order to meet the increased electricity demand. The effect of these annexations has been incorporated into the projected operating results of the Electric System. See "CAPITAL PLAN" and "ELECTRIC SYSTEM FINANCIAL INFORMATION Projected Operating Results."

Historical Customers, Sales and Peak Demand. The average number of customers, electricity sales measured in kilowatt-hours ("kWh") and in revenues, and peak demand during the past five fiscal years, are listed below. The decline in peak demand for fiscal year 2004-2005 was primarily due to lower than expected temperatures.

Table 1
Customers, Sales and Peak Demand Fiscal Years Ended June 30

	2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change
Number of Customers									
Residential	36,373	38,054	4.62%	40,312	5.93%	41,883	3.90%	43,001	2.67%
Commercial	4,506	4,720	4.75%	5,101	8.07%	5,410	6.06%	5,523	2.08%
Total	40,879	42,774	4.64%	45,412	6.17%	47,294	4.14%	48,524	2.60%
kWh Deliveries									
Residential	297,252,852	335,789,626	12.96%	381,799,100	13.70%	392,815,270	2.89%	424,915,178	8.17%
Commercial	631,099,644	686,404,562	8.76%	717,219,609	4.49%	733,576,815	2.28%	767,561,991	4.63%
Total	928,352,496	1,022,194,188	10.11%	1,099,018,709	7.52%	1,126,392,085	2.49%	1,192,477,169	5.87%
Revenues									
Residential	$26,050,644	$29,062,613	11.56%	$34,565,885	18.94%	$36,306,339	5.04%	$40,900,083	12.65%
Commercial	45,495,357	49,331,010	8.43%	53,053,597	7.55%	55,577,366	4.76%	60,302,788	8.50%
Total	$71,546,357	$78,393,623	9.57%	$87,619,483	11.77%	$91,883,705	4.87%	$101,202,871	10.14%
Peak Demand	239,400	274,650	14.72%	294,600	7.26%	282,090	(4.25)%	319,260	13.18%

Source: City of Roseville

Ten Largest Customers. The ten largest customers of the City's Electric System, as of June 30, 2006, are shown in Table 2 below.

Table 2
Ten Largest Customers as of June 30, 2006

Customer	Type of Business	% of Total kWh	% of Total Revenues
NEC Electronics	Manufacturing	12.1%	9.2%
Hewlett-Packard	Office/Manufacturing	5.5	4.4
Roseville Wastewater Treatment	Utility	1.8	1.5
Cassie Hill Center	Data Processing	1.6	1.3
Kaiser Hospital	Medical	1.3	1.1
Sutter Roseville Medical Center	Medical	1.2	1.0
SureWest Communications	Communications	0.9	0.7
Urban Retail Properties	Shopping Mall	0.7	0.7
Southern Pacific	Railroad	0.7	0.5
Albertsons	Warehouse/Distribution	0.7	0.5
Total		26.4%	20.9%

Source: City of Roseville

Sources of Power Supply

General. The City acquires power supply from three major sources: a long-term contract with Western; entitlements to a percentage of the capacity and energy of certain NCPA generation projects; and the open market for electricity. Table 3 below provides a summary of the City's sources of power supply, which are further described in detail below.

Table 3
Sources of Power Supply Fiscal Year Ended June 30, 2006

Source	Capacity Available (MW)	Actual Power (GWh)	% of Total
Western[1]	67.0	297.8	23%
NCPA[1]			
Geothermal Project	10.0	71.7	6
Hydroelectric Project	29.0	116.6	9
Combustion Turbine Project No. 1	19.0	0.4	0
Steam Injected Gas Turbine Generator Project	18.1	21.7	2
Seattle City Light[2]	20.0	30.2	2
Open Market Purchases[3]	200.0	760.7	59
Total	362.9	1,299.1	

Source: City of Roseville

1 Entitlements, firm allocations, and contract amounts.

2 This is a seasonal exchange agreement whereby the City receives more capacity and Seattle receives more energy on an annual basis.

3 Net firm and non-firm energy purchases on the open market.

Western Base Resource Agreement.

Roseville has a long-term contract with Western that provides Roseville with approximately 4.5 percent (approximately 67MW) of the output of the Central Valley Project generation net of project use, first preference allocations and control area obligations. The contract provides varying amounts of capacity and energy depending on hydrology and water storage conditions. The term of the agreement extends through December 31, 2024.

NCPA Geothermal Project.

Description. NCPA has developed a geothermal project (the "NCPA Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California, in addition to the geothermal leasehold, wells, gathering system and related facilities, the NCPA Geothermal Project consists of two electric generating stations (Geothermal Plant I and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities.

Geothermal steam for the NCPA Geothermal Project is derived from geothermal property, which includes wellpads, access roads, steam wells and reinjection welts.

Ownership and Management. NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the NCPA Geothermal Project. NCPA manages the NCPA

Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the NCPA Geothermal Project.

Financing. NCPA financed the NCPA Geothermal Project with NCPA Geothermal Project Number 3 Revenue Bonds, of which $217.3 million were outstanding as of June 30, 2006 (which represents total debt not including approximately $25 million in debt that has been economically defeased). The annual debt service on these bonds ranges from $3.0 million to $56.4 million, with a final maturity of July 1, 2010. The City's share of debt service is approximately $2.4 million per year.

City's Entitlement. The City has purchased from NCPA, pursuant to power sales contracts, a 7.88 percent entitlement share in the NCPA Geothermal Project and is obligated to pay a like percentage of all of the debt service and operating costs of the NCPA Geothermal Project.

Operation. Due to a decline in the steam field production, the NCPA Geothermal Project is currently being operated at an average of 126 MW rather than the base load of 238 MW. NCPA has implemented a number of strategies to reduce the rate of decline in steam field productions, such as lowering steam turbine operating pressures to improve mass flow, and augmenting mass flow by managing the injection of plant condensate and supplemental water. These changes have been effective in reducing the decline in steam production.

Due to current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease, reaching approximately 113 MW by the year 2010, and remaining in excess of 72 MW through 2030, the end of the study period.

NCPA Hydroelectric Project Number One.

Description. NCPA's Hydroelectric Project Number One (the "NCPA Hydroelectric Project") consists of (a) three diversion dams, (b) the 252 MW Collierville Powerhouse, (c) the Spicer Meadow Dam with a 5.5-MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and on the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

Ownership and Management. The NCPA Hydroelectric Project (with the exception of certain transmission facilities discussed below) is owned by the Calaveras County Water District ("CCWD") and is licensed to CCWD by FERC under its license for Project No. 2409, which has a term of 50 years and expires in 2032.

Under a power purchase contract, NCPA (i) is entitled to the electric output of the NCPA Hydroelectric Project until fiscal year 2031-32, (ii) managed the construction of the NCPA Hydroelectric Project and (iii) operates the generating and recreational facilities of the NCPA Hydroelectric Project.

Under a separate FERC-issued license for Project No. 11197, with an expiration date coterminous with its license for Project No. 2409, NCPA holds the license to and owns two transmission lines from the NCPA Hydroelectric Project (the 230 kilovolt ("kV"); 1 kilovolt equals 1,000 volts).

Financing. NCPA financed the NCPA Hydroelectric Project through the issuance of the NCPA Hydroelectric Project Number One Revenue Bonds, of which approximately $501.1 million were outstanding as of June 30, 2006.

The City's nominal share of debt service is 12 percent, but the actual percentage share paid by the City is 9.9 percent due to certain economic defeasance portfolios established in 1998, under which a portion of the City's share of debt service was prepaid. The City's share of annual debt service (net of these economic defeasance portfolios) continues to the year 2032 and ranges from $2.4 million to $4.3 million.

City's Entitlement. The City has a 12 percent entitlement share of the generating output of the NCPA Hydroelectric Project.

Operation. The operation of the NCPA Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The NCPA Hydroelectric Project's average production is estimated to be 550 GWh annually, based on the 108-year record (1895 to 2003) of stream flows on the two rivers supplying water to the project.

NCPA Combustion Turbine Project Number One.

Description. NCPA has developed its Combustion Turbine Project Number One (the "NCPA Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two of the units are located in the City, two are in the City of Alameda and one is in the City of Lodi.

Financing. NCPA financed the NCPA Combustion Turbine Project through the issuance of the NCPA Combustion Turbine Project Number One Revenue Bonds, of which $24.8 million was outstanding as of June 30, 2006. The debt service on these bonds is approximately $4.3 million annually with a final maturity of August 15, 2010. The City's share in the debt service on these bonds is 13.58 percent. The City's share of annual debt service is approximately $600,000 per year.

City's Entitlement. Under a power sale contract, the City has purchased from NCPA a 13.58 percent entitlement share in the NCPA Combustion Turbine Project. As is typical of reserve and peaking resources, the average cost per kWh of power delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive.

Operation. The NCPA Combustion Turbine Project provides capacity (i) that is economically dispatched during the peak load period to the extent permitted by air quality restrictions and (ii) that is used to meet capacity reserve requirements (which is operated only during emergency periods when other resources are unexpectedly out of service).

NCPA Steam Injected Gas Turbine Generator Project, Unit One.

Description, in 1992, NCPA undertook the financing of its Steam Injected Gas Turbine (a "STIG"), Unit One, with a design rating of 49.9 MW located in Lodi.

Financing. NCPA financed the NCPA Steam Injected Gas Turbine Generator Project through the issuance of $152.3 million of Multiple Capital Facilities Revenue Bonds, all of which have since been refunded or defeased with a subsequent issue of refunding bonds, approximately $67.2 million of which was outstanding as of June 30, 2006. The annual debt service on these refunding Bonds ranges from $485,000 to $5.9 million, with a final maturity in 2026. The City's share of annual debt service is approximately $2.0 million per year.

City's Entitlement. The capacity and energy of STIG Unit One is purchased through a contractual arrangement among the City, Alameda, Lompoc and Lodi, under which the City has purchased from NCPA a 36.55 percent entitlement share in the NCPA STIG Unit One. NCPA has entered into arrangements on behalf of the NCPA STIG Unit One Participants to provide for a gas supply for STIG Unit One.

Operations

Seattle City Light Power Capacity and Energy Exchange Agreement. NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and the City, executed a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46 MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. The City has a 33.33 percent share of the benefits and burdens of the seasonal exchange agreement.

Open Market Term Purchase and Sale Agreements. The City enters into various fixed-price purchase or sale contracts on the open market at various times to meet its power supply requirements and hedge its portfolio costs consistent with its risk management policies. The City currently has one multi-year power purchase contract for 100 MW of on-peak energy with Morgan Stanley Capital Group, Inc. that expires on December 31, 2010. The City has sold back to Morgan Stanley on a forward basis 25MW of on-peak energy for the period January 1, 2007 through December 31, 2010 and 50 MW of on-peak energy for the calendar year 2008.

The City has also entered into several short-term purchases from a number of power suppliers. The terms of these short-term purchase agreements range from one to three months.

Future Power Supply Resources. The City is currently constructing the Roseville Energy Park. Roseville Energy Park generally consists of a nominal 120 megawatt (MW) natural gas-fired generation facility to be located on 12 acres of a larger City-owned parcel adjacent to and north of the Pleasant Grove Wastewater Treatment Plant. The plant includes the ability to peak-fire up to 160 MW nominal during summer peak demand conditions through the use of duct burners in the heat recovery steam generators. The project includes two Siemens combustion turbine-generators ("CTGs"), two Vogt heat recovery steam generators ("HRSGs"), a single condensing steam turbine generator ("STG"), a de-aerating surface condenser; a four-cell mechanical draft cooling tower; and associated support equipment. Gemma Power Systems California, Inc. is serving as the lead contractor for the Roseville Energy Park pursuant to an Engineering, Procurement and Construction contract. Engineering services are being provided to Gemma by Parsons E&C. The Roseville Energy Park is fully permitted and expected to commence commercial operations in the summer of 2007.

PG&E will own and maintain the new natural gas supply pipeline that will serve the Roseville Energy Park. The City will contract with natural gas suppliers to supply natural gas to the Roseville Energy Park via the PG&E pipeline network. The natural gas the City is obligated to purchase under the Gas Supply Agreement is expected to provide approximately 53 percent of the City's expected gas requirements for Roseville Energy Park.

In addition to the Roseville Energy Park, the City expects that it will obtain additional resources from market purchases or investment in generation facilities, either independently, through NCPA or other agencies.

Table 4
Projected Energy Requirements and Resources
Fiscal Years 2006-2007 through 2014-2015
(GWh)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
City-Owned Generation									
Roseville Energy Park	54	692	707	783	724	737	566	591	619
Joint Powers Facilities									
Geothermal Project	86	84	82	80	78	76	73	72	70
Hydroelectric Project	66	70	67	67	66	67	66	66	67
Combustion Turbine Project No. 1	7	1	1	1	1	1		-	0
Steam Injected Gas Turbine Generator Project	42	39	42	47	46	38	22	20	24
Subtotal:	253	887	900	979	916	918	727	749	780
Long-Term Purchases and Exchanges									
Western	153	153	153	153	153	153	153	153	153
Morgan Stanley Capital Group	430	245	123	123	62				
Seattle City Light	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Subtotal:	576	392	269	269	208	146	146	146	146
Net Short-Term Market Purchases (Sales)	506	70	224	185	349	448	675	685	687
Total Energy Resources	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612
Total Energy Requirements	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612

Source: City of Roseville.

Power Supply Risk Management

The Electric System has in place a rigorous risk management program to ensure that customers will, to the extent possible, be insulated from the volatility of energy supply (energy and natural gas) prices. The Electric System established a Risk Oversight Committee ("ROC"), risk management policies and procedures. The ROC meets quarterly to review energy trading activities and to ensure adherence to the risk management policies.

All energy purchases are made to supplement existing resources to meet forecasted load requirements. Generally, the City purchases or sells energy that is deficit or surplus to its retail customer needs independently within a 12-month horizon and by using the scheduling and load following services of ACES Power Marketing within a 30-day horizon. The City's risk management policies include short-term and long term measures.

In general, short-term measures limit market price exposure for the fiscal budget year to 5 percent or less of the City's budgeted purchased power cost and limit portfolio open volume to no more than +/-10 percent of forecast load.

The City's long-term risk management strategy provides a ceiling for the percentage of unhedged energy (electricity and natural gas) to meet expected loads as follows:

Fiscal Year	Minimum Hedged Supply	Maximum Unhedged Supply
1	90%	10%
2	80%	20%
3-5	70%	30%
6-10	40%	60%

Source: City of Roseville

The policy requires that the City purchase forward electric contracts and/or forward gas contracts to fulfill its long-term hedged supply requirement. In the event of decreases in expected sales levels, the policy may require that the City sell forward gas and/or electric contracts. The policy also permits the use of financial commodity contracts to limit price risk.

The City's natural gas procurement strategy will primarily involve purchasing natural gas for Roseville Energy Park's expected operation at a monthly index price. The City will manage daily dispatch variation through the purchase or sale of natural gas at the daily index price. The City expects to hedge its monthly index purchases with financial contracts in accordance with its risk management policies.

Regional Transmission Facilities

ISO Controlled Grid.

NCPA Project generation and most market purchases are delivered over the ISO Controlled Grid to the electric system of Western, to which the City is physically interconnected. Western energy purchases are delivered to Roseville solely over Western transmission facilities.

NCPA Geysers Transmission Project.

Ownership and Description. In order to meet certain obligations required of NCPA to secure transmission and other support services for the NCPA Geothermal Project, NCPA and its transmission project participants (including the City) undertook the "Geysers Transmission Project," which includes (a) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation, (b) additional firm transmission rights in this line, and (c) a central dispatch facility (see "- Dispatch and Scheduling" below).

Financing. NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, which were outstanding in the principal amount of approximately $5.5 million as of June 30, 2006. The City's share of debt service is approximately $60,000 per year.

City's Entitlement The City is entitled to a 14.18 percent share of the Geysers Transmission Project transfer capability, and is responsible for 14.18 percent of debt service on the Transmission Project Number One Revenue Bonds.

TANC California-Oregon Transmission Project.

Ownership and Description. Fourteen Northern California cities and districts, including the City, and one rural electric cooperative are members or associate members of a California joint powers agency known as the Transmission Agency of Northern California ("TANC").

TANC, together with the City of Vernon, California ("Vernon"), Western, three California districts and authorities and PG&E (collectively, the "COTP Participants") own the California-Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission power project between Southern Oregon and Central California. The COTP was placed in service on March 24, 1993, at a cost of approximately $430 million, and was financed through a combination of bonds and notes issued by TANC.

City's Entitlement. Under Project Agreement No. 3 for the COTP (the "TANC Agreement"), the City is entitled to 2.313 percent of TANC's share of COTP transfer capability (approximately 29.35 MW). In return, the City has severally agreed to pay, on an unconditional take or pay basis, 2.295 percent of the construction costs of the COTP, including debt service, and 2.313 percent of TANC's COTP operating and maintenance expenses. The City's share of annual debt service continues to the year 2024 and is approximately $700,000 per year.

City Use of COTP. The City uses its rights in the COTP to make power purchases for the Electric System and to deliver its share of the Seattle City Light contract energy.

Tesla-Midway Transmission Service.

The southern physical terminus of the COTP is near PG&E's Tesla Substation in the San Francisco Bay Area. The COTP is connected to Western's Tracy and Orinda Substations. TANC has arranged for PG&E to provide TANC and its members with 300 MW of firm bi-directional transmission capacity in its transmission system between its Tesla Substation and the Midway Substation (the "Tesla-Midway Service") under an agreement known as the South of Tesla Principles.

The City's share of this Tesla-Midway Transmission Service is 5 MW. The City utilizes its allocation of Tesla-Midway Transmission Service for firm and non-firm power transactions when available and economic to do so.

City Distribution System

The City owns and operates the electrical distribution system serving retail customers within the City's boundaries. The distribution system is connected to the Western system at the two connection points, the 230-kV Berry Street Receiving Station and the 230-kV Fiddyment Station. The distribution system consists of over 130 miles of overhead lines, 514 miles of underground lines and 14 substations. The City performs continued maintenance on its distribution system to sustain service reliability.

Dispatch and Scheduling

Beginning July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services and discontinued its participation in the NCPA Power Pool. NCPA continues to dispatch the NCPA power plants to meet the schedules submitted by APM. NCPA provides dispatch service from its dispatch control center located at its headquarters in the City.

Energy Efficiency and Conservation

AB 1890, the electric utility deregulation law, required the establishment of public benefit programs for investor owned and public power utilities through 2001. On September 30, 2000, the governor signed into law SB 1194 and AB 995, which extend the requirement to support public benefit electricity programs through January 1, 2012. The City funds these programs at five percent of gross revenues (approximately $5 million per year based on fiscal year 2005-2006 gross revenues).

Roseville Electric has developed a full portfolio of public benefits programs since 2001, addressing the four areas of concentration required by state law: low income assistance programs, renewable energy production, advanced electric technology demonstration and research and development, as well as energy efficiency programs.

Residential and commercial energy efficiency offerings focus on summer period consumption reduction and include programs for both existing facilities and new construction.

Plans for 2007 include Roseville Electric's BEST (Blueprint for Energy Efficiency and Solar Technology) Homes Program. The goal for the BEST Homes program is to ensure that 10-20 percent of all new homes built in Roseville utilize design criteria that substantially reduces the home's electricity bill. A typical BEST Home should create little or no demand on the electric grid during the summer peak period. The BEST Homes program offers generous financial incentives to builders who integrate energy efficiency and solar generation technology into new home construction.

Additionally, in 2007, Roseville Electric will implement a new residential load management program to reduce Roseville Electric's peak system load during the summer months of June, July, August, and September. The Load Control Program will be a voluntary program for City of Roseville residents. Load control devices will be installed on the customer's air conditioner or a programmable communicating thermostat will be installed inside the customer's home. These devices will allow Roseville Electric to send a signal to the device that will cycle the air conditioner off for short periods of time during system peak emergencies.

Insurance

The Electric System's insurance needs are handled by the Risk Management Division of the City's Human Resources Department. The City, including the Electric System, is self-insured for up to $500,000 for all insurance needs including casualty and liability and up to $250,000 for workers' compensation. The City has also joined with a group of other municipalities to participate in two joint powers authorities, the California Joint Powers Risk Management Authority, that provides excess coverage up to $25,000,000 for casualty and liability, and the Local Agency Workers' Compensation Excess Joint Powers Authority, for excess coverage up to $50,000,000 for workers' compensation.

Capital Improvement Plan

The City's currently anticipated capital improvement plan for the Electric System primarily encompasses both improvements to and expansion of the City's electricity distribution system and the final construction phases of the Roseville Energy Park. As shown in the Capital Plan below, the City is forecasting electric system capital spending of approximately $88 million over the next five years.

Table 5

Capital Improvement Plan Summary

Fiscal Year Ending June 30	Capital Improvement Projects
2006-07	$38,000,000
2007-08	22,000,000
2008-09	11,000,000
2009-10	9,000,000
2010-11	8,000,000
Total:	$88,000,000

Source: City of Roseville

The City expects to fund a portion of the capital improvement program with proceeds of its Series 2004 Certificates of Participation and its Series 2005 Certificates of Participation. As of June 30, 2006, there were approximately $81,000,000 of unexpended construction proceeds available for such purpose. The remaining capital expenditures are expected to be financed with revenues collected from rates.

Electric Rates

Rate-Setting Procedure. Under the City Charter and State law, the City has the exclusive jurisdiction to set electric rates within its service area by ordinance, which requires a majority vote of the City Council. These rates are not subject to review by the California Public Utilities Commission or any other state or federal agency.

The City Council reviews Electric System rates periodically and makes adjustments as necessary.

The City Council is also authorized by the City Charter to set charges, pay for and supply all electric power to be furnished to customers according to such schedules, tariffs, rules and regulations as are adopted by the City Council. The City Charter provides that the City Council will have the power to charge equitable rates for the electric services furnished and for building up the electric properties so as to conserve their value and increase their capacity as needed by the City.

In addition, the City Charter provides for the maintenance of the Electric Fund for the Electric System into which is deposited receipts from the operations of the Electric System and from which are payable the costs and expenses of the Electric System.

Service Charges and Demand Charge as of July 2006. The City's monthly residential electric rates currently include a $6.50 service charge plus $0.0809 per kWh consumed up to 500 kWh, and $0.1080 per kWh for consumption in excess of 500 kWh.

For non-residential customers, the monthly service charge ranges from $6.50 to $150.00 plus $0.0657 to $0.0869 per kWh consumed. Additionally, some non-residential customers are eligible for discounts ranging from two percent to 3.5 percent for primary service delivery and high load factors.

Certain non-residential users are also subject to a demand charge ranging from $2.59 per kW to $3.79 per kW.

Ten-Year History of Rate Adjustments. Over the past ten years, the City's retail electric rates have increased an average of 2.25 percent annually, well below the rate of inflation. Following is the City's rate change history:

- July 2007 – revenue rate increase of six percent for all customers (approved but not yet effective).
- July 2006 – revenue rate increase of five percent for all customers.
- April 2005 – revenue rate increase of five percent for all customers.
- January 2004 – revenue neutral rate changes; tiered rates for residential customers and customer rate class consolidation for commercial customers.
- July 2002 – four percent rate rebate for all customers (effective from September 2002 through August 2003).

- December 2001 – five percent revenue increase for residential and 7.5 percent revenue increase for commercial customers.
- October 2000 – revenue neutral rate realignment among the unbundled charges for all customers.
- January 2000 – revenue neutral rate adjustment to unbundled customer rates.
- July 1997 – revenue neutral rate adjustment increasing residential rates by seven percent and decreasing commercial rates by 3.5 percent.

Rate Comparison

The City's current retail electric rates are among the lowest in California and over 40 percent lower than the retail electric rates being charged by the investor-owned utility, Pacific Gas and Electric Company, in the Sacramento region. Table 6 below sets forth a comparison between average electric rates paid by City customers and PG&E customers.

Table 6

Electric Rate Comparison with PG&E (cents/kWh)
as of June 30, 2006

Customer Type	Roseville Electric Rates	PG&E Rates
Residential	$ 9.58	$ 14.49
Small Commercial	8.73	15.50
Medium Commercial	8.71	14.61
Large Commercial	6.44	12.07
System Average	8.42	13.94

Source: City of Roseville.

Electricity Rate Regulation

No Current Direct Regulation. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not currently subject to the regulatory jurisdiction of the California Public Utilities Commission, and presently neither the California Public Utilities Commission nor any other regulatory authority of the State of California nor FERC limits or restricts such rates and charges.

California Energy Commission. The California Energy Commission is authorized to evaluate rate policies for electric energy as related to goals of the Energy Resources Conservation and Development Act and make recommendations to the Governor, the Legislature and publicly owned electric utilities.

ELECTRIC SYSTEM FINANCIAL INFORMATION

Significant Accounting Policies

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Electric System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Electric Fund uses the accrual method of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Investments are stated at cost, inventories are valued at weighted average method. Capital assets are recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated.

Audited Financial Statements

The City's Annual Financial Report is audited by Maze & Associates, A Professional Corporation, Pleasant Hill, California (the "Auditor"), in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements.

Copies of these reports for prior fiscal years are available on the City's website, www.roseville.ca.us. *The website address is given for reference and convenience only and the current accuracy of information contained therein cannot be assured; nothing on the website is a part of this Official Statement or incorporated into this Official Statement by reference.*

The City's Annual Financial Report for the fiscal year ended June 30, 2006 is attached as Appendix B to this Official Statement.

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the Electric System. In addition, the Auditor has not reviewed this Official Statement.

Outstanding Indebtedness

Indebtedness Payable from Net Revenues of the Electric System.

Certificates of Participation. The City currently has outstanding certificates of participation (the "Outstanding Certificates") that were executed and delivered to finance and refinance improvements to the Electric System as described in the table below. The Outstanding Certificates are payable from certain payments to be made by the City under an installment purchase contract (the "Installment Purchase Contract"), the payments under which are payable from and secured by the Net Revenues of the Electric System ("Net Revenues" are defined generally as Revenues of the Electric System less the maintenance and operation costs of the Electric System during any 12-month period). Additional information regarding the Outstanding Certificates is provided in the Notes to the City's Annual Financial Report for the fiscal year ended June 30, 2006, which is included in this Official Statement as Appendix B.

Series	Original Date of Execution and Delivery	Original Principal Amount	Currently Outstanding Principal Amount
1997	Nov. 13, 1997	$ 11,880,000	$ 325,000
1999	Aug. 18, 1999	21,630,000	1,635,000
2002	Dec. 18, 2002	40,385,000	25,620,000
2004	July 13, 2004	39,940,000	39,940,000
2005	June 30, 2005	202,900,000	202,900,000

Source: City of Roseville.

Prior Obligations. The City participates in certain joint powers agencies, including NCPA and TANC, through which the City owes a share of debt service on debt issued by those joint powers agencies. See "THE ELECTRIC SYSTEM—Sources of Power Supply" and "—Regional Transmission Facilities."

Obligations of the City, such as the payments under the Supply Agreement as well as the City's agreements with Western, TANC and NCPA, which constitute operating expenses of the Electric System, are payable prior to any of the payments required to be made under the Installment Purchase Contract.

The agreements with NCPA and TANC are on a "take or pay" basis, which requires payments to be made whether or not the projects are operable, or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain "step up" provisions obligating the City to pay a share of the obligations of a defaulting participant and granting the City a corresponding increased entitlement to electricity (generally, the City's "step-up" obligation is limited to 25 percent of the City's scheduled payments on such obligations).

The City's participation and share of debt service obligation (without giving effect to any "step up" provisions) for each of the joint powers agency projects in which it participates are shown in the following table:

Table 7
City Share of
Outstanding Joint Powers Agencies Debt
As of June 30, 2006
(Dollar Amounts in Millions)

	Outstanding Debt	Roseville Participation	Roseville Share of Outstanding Debt
NCPA			
Geothermal Project	$ 126.5	7.9%	$ 10.0
Transmission Project	484.1	14.2	0.6
Hydroelectric Project	490.1	12.0	58.8
Combustion Turbine Project	18.5	13.6	2.5
Multiple Capital Facilities Project	65.8	36.5	24.0
TANC			
Bonds	385.6	2.3	8.9
Notes	34.6	2.3	0.8
TOTAL	$ 1,125.1		$ 105.5

Source: City of Roseville.

Financial Policies

The City Council has adopted financial policies for the Electric System which establish, among other policies, a Rate Stabilization Fund to hedge for price volatility. Amounts in the Rate Stabilization Fund are anticipated to be used to pay down supply expenses to keep the City's electric rates stable. The Rate Stabilization Fund had a balance of approximately $64 million as of June 30, 2006. The financial policies also establish financial ratios for debt service coverage, leverage, and liquidity and limit the Electric System's exposure to short term interest rates.

Historic Revenues, Expenses and Debt Service Coverage

Table 8 presents a five-year summary of the revenues, expenses, and debt service coverage for the City's Electric Fund for fiscal years 2001-2002 through 2005-2006. This table is based on historic operating results of the Electric System, but is presented on a cash basis consistent with the definitions of Revenues and Maintenance and Operation Costs as defined in the Installment Purchase Contract, and as such, does not match the audited financial statements of the Electric System.

Table 8 also includes a five-year history of balances in the Rate Stabilization Fund, and calculates debt service coverage both with and without taking into account the Rate Stabilization Fund balance.

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Table 8
Statement of Revenues and Expenses
Fiscal Years 2001-2002 through 2005-2006
(Dollars in Thousands)
(Fiscal Years Ended June 30)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Revenues					
Charges for Services	$ 71,908	$77,602	$87,719	$91,884	$101,342
Sale of Wholesale Power[1]	335	1,957	6,320	6,757	1,065
Other	155	346	349	208	365
Total Revenues	72,398	79,905	94,388	98,849	102,772
Operating Expenses					
Purchased Power	61,022	51,962	49,816	67,179	68,659
Distribution/Operations	12,146	11,917	11,244	14,946	15,986
Administration	1,869	2,137	2,504	2,910	2,164
Indirect Costs[2]	2,359	2,832	3,946	4,153	4,640
Other Administrative Transfers[3]	1,639	771	783	891	1,133
Total Operating Expenses	79,035	69,619	68,293	90,079	92,582
Net Revenue	(6,637)	10,286	26,095	8,870	10,190
Debt Service					
1997 COP Payments	561	448	334	328	313
1999 COP Payments	1,549	1,074	560	560	536
2002 COP Payments		910	5,906	5,997	6,391
2004 COP Payments				1,822	1,838
2005 COP Payments					
Total Debt Service	2,110	2,432	6,800	8,687	9,078
Adjusted Net Revenue					
Net Revenue	(6,637)	10,286	26,095	8,870	10,190
Transfer from Rate Stabilization Fund[4]		2,826	507	4,000	9,000
Transfer from NCPA GOR[5]	11,224				
Plus Interest Revenue (excluding unrealized gain/loss)	3,127	2,502	2,039	1,856	2,279
Plus subventions/grants	1,775	51			
Adjusted Net Revenue	$ 9,489	$15,665	$ 28,641	$14,726	$21,469
Debt Service Coverage Ratio	4.50x	6.44x	4.21x	1.70x	2.36x
Rate Stabilization Fund Cash Balance	$ 48,358	$ 47,544	$ 48,684	$ 71,404	$ 64,358
DSC Ratio including RSF	27.42x	25.99x	11.37x	9.91x	9.45x

Source: City of Roseville

1 Represents sale of electricity on the open market.

2 Represents payments to the City as reimbursement for the Electric System's share of certain overhead expenses.

3 Represents payments to the City for corporation yard rent, the Electric System's share of geographical information system costs, and remodeling expenses.

4 Fiscal year 2002-2003 and 2003-2004 transfers used to fund a one-time rebate to ratepayers payable over 18 months.

5 The City periodically deposits funds in the General Operating Reserve ("GOR") maintained by NCPA in accordance with the contractual relationship between the city and NCPA. In fiscal year 2001-2002, the City determined that the amounts in the GOR exceeded its contractual requirement and transferred $11.224 million from the GOR to the Electric System operating fund.

Projected Operating Results

Table 9 sets forth the projected revenues, expenses and debt service coverage of the Electric System for the current fiscal year and the next four fiscal years. The assumptions used in these projections are as follows:

Electric Rates. In June 2005, the City Council approved two five percent rate increases to be implemented over two years. The first rate increase took effect in July 2006. The second rate increase will take effect in July 2007. No other rate increases are assumed in the projections.

Local Economy. Residential and commercial vacancy rates will remain stable, and no major state or local economic recessions occur.

New Development. Development will continue consistent with the current Roseville General Plan and projections include a market driven land use scenario based upon growth estimates prepared by an independent firm. The City annexed property in October 2004 known as the West Roseville Specific Plan (WRSP) area. The WRSP area development is expected to add over 8,000 dwelling units within the next eight years. Another two annexations are expected to bring over 7,000 dwelling units and over 100 additional acres of commercial development.

Customer Demand. Major current customers will not reduce electricity load. Projected growth in electricity load demand ranges from two percent to four percent annually.

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Table 9
Projected Revenues, Expenses and Debt Service Coverage
(Dollars in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating Revenues					
Charges for Services	$110,679	$121,355	$125,017	$128,522	$131,955
Sale of Wholesale Power	3,336	14,750	22,798	22,798	11,436
Transfer from Rate Stabilization Fund	-	-	3,000	4,000	4,000
Other [1]	94	335	340	345	350
Total Operating Revenues	$114,109	$136,440	$151,155	$155,665	$147,741
Operating Expenses					
Power Supply	75,644	81,279	97,171	96,310	89,527
Transmission	7,092	5,819	6,203	6,270	6,972
Distribution [2]	11,434	11,816	12,212	12,622	13,046
Public Benefits	4,500	4,635	4,774	4,917	5,065
Indirect Costs - City [3]	6,138	6,445	6,767	7,106	7,461
Administrative	3,054	3,146	3,240	3,337	3,437
Total Operating Expenses	107,862	113,140	130,367	130,561	125,508
Non-Operating Revenues					
Interest	2,923	3,200	3,400	3,500	3,500
Net Revenues Available for Debt Service	$9,170	$25,500	$24,187	$28,604	$25,7333
Debt Service					
1997 COP Payments	340	-	-	-	-
1999 COP Payments	586	584	584	-	-
2002 COP Payments	1,026	1,370	1,372	1,978	1,980
2004 COP Payments	2,274	2,269	2,269	2,267	2,268
2005 COP Payments	-	8,353	9,319	10,255	11,910
Total Debt Service	$4,226	$12,576	$13,544	$14,500	$16,158
Debt Service Coverage Ratio	2.17x	2.11x	1.79x	1.97x	1.59x
Rate Stabilization Fund Cash Balance	$78,000	$81,000	$81,000	$80,000	$78,000
Debt Service Coverage Ratio Including Rate Stabilization Fund Balance	20.63x	8.55x	7.77x	7.49x	6.42x

Source: City of Roseville

1 Represents miscellaneous revenue including reconnection fees and reimbursement from other City departments.
2 Includes traffic signal and streetlight maintenance costs.
3 Includes indirect costs and other transfers reimbursed to the City.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Because the City will purchase gas from the Issuer and use the gas to generate electrical power (see "INTRODUCTION"), factors affecting the electric utility industry may affect the financial condition of the City, the revenues to be received by the Issuer from the City and the transactions described herein.

Electric utilities are subject to state, federal and local scrutiny, within applicable law, with respect to the selling and licensing of facilities, safety and security, air and water quality, land use and other environmental factors.

State Legislation

A number of bills affecting the electric utility industry have been introduced or enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards.

Energy Procurement and Efficiency Reporting. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, in procuring energy, first acquires all available energy efficiency and demand reduction resources that are cost effective, reliable and feasible. Senate Bill 1037 also requires each municipal electric utility to report annually to its customers and to the State Energy Resources Conservation and Development Commission (the "California Energy Commission" or the "CEC") its investment in energy efficiency and demand reduction programs.

Assembly Bill 2021, signed by the Governor on September 29, 2006, requires municipal electric utilities, including the City, on or before June 1, 2007 and by June 1 of every third year thereafter, to identify all potentially achievable cost-effective electricity efficiency savings and to establish annual targets for energy efficiency savings and demand reduction over the next 10 years and to report those targets to the CEC within 60 days of adoption. Assembly Bill 2021 also requires each municipal electric utility to report annually to its customers and the CEC a description of its energy efficiency and demand reduction programs, expenditures, cost-effectiveness and actual results.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078. Senate Bill 1078 requires that investor-owned utilities ("IOUs") adopt a Renewable Portfolio Standard ("RPS") to meet a minimum of 1 percent of retail energy sales needs each year from renewable resources and to meet a goal of 20 percent of their retail energy needs from renewable energy resources by the year 2017. On September 26, 2006, the Governor signed Senate Bill 107 into law, which requires IOUs to have 20 percent of their electricity come from renewable sources by 2010.

Senate Bill 1078 also directed the State's municipal electric utilities to implement and enforce an RPS that recognizes the intent of the California Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement.

Since the implementation of Senate Bill 1078, the California Public Utilities Commission (the "CPUC") and the CEC have taken a number of actions that have had an impact on the renewable energy goals set by the legislation. These actions seek primarily to accelerate the time line for meeting the renewable resource development goals and to provide additional standards for future extension of the goals. In order to overcome the challenges associated with meeting accelerated RPS goals, the CPUC and the CEC supported the implementation of a renewable energy certificate trading system to meet the accelerated RPS goals, but that system is not yet in effect. Proceedings at the CPUC are in progress that are investigating the potential use of tradable renewable energy certificates for use by community choice aggregators and energy service providers in order to facilitate meeting the accelerated RPS goal. Pursuant to Senate Bill 1078, the CEC collaboratively with the Western Governors' Association and the Western Electricity Coordinating Council has undertaken the development and establishment of the Western Renewable Energy Generation Information System, which will be used to ensure the integrity of renewable energy certificates and prevent the double counting of the certificates. The tracking system is anticipated to be operational in late 2007.

Solar Power. On August 21, 2006, the Governor signed into law Senate Bill 1 (also known as the "California Solar Initiative"). This legislation would require municipal utilities, including the City, to establish a program supporting the stated goal of the legislation to install 3,000 MW of photovoltaic energy in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the California Energy Commission for the funding of solar energy systems receiving ratepayer funded incentives, which would be established through a public process no later than January 1, 2008. The legislation gives a municipal utility the choice of selecting an incentive based on the installed capacity, starting at $2.80 per watt, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives would be required to decrease at a minimum average rate of 7 percent per year. Municipal utilities also have to meet certain reporting requirements regarding the installed capacity, number of installed systems, number of applicants and awarded incentives.

Greenhouse Gas Emissions. In its 2003 Integrated Energy Policy Report, the California Energy Commission recommended that utilities account for the cost of greenhouse gas emission reductions in utility procurement decisions. In December 2004, the CPUC also established an $8-$25/ton fossil fuel adder for the IOUs to reflect the amount of carbon dioxide that would be emitted by a fossil fuel electric generating unit. The adder represents an estimate of future costs associated with the purchase of carbon dioxide offsets and financial risk associated with potential future regulation of greenhouse emissions.

On June 1, 2005, the Governor signed Executive Order S-3-05, which placed an emphasis on such efforts to reduce greenhouse gas emissions by establishing Statewide greenhouse gas reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80 percent below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, the Governor also signed Executive Order S-06-06 which directs the State to meet a 20 percent biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

On September 27, 2006 the Governor signed into law Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"). The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020 and 80 percent below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the Air Resources Board ("ARB") for significant greenhouse gas emissions and requires the ARB to adopt regulations for significant greenhouse gas emission sources (allowing ARB to design a cap and trade program) and gives ARB the authority to enforce such regulations beginning in 2012.

In addition to the GWSA, Senate Bill 1368 became law on September 29, 2006 and provides for a restriction on the negotiation of contracts with potential baseload fossil fuel electric generating resources that exceed the rate of emissions for greenhouse gases for existing combined-cycle natural gas baseload generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the greenhouse gas emission performance standard for publicly-owned utilities, such as the City. Meanwhile, Assembly Bill 1925 became law on September 26, 2006 and provides for the CEC to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide. Also on September 26, 2006, the Governor signed Senate Bill 1686 into law, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester greenhouse gas emissions when it prioritizes funds available for proposed acquisitions. Senate Bill 1686 also specifies that the WCB may use policies, protocols and other relevant information developed by the California Climate Action Registry in determining a project's potential to reduce or sequester greenhouse gas emissions.

Certain Federal Issues

The U.S. Congress has been attempting to implement a national energy policy since 2002. As noted, on August 8, 2005, President Bush signed into law the 2005 Energy Policy Act. From the electricity standpoint, the 2005 Energy Policy Act: (a) authorizes (but does not obligate) FERC to require "unregulated transmitting utilities" that were formerly exempt from regulation under sections 205 and 206 of the Federal Power Act (the "FPA") to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities if such sales violate FERC-approved tariffs or FERC rules: (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an "electric reliability organization" ("ERO") will develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in "national interest electric transmission corridors" (to be designated by the Department of Energy) in circumstances where the applicable state or regional siting agency does not timely act on a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding "qualifying facilities" and relaxes the utility purchase obligation applicable to sales output of these qualifying facilities if certain market condition findings are made by FERC: (h) requires state utility regulatory commissions and "non-regulated electric utilities" to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act, effective six months after enactment of the 2005 Energy Policy Act; but gives FERC limited "books and records" regulatory oversight of public utility holding companies, (j) increases FERC's authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

Impact of Developments on the City

The foregoing discussions of certain provisions of State Legislation and the 2005 Energy Policy Act do not purport to be comprehensive discussions. Information on those laws is available from many sources in the public domain. Existing and future owners of the Bonds should obtain and review such information. Neither the Issuer nor the City is able to predict with great certainty what effects such changes in the electric utility industry will have on the business operations and financial condition of the City's electric system.

APPENDIX B — AUDITED FINANCIAL STATEMENTS OF THE CITY OF ROSEVILLE, CALIFORNIA FOR YEAR ENDED JUNE 30, 2006

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Roseville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California (City) as of and for the 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 basic financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze and Associates

November 22, 2006

A Professional Corporation

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Roseville's financial statements a narrative overview and analysis of the financial activities of the City of Roseville for the fiscal year ended June 30, 2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Even with the recent slowdown in the housing market, the City remained strong economically, as General Fund tax revenues increased, business activities were healthy and growing, and revenues for capital expenditures grew at the pace of development. The City's financial highlights are presented below:

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2006 include the following:

Entity-wide:

- The City's total net assets were $2.1 billion as of June 30, 2006. Of this total, $923.3 million were Governmental assets and $1.1 billion were Business-type assets.
- Governmental revenues include program revenues of $147.5 million and general revenues and transfers of $118.3 million for a total of $265.8 million.
- Governmental expenses were $135.9 million.
- Business-type program revenues, interest revenue and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $191.9 million.

Fund Level:

- Governmental Fund balances increased to $218.2 million in fiscal year 2006, up $33.5 million from the prior year.
- Governmental Fund revenues increased to $239.7 million in 2006, up $98.9 million from the prior year. This was primarily due to an increase of tax revenues of $6.9 million, $84.8 million in contributions of bond proceeds for Community Facility Districts and other developer contributions, $4.5 million in charges for services, and use of money and property of $2.9 million. Governmental Fund expenditures increased to $229.6 million in fiscal year 2006, up $67 million from the prior year. This increase was primarily due to increases of capital outlay of $49.6 million, public safety of $7.2 million, $4.6 million in public works, and $4.7 million in general government.
- Other Financing Sources provided a net of $23.4 million in fiscal year 2006, up $6.1 million from 2005 due to $3.5 million in proceeds from property sales in 2006 and an increase of proceeds from capital leases of $2.1 million.

General Fund:

- General Fund revenues of $100.8 million were $12.4 million higher than the prior year, with the largest increases in taxes and charges for services.
- General Fund expenditures of $109.9 million represented an increase of $19.9 million over the prior year. The largest increases were in general government, public safety, and capital outlay.
- Other Financing Sources showed $16.1 million, which was slightly decreased from 2005.
- The General Fund balance of $64.3 million as of June 30, 2006 is up from fiscal year 2005's fund balance of $57.2 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is divided into six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this section),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide an overview of the City's activities, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full-accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full-accrual basis, with the emphasis on measuring net revenues or expenses of each the City's major functions. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into either Government Activities or Business-type Activities, as explained below. The amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City.

The Fund Financial Statements report the City's operations in more detail than the entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Fiduciary Statements provide financial information about the activities of the Community Facilities Districts and certain other entities, for which the City acts solely as agent. The Fiduciary Statements provide information about the cash balances and activities of these Districts and other entities. These statements are separate, and their balances are excluded, from the City's basic financial statements.

The Entity-wide Financial Statements

Entity-wide financial statements, prepared on the accrual basis, measure the flow of all economic resources of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental Activities***—All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as user fees and charges.

  The City's governmental activities also include the activities of three separate legal entities, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority. The City is financially accountable for these entities.

- ***Business-type Activities***—The City's enterprise activities of electric, water, wastewater, solid waste, golf course, local transportation, and school-age child care are reported in this area. Unlike governmental activities, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

In the City's case, the Redevelopment Agency of the City of Roseville Fund and the Community Facilities District Projects Fund are the only Major Governmental Funds in addition to the General Fund.

All seven of the City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis. This means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund Financial Statements are prepared on the full-accrual basis, and include all of their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Entity-wide Financial Statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and the Redevelopment Agency of the City of Roseville Fund, as required by GASB 34.

Fiduciary Statements

The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds' Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2, and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Tables 4, 5, and 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$298.5	$255.2
Other Assets	36.7	31.9
Capital Assets	688.4	600.4
Total Assets	**1,023.6**	**887.5**
Long-Term Debt Outstanding	33.3	32.0
Other Liabilities	67.0	62.2
Total Liabilities	**100.3**	**94.2**
Net Assets:		
Invested in Capital Assets, Net of Debt	664.1	579.8
Restricted	149.8	124.5
Unrestricted	109.4	89.0
Total Net Assets	**$923.3**	**$793.3**

The City's governmental net assets amounted to $923.3 million as of June 30, 2006, an increase of $130 million over 2005. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2006 comprised the following:

- Cash and investments comprised $246.8 million in the city treasury and $51.7 million of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.

- Receivables comprised $16.9 million of which are current, along with deferred receivables of $2.1 million and notes receivable of $10.3 million that are due over longer periods of time, as explained in Notes 5 and 6 to the financial statements.

- Capital assets of $688.4 million, net of depreciation charges, includes all of the City's infrastructure as well as other capital assets used in governmental activities, as discussed in Note 8.

- Current liabilities—including accounts payable, claims, and other amounts due currently—totaled $51.0 million.

- Accrued compensated absence liabilities payable to employees of $7.6 million, as explained in Note 1G to the financial statements.

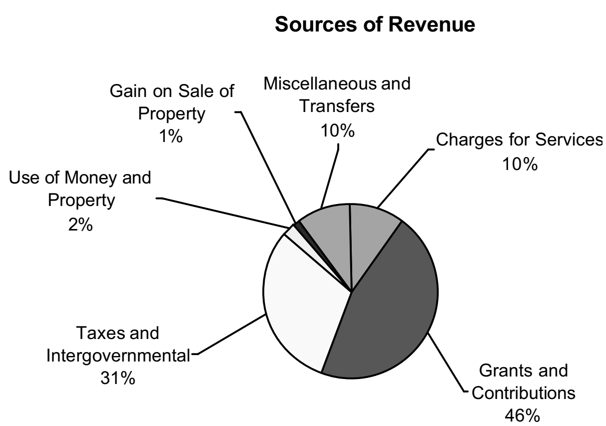
- Long-term debt of $33.3 million, of which $32.1 million is due in future years and $1.2 million is due currently, as detailed in Note 9.

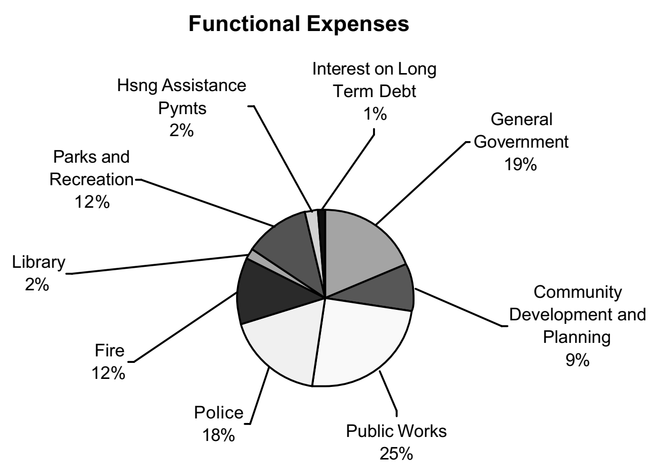
- Net assets invested in capital assets net of related debt of $664.1 million, representing the City's investment in infrastructure and other capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.

- Restricted net assets totaling $149.8 million, only may be used to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds cannot be changed by the City.

- Unrestricted net assets is that part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had $109.4 million of unrestricted net assets as of June 30, 2006. While these assets are technically unrestricted, most of these assets are designated for a specific use.

Fiscal Year 2006 Government Activities





As the Sources of Revenue Chart above shows, $82.2 million, or 31% of the City's fiscal year 2006 governmental activities revenue, came from taxes and unrestricted intergovernmental revenues (motor vehicle-in-lieu), while $121.2 million or 46% came from grants and contributions, $26.3 million, or 10%, came from charges for services, and the remainder came from a variety of sources, as shown above.

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are added to the City's capital assets. As the Chart shows, general government is $25.4 million, or 19% of total government expenses, community development and planning is $11.9 million, or 9%, public works is $33.5 million, or 25%, police is $24.5 million, or 18%, fire is $16.4 million, or 12%, parks and recreation is $16.1 million, or 12%, and other governmental programs and functions are the remaining 5%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Governmental Net Assets
June 30
(in Millions)

	Governmental Activities	
	2006	2005
Expenses		
General Government	$25.4	$22.4
Community Development and Planning	11.9	10.1
Public Works	33.5	39.4
Police	24.5	22.8
Fire	16.4	15.2
Library	3.2	3.0
Parks and Recreation	16.1	14.0
Payments Under Developer Agreements	0.0	3.1
Housing Assistance Payments	3.0	3.0
Interest on Long Term Debt	1.9	1.8
Total Expenses	**135.9**	**134.8**
Revenues		
Program Revenues:		
Charges for Services	26.3	21.5
Operating Grants and Contributions	7.7	9.5
Capital Grants and Contributions	113.5	41.1
Total Program Revenues	**147.5**	**72.1**
General Revenues:		
Taxes/Intergovernmental	82.2	76.0
Use of Money and Property	8.1	5.6
Miscellaneous	1.7	0.7
Gain on Sale of Property	2.7	
Total General Revenues	**94.7**	**82.3**
Total Revenues	**242.2**	**154.4**
Changes in Net Assets before Transfers	**106.3**	**19.6**
Transfers	23.6	17.3
Change in Net Assets	**$129.9**	**$36.9**

As the Sources of Revenue Chart and **Table 2** above show, $147.5 million, or 60.9% of the City's fiscal year 2006 governmental revenue, came from program revenues and $94.7 million, or 39.1%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of $26.3 million that include permit revenues, fees, and charges used to fund expenses incurred in providing services; $7.7 million of operating grants and contributions which include gas tax revenues, housing, and police grants; and capital grants and contributions of $113.5 million that consist mainly of street project grants, developer impact fees restricted to capital outlay and contributions from community facilities districts to be used to build infrastructure in those districts.

General Revenues-Taxes/Intergovernmental showed an increase of $6.2 million. The majority of this increase was due to property and sales taxes. General revenues are not allocable to programs and are used to pay the net cost of governmental programs.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

Table 3
Governmental Activities
June 30
(in Millions)

	Net (Expense)/Revenues from Services	
	2006	2005
General Government	($19.9)	($18.7)
Community Development and Planning	(6.1)	(4.6)
Public Works	(14.7)	(6.8)
Police	(21.3)	(19.7)
Fire	(13.6)	(11.7)
Library	(2.9)	(2.7)
Parks and Recreation	(4.6)	(2.2)
Community Facilities Districts	96.3	8.2
Payments Under Developer Agreements	0.0	(3.1)
Housing Assistance Payments	0.4	0.4
Interest on Long Term Debt	(1.9)	(1.8)
Totals	**$11.7**	**($62.7)**

Business-type Activities

The Statement of Net Assets and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

Table 4
Business-Type Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$308.5	$383.5
Other Assets	158.2	156.5
Capital Assets	1,156.4	1,008.5
Total Assets	**1,623.1**	**1,548.5**
Long-Term Debt Outstanding	390.8	399.9
Other Liabilities	85.3	54.4
Total Liabilities	**476.1**	**454.3**
Net Assets:		
Invested in Capital Assets, Net of Debt	838.4	767.6
Restricted	28.2	31.0
Unrestricted	280.4	295.6
Total Net Assets	**$1,147.0**	**$1,094.2**

The net assets of business-type activities increased to $1.147 billion in fiscal year 2006, an increase of $53 million. Cash and investments decreased $75 million, due to increased expenditures for capital projects; and correspondingly, capital assets have increased $147.9 million. Other liabilities increased $30.9 million, which includes increases of $14.8 million for deposits, $10.1 million in unearned revenue, and $6.2 million in accounts payable.

Table 5
Changes in Business-Type Net Assets
June 30
(in Millions)

	Business-Type Activities 2006	2005
Expenses		
Electric Fund	$97.1	$93.1
Water Fund	18.5	16.7
Wastewater Fund	27.2	23.9
Solid Waste Fund	14.2	12.7
Golf Course Fund	2.5	2.5
Local Transportation Fund	4.4	4.1
School-Age Child Care Fund	4.5	4.2
Total Expenses	**168.4**	**157.2**
Revenues		
Program Revenues		
Charges for Services	161.0	151.0
Operating Grants and Contributions	2.3	7.0
Capital Grants and Contributions	68.9	49.8
Total Program Revenues	**232.2**	**207.8**
General Revenues		
Use of Property and Money	10.6	4.5
Total Revenues	**242.8**	**212.3**
Change in Net Assets before Special Items and Transfers	**74.4**	**55.1**
Provision for Disputed SCS Charges	0.0	0.4
Miscellaneous revenues	1.8	
Transfers	(23.6)	(17.3)
Changes in Net Assets	**$52.6**	**$38.2**

Business-type program revenues, interest revenue, and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $192 million 2006. Each program is discussed in the Proprietary Funds section below.

Table 6 summarizes the financial activity of the business-type programs, the detail of which is discussed under the Proprietary Funds section below.

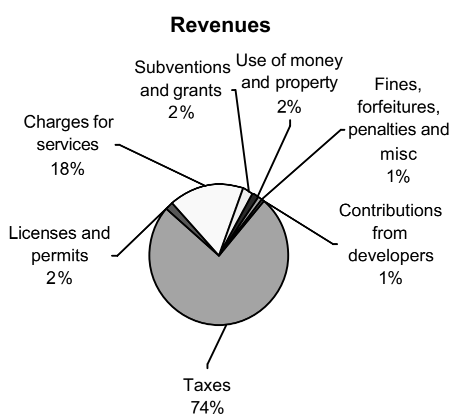
Table 6
Changes in Business-Type Net Assets
(in Millions)

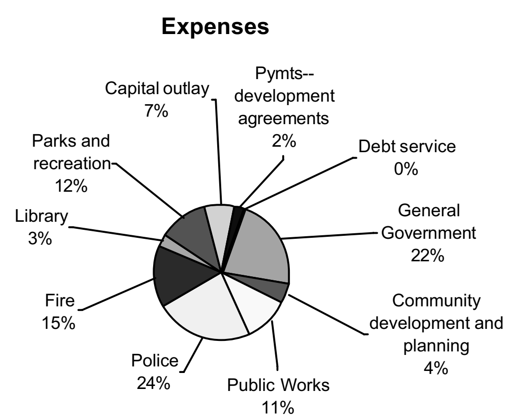
	Net (Expense)/Revenues From Services 2006	2005
Electric Fund	$22.1	$13.3
Water Fund	27.0	18.6
Wastewater Fund	13.6	13.3
Solid Waste Fund	3.3	2.7
Golf Course Fund	0.3	0.1
Local Transportation Fund	(3.1)	2.4
School-Age Child Care Fund	0.6	0.2
Totals	**$63.8**	**$50.6**

Analyses of Major Governmental Funds

General Fund

Fiscal Year 2006 General Fund Activity





General Fund revenues increased $12.4 million this fiscal year due primarily to increases in taxes, charges for services, and proceeds from the sale of property. Actual revenues were less than budgeted amounts by $2.2 million, with licenses and permits and charges for services coming in under budget, as new home construction slowed down, but taxes came in greater than targeted. Taxes increased in both property and sales taxes ($4.3 million and $1.7 million, respectively). Property taxes' assessed valuations rose 16.9%, driven by prior years' construction, which are now on the tax rolls. Sales tax revenues increased across the board, as sales increases were reported in all major sectors resulting in part from continued addition of new retail stores surrounding the Galleria regional mall and the Highway 65 corridor.

General Fund expenditures were $109.9 million, an increase of $19.9 million from the prior year. Expenditures were $31 million less than budget however, as most departments expended less than budgeted. The original budget was increased by $5.2 million from encumbrances carried over from fiscal year 2005. The sources of these budget savings included planning, public works, and central services which had delays in professional services; police, public works, and parks and recreation which had savings in salaries with salaries being budgeted at the top step; vacancies; and projects anticipated for 2006 that have been carried over to fiscal year 2007.

Other financing sources and uses reported net inflows of $16.1 million in fiscal year 2006, which is comparable to the prior year

As of June 30, 2006, the General Fund's fund balance totaled $64.3 million, including $16.7 million reserved almost entirely for encumbrances and advances to other funds, $12.1 million designated for economic reserve and capital improvements and $35.5 million in unreserved, undesignated balances. Only the unreserved portion of fund balance represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders. The designated portion of fund balance has been set aside by City Council, which may alter or reverse its decisions with respect to designated fund balances at any time.

Redevelopment Agency of the City of Roseville

This Fund accounts for the Redevelopment (RDA) activity including capital projects in the downtown redevelopment area funded by tax allocation bonds. The majority of the bond proceeds from the 2003 tax allocation bonds remain unspent. In addition the RDA owes other City funds $13.5 million, which will be repaid from future tax increment revenues.

Community Facilities District Projects

This Fund accounts for capital expenditures on community facilities districts in the City. The purpose of these districts is to finance the construction of capital improvements within the boundaries of each district, through the contribution of Mello-Roos bond proceeds. The improvements are contributed to the City, which in turn acquires and pays for these facilities from the developers who actually construct the improvements. In fiscal year 2006, the Fund received $92.6 million in such contributions from property-owners and developers, and expended $66.3 million in capital outlay on facilities in community facilities districts. The largest projects underway in fiscal year 2006 were improvements to the West Roseville area.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Proprietary Funds

Electric Fund

Net assets of the Electric Fund increased $20.1 million in fiscal year 2006 to a total of $275.2 million. Operating income for fiscal year 2006 is $12.2 million, an increase of $3.4 million from 2005. Electric retail sales increased by $9.5 million in 2006, however, sale of wholesale power decreased by $5.7 million, due to the termination of a swap agreement from 2005. Rates are anticipated to be increased in fiscal years 2007 and 2008.

Of the fund's Net Assets of $275.2 million, $156.5 million was invested in capital assets, $17.3 million was restricted and $101.4 million was unrestricted.

Water Fund

Net assets of the Water Fund increased $25.8 million in fiscal year 2006. There continued to be an operating loss; this year the loss was $3.7 million. Operating revenues increased only slightly to a total of $13.5 million in fiscal year 2006, while expenses increased $1.5 million to a total of $17.1 million. The increased operating expenses were primarily due to fully implementing new programs such as water conservation. Rates are anticipated to be increased in fiscal years 2007 and 2008. However, capital connection fees were $9.4 million (a decrease of $0.9 million, as growth has stabilized), and contributions from developers were $20.7 million in fiscal year 2006, an increase of $9.6 million, while net transfers out were $3.1 million.

As of June 30, 2006, the Fund's Net Assets were $371.3 million, of which $316.1 million was invested in capital assets, $2.6 million was restricted for debt service and $52.5 million was unrestricted as to use.

Wastewater Fund

Operating revenues increased in fiscal year 2006 $2.7 million to a total of $19 million. Operating expenses increased to $23.7 million, up $3 million. The net result was an operating loss of $4.7 million, of which $9.3 million was depreciation. Rates are anticipated to be increased in fiscal years 2007 and 2008. Other items that affected net assets were: connection fees of $5.7 million (down $1.1 million as growth has stabilized); capital contributions of $11.8 million and $1.5 million, respectively, from developers and South Placer Wastewater Authority; and net transfers out of $4.1 million. The total increase to net assets was $9.7 million for fiscal year 2006 to a total of $475.7 million. As of June 30, 2006, of the Fund's Net Assets, $345 million was invested in capital assets, and $130.7 million was unrestricted.

Solid Waste Fund

Revenues increased $2.4 million to $17.6 million and expenses increased $1.5 million to $14.2 million in fiscal year 2006. As a result, net operating income increased by $0.8 million to $3.3 million. Rates are anticipated to be increased in fiscal years 2007 and 2008. Net transfers out were $3.9 million. The total net assets from 2005 were $2.4 and with a slight decrease of $0.3 million; the ending balance for 2006 was $2.1 million.

Golf Course Fund

Revenues and expenses remained relatively flat in fiscal year 2006 at $2.7 million and $2.2 million, respectively. As a result, the Fund's net assets were stable at $8.3 million. The Fund is financed in part by advances from other City funds; as a result, it has a deficit in its unrestricted net assets, partially offsetting the $10.0 million it has invested in capital assets, net of the related debt.

Local Transportation Fund

Net assets of the Fund decreased $3.1 million in fiscal year 2006 to a total of $13.5 million. There was a $3.8 million operating loss in fiscal year 2006, and most of the subsidies were deferred for future projects. As of June 30, 2006, the Fund's Net Assets were $13.5 million, of which $5.9 million was invested in capital assets and $7.6 million was restricted for use in local transportation.

School-Age Child Care Fund

Net assets of the Fund remained relatively flat with a slight increase of $0.3 million in fiscal year 2006 to a total of $0.88 million. Since both revenues and expenses were up $0.4 million, the decline in net assets was due in part to additional transfers out for indirect costs. As of June 30, 2006, the Fund's Net Assets were $0.88 million. $0.96 million were invested in capital assets, which leaves a negative $0.08 million in unrestricted net assets.

CAPITAL ASSETS

In fiscal year 2002, the City started recording the cost of its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7
Capital Assets at Year End
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activities		
Land	$ 22.6	$ 22.1
Streets (modified)	166.9	159.3
Parks (modified)	60.3	54.4
Landscaping (modified)	29.1	24.6
Construction in Progress	126.8	63.4
Buildings	79.9	79.9
Improvements	4.7	4.2
Equipment	52.6	43.9
Bike Paths	7.2	7.2
Bridges	46.6	45.6
Culverts	18.9	18.9
Curb, Gutter, Sidewalk, & Median Curbs	120.7	118.2
Drain Inlets	18.9	18.2
Flood Control Improvements	17.3	15.5
Soundwall	21.4	18.3
Stormdrains	51.3	49.4
Traffic Signals	18.9	18.6
Less: Accumulated Depreciation	(175.7)	(161.3)
Governmental Activity Capital Assets, Net	**$688.4**	**$600.4**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-Type Activities		
Land	$ 16.1	$ 16.1
Landscaping (modified)	0.6	0.6
Construction in Progress	163.4	70.1
Buildings	12.0	11.8
Improvements	11.0	10.7
Machinery and Equipment	16.2	15.2
Bike Paths	1.1	1.1
Plant and Substations	283.3	270.9
Distribution	846.5	785.2
Less: Accumulated Depreciation	(193.8)	(173.2)
Business-Type Activity Capital Assets, Net	**$1,156.4**	**$1,008.5**

Detail on capital assets, current year additions and construction in progress can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34, except for streets, parks and landscaping, which are reported using the Modified Approach allowed under GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8 to the financial statements. The Modified Approach requires the City to employ an asset management system that maintains a current inventory of these assets, estimates annual costs to maintain them, and assesses the condition of the assets in a replicable way.

The City uses a computerized Pavement Management System to track the condition levels of each of the street sections. The City has adopted a policy of maintaining arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, which means that, on average, the City's streets must be maintained at no less than 70% of pavement in perfect condition.

At June 30, 2006, the City's streets averaged 7.5 PQI for arterial and collector roadways and 7.9 PQI for residential roadways. The City expended $7.2 million on preservation of its streets in fiscal year 2006, compared to the budgeted amount of $7.8, and plans to spend $5.5 million in fiscal year 2007.

The City uses a computerized Grounds Management System to track the condition levels of each of the parks and landscaping. The City has adopted a policy of maintaining parks and landscaping at an average Ground Management Index (GMI) of Level 2, which means that, on average, the City's parks and landscaping must be maintained at no less than 83% of parks and landscaping maintained at a state-of-the-art level.

At June 30, 2006, the City's parks and landscaping averaged 2 GMI. The City expended $4.3 million on preservation of its parks and landscaping in fiscal year 2006, compared to the $4.6 budgeted, and plans to spend $5.1 million in fiscal year 2007.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. As of June 30, the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activity Debt:		
Certificates of Participation:		
2003 Public Facilities Bond, 2.0%-5.0%, due 8/1/25	$17.11	$17.71
Tax Allocation Bonds		
2002 Roseville Redevelopment Project 3%-5.14% due 9/1/33	13.74	13.96
Installment Purchase Obligations		
Equipment	2.4	0.31
Other Long Term Obligations:		
Foothill Blvd. Extension, due 4/1/07	nil	nil
Total Governmental Activity Debt:	**$33.3**	**$31.98**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-type Activity Debt:		
Certificates of Participation:		
1997 Electric System Revenue, 3,6%-5.25%, due 2/1/17	$ 0.33	$ 0.63
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	1.63	2.14
2002 Electric System Revenue, Variable Rate, due 2/1/24	25.62	30.98
Less deferred amount on refunding	(3.09)	(3.26)
2004 Electric System Revenue, 3.0-5.25%, due 2/1/34	39.94	39.94
2005 Electric System Revenue, Series A, 3.0-5.0%, due 2/1/23	52.90	52.90
2005 Electric System Revenue, Series B, Variable Rate, due 2/1/35	90.00	90.00
2005 Electric System Revenue, Series C, Variable Rate, due 2/1/35	60.00	60.00
2003 Golf Course Project, 2.0-5.0%, due 8/1/23	7.63	7.94
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	24.74	26.08
Total Certificates of Participation	**299.70**	**307.35**
Revenue Bonds:		
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	7.59	8.92
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37.92	37.92
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	51.01	51.35
Less deferred amount on refunding	(5.54)	(5.80)
Total Revenue Bonds	**90.98**	**92.39**
Other Long Term Obligations:		
Notes, 5%, due 10/1/17	0.17	0.18
Total Business-type Activity Debt:	**$390.85**	**$399.92**

COMMUNITY FACILITIES/ASSESSMENT DISTRICTS DEBT

Community facilities districts and assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts. As of June 30, 2006, a total of $331.4 million in community facilities district and assessment district debt was outstanding, representing fifteen issues by community facilities districts and two issues by assessment districts. This debt is secured only by special tax liens and assessments on the real property in the district issuing the debt and is not the City's responsibility; however, the City does act as the agent in the collection and remittance of special taxes and assessments for these Districts. Further detail on this debt may be found in Note 10 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Roseville at 311 Vernon Street, Roseville, California, 95678.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

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CITY OF ROSEVILLE

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire City's financial activities and financial position.

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

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities and any portion of the Internal Service Fund balances that service Enterprise Funds. Fiduciary activity is excluded.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

CITY OF ROSEVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in City Treasury (Note 3)	$246,807,027	$159,287,269	$406,094,296
Restricted cash and investments with fiscal agents (Note 3)	51,692,894	149,186,807	200,879,701
Receivables:			
Taxes	1,381,329	32,934	1,414,263
Accounts	4,610,641	21,165,317	25,775,958
Accrued interest	2,114,757	1,500,419	3,615,176
Due from other government agencies	8,787,876	1,754,764	10,542,640
Internal balances (Note 4D)	4,215,249	(4,215,249)	
Prepaids	757,932		757,932
Deferred receivables (Note 6)	2,124,839	684,266	2,809,105
Notes receivable (Note 5)	10,319,915		10,319,915
Notes receivable from NCPA (Note 15B)		192,879	192,879
Inventories (Note 1I)	1,375,688	7,873,983	9,249,671
Land held for redevelopment (Note 7D)	1,002,290		1,002,290
Prepaid purchased electricity (Note 14)		4,584,532	4,584,532
Unamortized bond origination costs		1,416,235	1,416,235
Investment in NCPA reserves (Note 15)		12,008,493	12,008,493
Investment in SPWA reserves (Note 16)		111,170,459	111,170,459
Capital assets (Note 8):			
Land and construction in progress	405,667,898	180,087,255	585,755,153
Capital assets being depreciated, net	282,726,110	976,333,504	1,259,059,614
Total assets	1,023,584,445	1,623,063,867	2,646,648,312
LIABILITIES			
Accounts payable	33,128,264	20,825,023	53,953,287
Accrued liabilities	2,632,887	3,470,115	6,103,002
Due to other governments	6,919,772	1,026,740	7,946,512
Deposits	6,665,778	37,990,156	44,655,934
Unearned revenues	1,627,451	13,035,472	14,662,923
Deferred liabilities		125,242	125,242
Landfill closure and post closure liability (Note 17)		3,678,093	3,678,093
Compensated absences (Note 1G):			
Due within one year	274,852	2,609,247	2,884,099
Due in more than one year	7,320,098	2,504,737	9,824,835
Self-insurance claims payable and litigation settlement (Note 13)	8,470,000		8,470,000
Long term liabilities (Note 9):			
Due within one year	1,149,638	4,872,793	6,022,431
Due in more than one year	32,130,571	385,974,107	418,104,678
Total liabilities	100,319,311	476,111,725	576,431,036
NET ASSETS (Note 11)			
Invested in capital assets, net of related debt	664,131,414	838,373,690	1,502,505,104
Restricted for:			
Capital projects:			
Expendable	127,280,639		127,280,639
Nonexpendable	16,425,999		16,425,999
Debt service	1,345,398	20,555,663	21,901,061
Community development projects	4,686,005		4,686,005
Local transportation		7,623,283	7,623,283
Total restricted net assets	149,738,041	28,178,946	177,916,987
Unrestricted net assets	109,395,679	280,399,506	389,795,185
Total net assets	$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

CITY OF ROSEVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$25,437,535	$3,364,921	$120,778	$2,032,357	($19,919,479)		($19,919,479)
Community development and planning	11,893,312	4,312,464	1,077,687	397,946	(6,105,215)		(6,105,215)
Public works	33,498,385	7,959,770	103,747	10,728,483	(14,706,385)		(14,706,385)
Police	24,500,396	1,900,144	1,251,680		(21,348,572)		(21,348,572)
Fire	16,435,774	1,253,881	499,198	1,100,053	(13,582,642)		(13,582,642)
Library	3,156,087	188,738	110,374		(2,856,975)		(2,856,975)
Parks and recreation	16,052,655	7,315,217	1,127,288	2,989,114	(4,621,036)		(4,621,036)
Community facilities districts				96,283,453	96,283,453		96,283,453
Housing assistance payments	2,974,236		3,426,751		452,515		452,515
Interest on long term debt	1,933,654				(1,933,654)		(1,933,654)
Total Governmental Activities	135,882,034	26,295,135	7,717,503	113,531,406	11,662,010		11,662,010
Business-type Activities:							
Electric	97,101,941	102,772,594		16,419,999		$22,090,652	22,090,652
Water	18,510,040	13,450,264	2,019,853	30,055,261		27,015,338	27,015,338
Wastewater	27,207,717	19,025,742		21,786,854		13,604,879	13,604,879
Solid Waste	14,220,731	17,558,492	26,489			3,364,250	3,364,250
Golf Course	2,479,378	2,747,851				268,473	268,473
Local Transportation	4,415,411	601,087	32,003	652,854		(3,129,467)	(3,129,467)
School-age Child Care	4,430,801	4,833,884	220,844			623,927	623,927
Total Business-type Activities	168,366,019	160,989,914	2,299,189	68,914,968		63,838,052	63,838,052
Total	$304,248,053	$187,285,049	$10,016,692	$182,446,374	11,662,010	63,838,052	75,500,062
General revenues:							
Taxes:							
Property taxes					30,867,256		30,867,256
Sales taxes					42,642,034		42,642,034
Franchise taxes					1,267,707		1,267,707
Motor fuel taxes					3,116,638		3,116,638
Other taxes					3,630,534		3,630,534
Intergovernmental, unrestricted:							
Motor vehicle in lieu					710,510		710,510
Use of money and property					8,077,599	10,559,581	18,637,180
Miscellaneous revenues					1,680,851	1,825,199	3,506,050
Gain on sales of property					2,703,738		2,703,738
Transfers (Note 4)					23,582,576	(23,582,576)	
Total general revenues and transfers					118,279,443	(11,197,796)	107,081,647
Change in Net Assets					129,941,453	52,640,256	182,581,709
Net Assets-Beginning					793,323,681	1,094,311,886	1,887,635,567
Net assets-Ending					$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

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MAJOR GOVERNMENTAL FUNDS

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City in fiscal 2006. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

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

REDEVELOPMENT AGENCY

The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

COMMUNITY FACILITIES DISTRICT PROJECTS FUND

This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments in City Treasury (Note 3)	$52,082,481	$7,046,498	$13,509,577	$120,624,401	$193,262,957
Restricted cash and investments with fiscal agents (Note 3)		9,993,292	38,067,255	3,592,347	51,652,894
Receivables:					
Taxes	1,381,329				1,381,329
Accounts	3,961,654			640,679	4,602,333
Accrued interest	1,689,090	79,295	215,694	1,430,544	3,414,623
Due from other government agencies	6,729,965	25,256		2,011,171	8,766,392
Due from other funds (Note 4B)	1,297,351			50,000	1,347,351
Advances to other funds (Note 4C)	8,595,536			4,100,000	12,695,536
Prepaids	137,408				137,408
Deferred receivables (Note 6)				2,124,839	2,124,839
Notes receivable (Note 5)	104,846	1,923,079		8,291,990	10,319,915
Inventories (Note 1I)	498,894				498,894
Land held for redevelopment		1,002,290			1,002,290
Total Assets	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761
LIABILITIES					
Accounts payable	$3,210,488	$831,375	$23,423,446	$5,004,477	$32,469,786
Accrued liabilities	1,415,420	520,270		147,865	2,083,555
Due to other funds (Note 4B)		800,000		336,740	1,136,740
Due to other government agencies	19,035			6,900,737	6,919,772
Compensated absences (Note 1G)	126,909				126,909
Advances from other funds (Note 4C)		13,524,737		212,500	13,737,237
Deposits	6,065,778			600,000	6,665,778
Deferred revenue	1,328,486	1,923,079		3,986,105	7,237,670
Deferred liabilities		2,368,988		272,255	2,641,243
Total Liabilities	12,166,116	19,968,449	23,423,446	17,460,679	73,018,690
FUND BALANCES (Note 11)					
Reserved for:					
Advances	8,595,536			4,100,000	12,695,536
Inventories	498,894				498,894
Encumbrances	7,333,064			6,869,617	14,202,681
Capital projects			28,369,080		28,369,080
Deferred receivables and notes receivable	104,846			26,992	131,838
Prepaids	137,408				137,408
Low and moderate income housing		2,443,917			2,443,917
Debt service		10,039,564		1,345,398	11,384,962
Unreserved:					
Designated for economic reserve	11,025,100				11,025,100
Reported in Capital Projects Funds:					
Designated for carryover of capital improvement projects	1,085,289			19,807,821	20,893,110
Unreserved, undesignated, reported in:					
General Fund	35,532,301				35,532,301
Special Revenue Funds		(12,382,220)		76,829,465	64,447,245
Permanent Funds				16,425,999	16,425,999
TOTAL FUND BALANCES	64,312,438	101,261	28,369,080	125,405,292	218,188,071
Total Liabilities and Fund Balances	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761

See accompanying notes to financial statements

CITY OF ROSEVILLE
Reconciliation of
GOVERNMENTAL FUNDS -- FUND BALANCE
with the Governmental Activities
NET ASSETS
JUNE 30, 2006

TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	$218,188,071
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	688,394,008
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of 'certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.	
Cash and investments	53,584,070
Accounts receivable	8,308
Interest receivable	1,341,377
Due from other government agencies	21,484
Prepaid	620,524
Inventories	876,794
Accounts payable	(658,478)
Accrued liabilities	(39,523)
Self-insurance claims payable	(8,470,000)
Compensated absences	(312,616)
Internal balances	5,046,339
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	5,610,219
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(33,280,209)
Interest payable and other accrued liabilities, included in accrued liabilities	(509,809)
Non-current portion of compensated absences	(7,155,425)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$923,265,134

See accompanying notes to financial statements

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$72,871,777	$5,506,123		$4,392,791	$82,770,691
Less Educational Revenue					
Augmentation Fund payment (Note 19)		(323,743)			(323,743)
Licenses and permits	2,020,467				2,020,467
Charges for services	17,353,831			13,941,436	31,295,267
Subventions and grants	2,004,706	56,761		8,289,814	10,351,281
Use of money and property	1,580,294	571,749	$2,320,216	3,312,716	7,784,975
Fines, forfeitures and penalties	768,638			1,184,767	1,953,405
Contributions from property owners			92,645,369		92,645,369
Contributions from developers	638,802	395,042	11,288	2,292,513	3,337,645
Miscellaneous revenues	3,607,125	48,316	1,306,580	2,937,547	7,899,568
Total Revenues	100,845,640	6,254,248	96,283,453	36,351,584	239,734,925
EXPENDITURES					
Current:					
General government	24,480,432			458,424	24,938,856
Community development and planning	4,784,483	2,980,943		3,122,636	10,888,062
Public works	12,035,250			3,361,446	15,396,696
Public safety:					
Police	25,567,869				25,567,869
Fire	16,297,463			617,930	16,915,393
Library	3,129,784			3,583	3,133,367
Parks and recreation	13,220,014			2,787,363	16,007,377
Housing assistance payments				2,974,236	2,974,236
Capital outlay	7,627,571	3,290,860	66,327,795	31,068,558	108,314,784
Payments under development agreements (Note 7)	2,592,039				2,592,039
Debt service					
Principal retirement	111,946	225,000		605,000	941,946
Interest and fiscal charges	23,472	1,205,253		712,277	1,941,002
Total Expenditures	109,870,323	7,702,056	66,327,795	45,711,453	229,611,627
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,024,683)	(1,447,808)	29,955,658	(9,359,869)	10,123,298
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of property	3,357,188	146,279			3,503,467
Proceeds from capital lease (Note 9)				2,239,765	2,239,765
Transfers in (Note 4A)	21,206,973	940,000	200,000	16,092,185	38,439,158
Transfers (out) (Note 4A)	(8,464,833)	(253,440)	(958,422)	(11,130,142)	(20,806,837)
Total Other Financing Sources (Uses)	16,099,328	832,839	(758,422)	7,201,808	23,375,553
NET CHANGE IN FUND BALANCES	7,074,645	(614,969)	29,197,236	(2,158,061)	33,498,851
Fund balances at beginning of period	57,237,793	716,230	(828,156)	127,563,353	184,689,220
FUND BALANCES AT END OF PERIOD	$64,312,438	$101,261	$28,369,080	$125,405,292	$218,188,071

See accompanying notes to financial statements

CITY OF ROSEVILLE

Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$33,498,851
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	103,685,200
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $3,598,624 which has already been allocated to serviced funds.)	(11,556,350)
Loss on retirement of capital assets (Internal service fund retirement of $8,747 has already been deducted from capital assets)	(6,205,451)
Transfer of assets to Business-Type Activities	(276,329)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Proceeds from the issuance of debt and capital assets are deducted from fund balance	(2,239,765)
Repayment of debt principal is added back to fund balance	941,946
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Long-term compensated absences	3,393,971
Interest payable and accrued liabilities, included in accrued liabilities	7,348
Deferred revenues	90,248
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	8,601,784
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$129,941,453

See accompanying notes to financial statements

CITY OF ROSEVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
REVENUES				
Taxes	$68,894,665	$71,170,200	$72,871,777	$1,701,577
Licenses and permits	4,943,460	4,943,460	2,020,467	(2,922,993)
Charges for services	11,867,159	19,195,545	17,353,831	(1,841,714)
Subventions and grants	994,875	1,671,518	2,004,706	333,188
Use of money and property	1,121,165	1,131,165	1,580,294	449,129
Fines, forfeitures and penalties	511,000	511,000	768,638	257,638
Contributions from developers	1,188,000	1,513,000	638,802	(874,198)
Miscellaneous revenues	1,330,000	2,905,245	3,607,125	701,880
TOTAL REVENUES	90,850,324	103,041,133	100,845,640	(2,195,493)
EXPENDITURES				
Current:				
General government				
Council				
Salaries and benefits	38,630	38,630	35,990	2,640
Operating services and supplies	392,671	450,954	275,570	175,384
City attorney				
Salaries and benefits	1,177,460	1,145,090	1,144,731	359
Operating services and supplies	220,559	220,559	218,900	1,659
City manager				
Salaries and benefits	1,525,700	1,502,900	1,452,226	50,674
Operating services and supplies	406,246	438,723	366,501	72,222
Finance				
Salaries and benefits	5,147,441	5,137,151	4,810,554	326,597
Operating services and supplies	2,172,545	3,252,545	2,307,851	944,694
Human resources				
Salaries and benefits	1,535,070	1,501,920	1,453,679	48,241
Operating services and supplies	619,686	655,436	584,922	70,514
Information technology				
Salaries and benefits	3,192,010	3,192,010	3,166,791	25,219
Operating services and supplies	2,028,288	2,099,388	1,528,058	571,330
City clerk				
Salaries and benefits	586,150	586,150	536,120	50,030
Operating services and supplies	185,590	185,590	79,574	106,016
Economic Development				
Salaries and benefits	205,550	246,550	239,029	7,521
Operating services and supplies	153,238	201,688	161,893	39,795
Central services				
Salaries and benefits	3,089,320	3,089,320	2,900,948	188,372
Operating services and supplies	3,862,235	4,222,703	3,217,095	1,005,608
Community development and planning				
Housing				
Salaries and benefits	167,370	167,370	188,642	(21,272)
Operating services and supplies	117,809	117,809	103,814	13,995
Community development				
Salaries and benefits	1,158,080	1,199,766	1,047,502	152,264
Operating services and supplies	411,596	411,596	150,140	261,456
Planning				
Salaries and benefits	2,300,190	1,837,236	2,177,833	(340,597)
Operating services and supplies	1,689,828	5,499,339	1,116,552	4,382,787

(Continued)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Public works				
Salaries and benefits	10,117,892	9,983,642	8,676,220	1,307,422
Operating services and supplies	4,791,216	4,910,066	3,359,030	1,551,036
Public safety:				
Police				
Salaries and benefits	21,083,340	22,288,212	21,076,281	1,211,931
Operating services and supplies	4,597,865	4,948,319	4,491,588	456,731
Fire				
Salaries and benefits	13,902,470	14,427,658	14,365,306	62,352
Operating services and supplies	2,303,578	2,428,758	1,932,157	496,601
Library				
Salaries and benefits	2,948,440	2,948,440	2,386,485	561,955
Operating services and supplies	736,219	736,219	743,299	(7,080)
Parks and recreation				
Salaries and benefits	9,836,052	9,893,311	8,640,239	1,253,072
Operating services and supplies	4,751,144	4,778,539	4,579,775	198,764
Capital outlay	7,788,543	23,317,852	7,627,571	15,690,281
Payments under development agreements	2,558,350	2,557,600	2,592,039	(34,439)
Debt Service:				
Principal	1,550,120	241,870	111,946	129,924
Interest and fiscal charges	44,950	44,950	23,472	21,478
TOTAL EXPENDITURES	119,393,441	140,905,859	109,870,323	31,035,536
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property		2,610,000	3,357,188	747,188
Transfers in	21,564,327	23,827,327	21,206,973	(2,620,354)
Transfers (out)	(3,068,600)	(6,120,941)	(8,464,833)	(2,343,892)
Total Other Financing Sources (Uses)	18,495,727	20,316,386	16,099,328	(4,217,058)
NET CHANGE IN FUND BALANCE	($10,047,390)	($17,548,340)	7,074,645	
Fund balance at beginning of year			57,237,793	
Fund balance at end of year			$64,312,438	

See accompanying notes to financial statements

CITY OF ROSEVILLE
REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Final	Positive (Negative)
REVENUES				
Taxes	$4,513,200	$5,597,890	$5,506,123	($91,767)
Less Educational Revenue				
Augmentation Fund payment (Note 19)			(323,743)	(323,743)
Subventions and grants	954,730	455,900	56,761	(399,139)
Use of money and property	99,974	99,974	571,749	471,775
Contributions from developers	360,000	(33,815)	395,042	428,857
Miscellaneous revenues	16,658	45,358	48,316	2,958
Total revenues	5,944,562	6,165,307	6,254,248	88,941
EXPENDITURES				
Community development and planning				
Community services				
Salaries and benefits	388,450	395,610	378,798	16,812
Operating services and supplies	2,018,069	2,060,249	1,065,722	994,527
Pass-through payments	1,331,090	1,537,460	1,536,423	1,037
Capital outlay	11,310,903	13,703,714	3,290,860	10,412,854
Debt service:				
Principal		225,000	225,000	
Interest and fiscal charges		756,475	1,205,253	(448,778)
Total expenditures	15,048,512	18,678,508	7,702,056	10,976,452
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	75,000	456,280	146,279	(310,001)
Transfers in	2,000,360		940,000	940,000
Transfers out	(1,024,800)		(253,440)	(253,440)
Total Other Financing Sources (Uses)	1,050,560	456,280	832,839	376,559
NET CHANGE IN FUND BALANCE	($8,053,390)	($12,056,921)	(614,969)	$11,441,952
Fund balance at beginning of year			716,230	
Fund balance at end of year			$101,261	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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MAJOR PROPRIETARY FUNDS

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

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2006.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC FUND

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

WATER FUND

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

WASTEWATER FUND

This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

SOLID WASTE FUND

This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

GOLF COURSE FUND

This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

LOCAL TRANSPORTATION FUND

This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

SCHOOL-AGE CHILD CARE FUND

This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
ASSETS					
Current Assets:					
Cash and investments in City Treasury (Note 3)	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
Restricted cash and investments					
with fiscal agents (Note 3)	145,950,098	2,612,496			624,213
Receivables:					
Taxes	32,934				
Accounts	13,142,903	3,431,103	1,893,938	2,036,859	79,379
Accrued Interest	878,779	415,728	85,780	22,092	35,363
Due from other government agencies		68,422	1,238,460	108,393	
Due from other funds (Note 4B)			197,610		
Inventories (Note 1I)	5,691,039	1,988,800	66,992	127,152	
Prepaids					
Total Current Assets	244,451,513	58,838,554	15,110,778	5,075,686	2,210,312
Noncurrent Assets:					
Deferred receivables (Note 6)	606,079	70,955	7,232		
Notes receivable from NCPA (Note 15B)	192,879				
Prepaid purchased electricity (Note 14)	4,584,532				
Unamortized bond origination costs	597,196	550,186			268,853
Investment in NCPA reserves (Note 15)	12,008,493				
Investment in SPWA reserves (Note 16)			111,170,459		
Advances to other funds (Note 4C)			1,545,390		
Capital assets (Note 8):					
Land and construction in progress	148,684,569	15,653,841	7,966,242	409,632	6,007,666
Capital assets being depreciated, net	196,961,979	325,216,082	433,597,588	3,436,132	11,640,654
Total Noncurrent Assets	363,635,727	341,491,064	554,286,911	3,845,764	17,917,173
Total Assets	608,087,240	400,329,618	569,397,689	8,921,450	20,127,485
LIABILITIES					
Current Liabilities					
Accounts payable	16,457,123	2,680,509	410,069	699,490	149,148
Accrued liabilities	2,557,436	358,747	210,994	123,884	125,902
Due to other government agencies	79,554		947,186		
Due to other funds (Note 4B)				197,610	127,000
Current portion of compensated absences (Note 1G)	1,047,855	507,286	578,009	245,481	
Current portion of long-term debt (Note 9)	1,400,000	1,405,810	1,746,983		320,000
Deposits	37,919,147	48,000			10,322
Unearned revenue	6,455,973				
Self-insurance claims payable (Note 13)					
Total Current Liabilities	65,917,088	5,000,352	3,893,241	1,266,465	732,372
Long-Term Liabilities					
Deferred liabilities				108,192	
Advances from other funds (Note 4C)				1,545,390	3,766,000
Notes (Note 9)		161,246			
Certificates of participation (Note 9)	269,020,000	23,345,000			7,310,000
Unamortized loss on refunding (Note 9)	(3,093,118)		(5,542,144)		
Revenue bonds (Note 9)			94,773,123		
Landfill closure and post closure liability (Note 17)				3,678,093	
Compensated absences (Note 1G)	1,054,130	548,111	545,767	266,450	
Total Long-Term Liabilities	266,981,012	24,054,357	89,776,746	5,598,125	11,076,000
Total Liabilities	332,898,100	29,054,709	93,669,987	6,864,590	11,808,372
NET ASSETS					
Invested in capital assets,					
net of related debt	156,500,395	316,119,113	345,043,724	3,845,764	10,018,320
Restricted for debt service	17,319,323	2,612,320			624,020
Restricted for local transportation					
Unrestricted	101,369,422	52,543,476	130,683,978	(1,788,904)	(2,323,227)
Total Net Assets	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$13,990,183	$338,776	$159,287,269	$53,544,070
		149,186,807	40,000
		32,934	
12,687	568,448	21,165,317	8,308
60,056	2,621	1,500,419	1,341,377
313,900	25,589	1,754,764	21,484
		197,610	339,500
		7,873,983	876,794
			620,524
14,376,826	935,434	340,999,103	56,792,057
		684,266	
		192,879	
		4,584,532	
		1,416,235	
		12,008,493	
		111,170,459	
		1,545,390	5,107,701
921,979	443,326	180,087,255	
4,961,721	519,348	976,333,504	13,869,030
5,883,700	962,674	1,288,023,013	18,976,731
20,260,526	1,898,108	1,629,022,116	75,768,788
378,528	50,156	20,825,023	658,478
14,920	78,232	3,470,115	39,523
		1,026,740	
	22,249	346,859	400,862
49,055	181,561	2,609,247	147,943
		4,872,793	
90	12,597	37,990,156	
6,227,486	352,013	13,035,472	
			8,470,000
6,670,079	696,808	84,176,405	9,716,806
	17,050	125,242	
	300,000	5,611,390	
		161,246	
		299,675,000	
		(8,635,262)	
		94,773,123	
		3,678,093	
83,464	6,815	2,504,737	164,673
83,464	323,865	397,893,569	164,673
6,753,543	1,020,673	482,069,974	9,881,479
5,883,700	962,674	838,373,690	13,869,030
		20,555,663	
7,623,283		7,623,283	
	(85,239)	280,399,506	52,018,279
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
OPERATING REVENUES					
Charges for services	$101,342,497	$12,382,530	$19,010,612	$17,108,946	$2,728,198
Sale of wholesale power	1,065,466				
Other	364,631	1,067,734	15,130	449,546	19,653
Total Operating Revenues	102,772,594	13,450,264	19,025,742	17,558,492	2,747,851
OPERATING EXPENSES					
Purchased power	68,658,451				
Operations	14,258,264	8,259,428	13,944,737	13,465,549	1,766,682
Administration	2,164,378	3,413,000	492,126	651,821	
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Claims expense					
Total Operating Expenses	90,537,202	17,128,380	23,712,772	14,220,731	2,173,918
Operating Income (Loss)	12,235,392	(3,678,116)	(4,687,030)	3,337,761	573,933
NONOPERATING REVENUES (EXPENSES)					
Interest and rents revenue/expense	8,167,037	1,799,802	260,510	72,283	100,468
Interest and fiscal charges (expense)	(6,564,739)	(1,381,660)	(3,494,945)		(305,460)
Subventions and grants		2,019,853		26,489	
Increase (decrease) in NCPA reserves	8,923,097				
Increase (decrease) in SPWA reserves			2,762,591		
Nonoperating revenues	1,825,199				
Net Nonoperating Revenues (Expenses)	12,350,594	2,437,995	(471,844)	98,772	(204,992)
Income (Loss) Before Contributions and Transfers	24,585,986	(1,240,121)	(5,158,874)	3,436,533	368,941
Capital contributions - connection fees		9,371,034	5,714,315		
Contribution in aid of construction	3,742,557				
Capital contributions from developers	3,754,345	20,684,227	11,831,371		
Capital contributions from SPWA member agencies			1,478,577		
Transfers in (Note 4A)	9,000	1,234,522		82,676	
Transfers (out) (Note 4A)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Change in net assets	20,139,231	25,762,907	9,730,821	(346,087)	209,408
Total net assets-beginning	255,049,909	345,512,002	465,996,881	2,402,947	8,109,705
Total net assets-ending	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$583,613	$4,831,838	$157,988,234	$19,943,861
		1,065,466	
17,474	2,046	1,936,214	447,899
601,087	4,833,884	160,989,914	20,391,760
		68,658,451	
3,143,834	4,404,620	59,243,114	12,753,371
483,094		7,204,419	
788,483	14,523	21,501,573	3,598,624
			2,717,792
4,415,411	4,419,143	156,607,557	19,069,787
(3,814,324)	414,741	4,382,357	1,321,973
161,569	(2,088)	10,559,581	1,289,649
	(11,658)	(11,758,462)	
32,003	220,844	2,299,189	14,000
		8,923,097	
		2,762,591	
		1,825,199	25,907
193,572	207,098	14,611,195	1,329,556
(3,620,752)	621,839	18,993,552	2,651,529
		15,085,349	
		3,742,557	
652,854		36,922,797	
		1,478,577	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(3,148,823)	292,799	52,640,256	8,601,784
16,655,806	584,636	1,094,311,886	57,285,525
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$120,766,055	$10,587,114	$18,486,764	$16,845,597	$2,723,711
Payments to suppliers	(71,055,252)	(6,101,799)	(10,026,720)	(10,364,609)	(1,668,850)
Payments to employees	(9,041,112)	(5,749,107)	(4,475,934)	(3,913,919)	
Claims paid					
Other receipts	364,631	1,067,734	15,130	449,546	19,653
Net cash provided by operating activities	41,034,322	(196,058)	3,999,240	3,016,615	1,074,514
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
(Increase) decrease in due from other funds			(197,610)		
Increase (decrease) in due to other funds				197,610	127,000
(Increase) decrease in advance to other funds			(1,545,390)		
Increase (decrease) in advances from other funds				1,545,390	(127,000)
Transfers in	9,000	1,234,522		82,676	
Transfers (out)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Cash Flows from Noncapital Financing Activities	(11,943,657)	(3,052,233)	(5,877,568)	(2,039,620)	(159,533)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	7,496,902	20,684,227			
Acquisition and construction of capital assets, net	(119,388,967)	(32,828,863)	60,836	(1,177,162)	
Transfer of connection fees to SPWA			(5,028,159)		
Change in restricted assets	92,188,659	(53)			(119)
Principal payments on capital debt	(6,170,000)	(1,345,295)			(315,000)
Interest paid on capital debt	(6,564,739)	(1,381,659)			(305,460)
Subventions and grants	894,057	2,023,755	3,025,430	94,263	
Connection fees		9,371,034	5,714,315		
Other	1,825,199				
Cash Flows from Capital and Related Financing Activities	(29,718,889)	(3,476,854)	3,772,422	(1,082,899)	(620,579)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	7,946,932	1,767,773	251,624	74,247	95,335
Net increase (decrease) in cash and cash equivalents	7,318,708	(4,957,372)	2,145,718	(31,657)	389,737
Cash and investments at beginning of period	71,437,052	55,279,377	9,482,280	2,812,847	1,081,620
Cash and investments at end of period	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
NONCASH TRANSACTIONS:					
Contribution of SPWA capital assets to City			$4,256,591		
Principal retirement of SPWA Revenue Bonds			(1,676,562)		
Interest on SPWA Revenue Bonds			(3,504,143)		
Contribution of capital assets from developers			11,831,371		
Retirement of capital assets	($138,762)	($1,448,248)	(180,392)	($30,648)	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	$12,235,392	($3,678,116)	($4,687,030)	3,337,761	$573,933
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Change in assets and liabilities:					
Receivables, net	(722,903)	(1,788,416)	(519,020)	(263,349)	(3,865)
Inventories	(40,066)	(1,328,267)	4,171	(33,789)	
Prepaids					
Accounts and other payables	19,748,062	1,142,789	(74,790)	(127,369)	97,210
Deferred revenue	4,357,728				
Net cash provided by operating activities	$41,034,322	($196,058)	$3,999,240	$3,016,615	$1,074,514

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$6,325,419	$4,798,888	$180,533,548	$19,987,238
(2,991,570)	(620,843)	(102,829,643)	(11,451,611)
(578,518)	(3,909,162)	(27,667,752)	(2,064,866)
			(1,722,792)
17,474	2,046	1,936,214	447,899
2,772,805	270,929	51,972,367	5,195,868
		(197,610)	(127,000)
	(127,578)	197,032	(312,638)
		(1,545,390)	339,500
		1,418,390	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(180,925)	(456,618)	(23,710,154)	5,850,117
652,854		28,833,983	
(543,053)		(153,877,209)	(5,953,572)
		(5,028,159)	
		92,188,487	
		(7,830,295)	
		(8,251,858)	
9,483,277	195,886	15,716,668	
		15,085,349	
		1,825,199	25,907
9,593,078	195,886	(21,337,835)	(5,927,665)
129,577	(2,451)	10,263,037	1,170,077
12,314,535	7,746	17,187,415	6,288,397
1,675,648	331,030	142,099,854	47,295,673
$13,990,183	$338,776	$159,287,269	$53,584,070
		$4,256,591	
		(1,676,562)	
		(3,504,143)	
		11,831,371	
		(1,798,050)	
($3,814,324)	414,741	4,382,357	$1,321,973
788,483	14,523	21,501,573	3,598,624
(11,454)	(57,166)	(3,366,173)	(101,926)
		(1,397,951)	
			(620,524)
56,930	(122,158)	20,720,674	997,721
5,753,170	20,989	10,131,887	
$2,772,805	$270,929	$51,972,367	$5,195,868

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FIDUCIARY FUNDS

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FIDUCIARY FUNDS

Fiduciary funds are presented separately from the Government-wide and Fund financial statements.

Endowment Private-Purpose Trust funds are used to account for trust arrangements under which principal and income benefit private organizations.

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

CITY OF ROSEVILLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Endowment Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments in Treasury (Note 3)	$2,018,964	$178,754,986
Restricted cash and investments with fiscal agents (Note 3)		58,802,360
Accounts receivable		160,893
Accrued interest receivable	15,947	1,237,559
Due from other government agencies		2,700,026
Total Assets	2,034,911	$241,655,824
LIABILITIES		
Accounts payable	6,316	$3,294,096
Accrued liabilities		326,561
Due to other government agencies		13,014
Due to member agencies		183,135,487
Due to bondholders		54,790,488
Due to others		96,178
Total Liabilities	6,316	$241,655,824
NET ASSETS		
Held in trust for private purpose	$2,028,595	

See accompanying notes to financial statements

CITY OF ROSEVILLE
ENDOWMENT PRIVATE-PURPOSE TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

ADDITIONS	
Contributions from developers	$65,936
Investment income	49,050
Total additions	114,986
DEDUCTIONS	
Payments in accordance with trust agreements	32,774
Change in net assets	82,212
Net assets - beginning	1,946,383
Net assets - end	$2,028,595

See accompanying notes to financial statements

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Roseville was incorporated on April 10, 1909 under provisions of Act 279, P.A. 1909, as amended (Home Rule City). The City operates under the Council Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, water, solid waste, electric, local transportation, school-age child care, golf course, parks recreation, public improvements, planning and zoning, library, general administration services, redevelopment and housing.

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

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. This City's component units which are described below are all blended.

The **Redevelopment Agency of the City of Roseville** is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Roseville Special Revenue Fund.

The **Roseville Finance Authority** is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Roseville Finance Authority Debt Service Fund and Capital Projects Fund.

The **City of Roseville Housing Authority** is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Housing Authority Section 8 Special Revenue Fund.

Financial statements for the Redevelopment Agency may be obtained from the City of Roseville at 311 Vernon Street, Roseville, California, 95678. Separate financial statements for the Roseville Finance Authority and Roseville Housing Authority are not issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The California Joint Powers Risk Management Authority, the Local Agency Workers' Compensation Excess Joint Powers Authority, the Roseville-Placer County Civic Center Improvement Authority, the Highway 65 Joint Powers Authority, the Disaster Recovery Joint Powers Authority, and the South Placer Wastewater Authority are not included in the accompanying basic financial statements because they do not meet the above financial accountability criteria as these entities are administered by governing boards separate from and wholly independent of the City.

B. Basis of Presentation

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

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

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

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

Redevelopment Agency - The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

Community Facilities District Projects Fund - This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

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

Electric Fund - This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

Water Fund - This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

Wastewater Fund - This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

Solid Waste Fund - This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

Golf Course Fund – This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

Local Transportation Fund – This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School-age Child Care Fund – This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

The City also reports the following fund types:

Internal Service Funds. The funds account for automotive services, automotive replacement, worker's compensation, general liability, unemployment reserve, vision, dental, section 125, post retirement, and central stores; all of which are provided to other departments on a cost-reimbursement basis.

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

D. Basis of Accounting

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

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

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

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

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Revenue Recognition For Electric, Water, Sewer, and Garbage Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There are twenty billing cycles per month which include all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

Placer County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the county, which retains all penalties.

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

G. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which are accrued as earned. The City’s liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$11,133,428	$5,206,618	$16,340,046
Additions	(3,411,566)	(25,719)	(3,437,285)
Payments	(126,912)	(66,915)	(193,827)
Ending Balance	$7,594,950	$5,113,984	$12,708,934
Current Portion	$274,852	$2,609,247	$2,884,099

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund and the Redevelopment Agency of the City of Roseville Special Revenue Fund.

H. Postemployment Heath Care Benefits

The City provides health care benefits for 327 retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees hired before January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have a minimum five years of service while working for the City. Employees hired after January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have years of service credit that range from 10 to 20 years with the City's contributions ranging from 50% to 100%, respectively. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2006, those costs totaled $1,953,035.

I. Inventories

Inventories are valued at cost, using the weighted-average method. Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets. Inventories of the Enterprise Funds consist primarily of merchandise held for internal consumption.

J. New Funds

The South Placer Animal Central Shelter Special Revenue Fund, and the Stone Point CFD #5, NC SP PAR 44 CFD, Placer County Air Quality Pollution Control, and the Sierra College Boulevard Fee Agency Funds were established in fiscal year 2006.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

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

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a minute order and ordinance.

4. The City Manager or designee is authorized to apply prudent monitoring procedures to assure that actual expenditures/expenses of the City do not exceed the appropriations by department of the major summary categories (salaries and benefits, operating services and supplies, capital outlay, and capital improvement projects) in conformance with the adopted policies set by the City Council. Additional appropriations or interfund transfers not included in the original budget ordinance require approval by the City Council.

5. Expenditures may not legally exceed budgeted appropriations at the department level by major summary category within each fund.

6. Formal budgetary integration is employed as a management control device during the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. Budgets are adopted for all governmental funds except for the following Special Revenue and Permanent Funds:

    i. Special Revenue Funds
        1. Park and Recreation Donation
        2. Forfeited Property
    ii. Permanent Fund
        1. Roseville Aquatics Complex Maintenance

    The following funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion:

    i. Special Revenue Funds
        1. Traffic Mitigation
        2. State Gasoline Tax
        3. Park Development
        4. Pleasant Grove Drain Basin
        5. Tree Propagation
    ii. Capital Project Funds
        1. Community Facilities District
        2. Building

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

C. Excess of Expenditures or Expenses over Appropriations

The Funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each department to finance these overages.

Fund	Department	Amount
General Fund:		
	Housing	
	Salaries and benefits	$21,272
	Planning	
	Salaries and benefits	340,597
	Library	
	Operating services & supplies	7,080
	Payments under developer agreement	34,439
Redevelopment Agency Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	448,778
Fire Facilities Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	8,100
Community Block Grant/HOME Special Revenue Fund:		
	Parks and recreation	
	Operating services & supplies	286
Affordable Housing Special Revenue Fund:	Community services	
	Operating services & supplies	994,741
Storm Water Management Special Revenue Fund:		
	Capital outlay	37

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments,* or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

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

A. Classification

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

Cash and investments in City Treasury	$406,094,296
Restricted cash and investments with fiscal agent	200,879,701
Total City cash and investments	606,973,997
Cash and investments in Fiduciary Funds (Separate statement)	239,576,310
Total Cash and Investments	$846,550,307

Cash and investments as of June 30, 2006 consist of the following:

Cash in bank and on hand	$30,350,546
Investments	816,199,761
Total Cash and Investments	$846,550,307

Cash and investments with original maturities of three months or less are treated as cash and equivalents for purpose of preparing Proprietary Fund statements of cash flows. Also, each Proprietary Funds' portion of the City's overall cash and investment pool is treated as cash and equivalents since these amounts are in substance demand deposits.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Mortgage Pass-Through Securities	5 Years	None	20%	None
Forward Delivery Agreements (A)	N/A	A	None	None
Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Banker's Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10% (B)
Medium-Term Notes	5 Years	AA	30%	None
Collateralized Time Deposits	5 Years	None	None	None
Negotiable Certificates of Deposit	5 Years	AA	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps (C)	N/A	None	None	None

(A) In specified fund accounts where liquidity is not the primary investment objective, the maximum maturity can be up to ten years with granted express authority by the City Council. Such investments cannot be made less than three months following the approval of extended investment terms. All longer-term investments must be Federal Treasury or Agency securities. The specified fund accounts are:

- Citizens Benefit Permanent Fund
- Roseville Aquatics Complex Maintenance Permanent Fund
- Endowment Private-purpose Trust Fund
- All future trust and/or endowment funds established by the City with no anticipated use of principal

(B) Eligible Commercial Paper may not represent more than 10% of the outstanding paper of an issuing corporation.

(C) Interest rate swaps may only be used in conjunction with enterprise fund debt or investments, not the General Fund. Currently, the City does not participate in any Forward Delivery Agreements. Pursuant to its function as custodian and investment manager of the South Placer Wastewater Authority, the City invested certain Authority funds in Forward Delivery Agreements which are investments with fixed maturities and which bear interest at a variable rate. To hedge against changes in short term interest rates, the Authority entered into a swap agreement to create a synthetic fixed interest rate on one of the Forward Delivery Agreements. Risks associated with the Forward Delivery Agreement and associated swap agreement are those of the Authority and not those of the City. Details of the swap agreement and associated risks may be found in the Basic Financial Statements of the Authority.

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	N/A	None
U.S. Agency Securities	N/A	None
Certificates of Deposit	N/A - 30 days	None - A-1
Time Deposits	N/A - 30 days	None - A-1
Repurchase Agreements	N/A	None - A
Bankers Acceptances	N/A - 270 days	None - A-1
Obligations	N/A	None
Money Market Funds	N/A	None - Aam-G
Taxable Gov't Money Market Portfolio	N/A	None
Legal Investment	N/A	None
Commercial Paper (A)	180-270 days	A-1 - AA
General Obligations	N/A	None - A
General Short-term Obligations	N/A	A-1
Special Revenue Bonds	N/A	AA
Pre-refunded Municipal Obligations	N/A	AAA
Municipal Obligations	N/A	AAA
Common Law Trust	N/A	None
C.A.M.P.	N/A	None
Lawful Investment	N/A	None
Investment Agreements	N/A	A+ - AA
L.A.I.F.	N/A	None
Placer County Investment Pool	N/A	None

(A) Maximum investment in one issuer of Commercial Paper is 10% of the outstanding bond proceeds.

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City also manages its interest rate risk by holding most investments to maturity, thus reversing unrealized market gains and losses.

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

	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months	Total
U.S. Government Securities	$14,137,746	$58,300,853	$11,288,684		$83,727,283
Federal Agency Securities	204,781,653	75,034,630	51,624,554		331,440,837
Corporate Notes	11,382,750		11,316,608		22,699,358
Forward Delivery Agreement			56,450,906	$8,857,396	65,308,302
Commercial Paper	33,179,395				33,179,395
Guaranteed Investment Contracts	37,429,463	76,087,213	3,865,506	25,388,630	142,770,812
Repurchase Agreement				4,905,395	4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785				78,065,785
Local Agency Investment Fund	40,868,373				40,868,373
California Asset Management Pool	11,211,658				11,211,658
Collateralized Time Deposits	2,022,563				2,022,563
Total Investments	$433,079,386	$209,422,696	$134,546,258	$39,151,421	$816,199,761

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. At June 30, 2006 the fair value was $74,277 less than the City's cost. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's investment rating system:

	AAA	AA	AA-	A+	A-1+	A-1	Total
Investments:							
Federal Agency Securities	$331,440,837						$331,440,837
Corporate Notes	2,699,580	$2,071,112	$6,545,916	$11,382,750			22,699,358
Forward Delivery Agreement			56,450,906	8,857,396			65,308,302
Commercial Paper					$30,678,465	$2,500,930	33,179,395
Guaranteed Investment Contracts	129,116,962	11,540,578	2,113,272				142,770,812
Repurchase Agreements			4,905,395				4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785						78,065,785
Totals	$541,323,164	$13,611,690	$70,015,489	$20,240,146	$30,678,465	$2,500,930	678,369,884
Exempt from Credit Rate Disclosure:							
U.S. Government Securities							83,727,283
Not Rated:							
Local Agency Investment Fund							40,868,373
California Asset Management Pool							11,211,658
Collateralized Time Deposits							2,022,563
Total Investments							$816,199,761

F. Concentration of Credit Risk

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, California Local Agency Investment Fund, and California Asset Management Pool, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal Agency Securities	$114,350,511
Federal National Mortgage Association	Federal Agency Securities	108,582,471
Federal Home Loan Bank	Federal Agency Securities	103,875,842
Trinity Plus Funding	Investment Contract	61,143,914

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments in any one issuer that represent 5% or more of total investments by individual funds were as follows at June 30, 2006:

Fund	Issuer	Investment Type	Amount
Major Enterprise			
Electric	Trinity Plus Funding	Investment Agreement	$61,143,914
	FSA Capital Management	Investment Agreement	17,094,035
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,269,287
	Federal National Mortgage Association	Federal Agency Securities	15,126,418
	Federal Home Loan Bank	Federal Agency Securities	14,092,395
Water	Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,730,061
	Federal Home Loan Bank	Federal Agency Securities	3,968,750
	UBS Finance Corporation	Commercial Paper	3,467,127
Golf Course	AIG	Investment Contract	624,020
Fiduciary Funds			
Endowment Private Purpose Trust Fund	Federal Home Loan Bank	Federal Agency Securities	678,119
North Roseville Community Facilities District #1	Lehman Brothers	Forward Delivery Agreement	1,747,234
Northeast Roseville Community Facilities District #1	MBIA	Investment Contract	840,847
Northeast Roseville Community Facilities District #2	MBIA	Investment Contract	1,105,291
Northwest Roseville Community Facilities District #1	MBIA	Investment Contract	2,367,738
Highland Reserve North Community Facilities District #2	MBIA	Investment Contract	2,540,146
Woodcreek West Community Facilities District #1	MBIA	Investment Contract	1,402,063
Woodcreek East Community Facilities District #2	MBIA	Investment Contract	484,513
Stoneridge East Community Facilities District #1	Societe Generale	Investment Contract	1,188,365
Stoneridge West Community Facilities District #1	Societe Generale	Investment Contract	924,907
Fiddyment Ranch Community Facilities District #1	Rabobank Contract Agreement	Investment Contract	980,769
South Placer Wastewater Authority Agency Fund	J.P. Morgan	Forward Delivery Agreement	56,450,906
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,150,609
	Federal Home Loan Bank	Federal Agency Securities	13,328,167
	Federal National Mortgage Association	Federal Agency Securities	11,597,322

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Among Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Redevelopment Agency of the City of Roseville	$228,440	(A)
	Non-Major Governmental Funds	3,320,520	(B)
	Non-Major Governmental Funds	290,280	(C)
	Electric Enterprise Fund	9,604,312	(D)
	Water Enterprise Fund	2,822,534	(E)
	Wastewater Enterprise Fund	2,013,352	(E)
	Solid Waste Enterprise Fund	1,431,991	(E)
	Golf Course Enterprise Fund	151,920	(C)
	Local Transportation Enterprise Fund	171,060	(C)
	School-Age Child Care Enterprise Fund	332,500	(C)
	Internal Service Funds	840,064	(C)
Redevelopment Agency	General Fund	600,000	(F)
	Non-Major Governmental Funds	340,000	(F)
Community Facilities District Projects	Non-Major Governmental Funds	200,000	(F)
Non-Major Governmental Funds	General Fund	4,970,976	(A)
	Redevelopment Agency of the City of Roseville	25,000	(A)
	Community Facilities District Capital Projects Fund	774,265	(F)
	Non-Major Governmental Funds	6,501,780	(F)
	Electric Enterprise Fund	1,776,202	(B)
	Water Enterprise Fund	945,880	(D)
	Wastewater Enterprise Fund	705,750	(D)
	Solid Waste Enterprise Fund	310,150	(D)
	Local Transportation Enterprise Fund	82,182	(E)
Electric Enterprise Fund	Non-Major Governmental Funds	9,000	(B)
Water Enterprise Fund	Wastewater Enterprise Fund	837,811	(C)
	Solid Waste Enterprise Fund	396,711	(C)
Solid Waste Enterprise Fund	Water Enterprise Fund	41,338	(F)
	Wastewater Enterprise Fund	41,338	(F)
Local Transportation Enterprise Fund	Community Facilities District Capital Projects Fund	184,157	(F)
School-Age Child Care Enterprise Fund	Non-Major Governmental Funds	4,240	(F)
Internal Service Funds	General Fund	2,893,857	(E)
	Non-Major Governmental Funds	464,322	(E)
	Electric Enterprise Fund	572,143	(E)
	Water Enterprise Fund	477,003	(E)
	Wastewater Enterprise Fund	536,317	(E)
	Solid Waste Enterprise Fund	1,726,444	(E)
	Golf Course Enterprise Fund	7,613	(E)
	Local Transportation Enterprise Fund	111,840	(E)
	School-Age Child Care Enterprise Fund	780	(E)
	Internal Service Funds	106,326	(E)
Total Interfund Transfers		$46,850,398	

(A) To fund operation and fund indirect costs
(B) Transfer to fund operations and indirect costs.
(C) To pay for indirect costs.
(D) To transfer in lieu franchise fees and fund indirect costs.
(E) Recurring transfers.
(F) To fund various projects in the capital funds or pay debt service.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2006 interfund balances comprised the following:

Due From Other Funds	Due To Other Funds	Amount	
General Fund	Redevelopment Agency of the City of Roseville Special Revenue Fund	$750,000	(A)
	Park Development Capital Projects Fund	120,000	(A)
	Roseville Aquatic Complex Maintenance Permanent Fund	4,240	(B)
	School-Age Child Care Enterprise Fund	22,249	(B)
	Automotive Service Internal Service Fund	400,862	(B)
Special Revenue Fund:			
Affordable Housing	Redevelopment Agency of the City of Roseville Special Revenue Fund	50,000	(A)
Enterprise Funds:			
Solid Waste	Wastewater Enterprise Fund	197,610	(A)
Internal Service Fund:			
Automotive Replacement	Traffic Mitigation Special Revenue Fund	212,500	(A)
Automotive Replacement	Golf Enterprise Fund	127,000	(A)
		$1,884,461	

(A) Current portion of the advances mentioned in C below.
(B) To temporarily fund short-term cash flow needs.

C. Long-Term Interfund Advances

At June 30, 2006 the funds below had made advances which were not expected to be repaid within the next year.

Fund Receiving Advance	Fund Making Advance	Amount of Advance
Special Revenue Funds:		
Redevelopment Agency of the City of Roseville	General Fund	$8,595,536
	Gas Tax Special Revenue Fund	3,900,000
	Affordable Housing Special Revenue Fund	200,000
	Automotive Replacement Internal Service Fund	829,201
Traffic Mitigation	Automotive Replacement Internal Service Fund	212,500
Enterprise Funds:		
Solid Waste	Wastewater	1,545,390
Golf Course	Automotive Replacement Internal Service Fund	3,766,000
School-Age Child Care	Automotive Replacement Internal Service Fund	300,000
		$19,348,627

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Redevelopment Agency advance consists of four advances: (1) Advances in the amount of $876,789 will be repaid in fiscal year 2009. (2) Advances in the amount of $7,747,948 will be repaid in fiscal year 2029. Both the advances bear interest at the average interest rate of the City's pooled investments. (3) Advance in the amount of $1,000,000 bears interest at 3.15% and will be repaid in fiscal year 2023. (4) Advances in the amount of $3,900,000 bear no interest and will be repaid in fiscal year 2029.

Traffic Mitigation advance bears interest at the average interest rate of the City's pooled investments. Principal to be repaid over four years, interest at the end of repayment schedule. The first annual principal repayment was paid in fiscal year 2006.

Solid Waste advance bears interest at 3.94%. It will be repaid over a period of 10 years and will be repaid in 2016.

Golf Course advance bears interest from 3.5-4.0%. It will be repaid over a period of 27 years and will be repaid in 2029.

School-Age Child Care advance will be repaid over five years beginning in fiscal year 2007. This advance bears interest at the average interest rate of the City's pooled investments and interest is to be paid at the end of the loan.

D. Internal Balances

Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - NOTES RECEIVABLE

The City and Agency engage in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by deferred revenue or a reservation of fund balance as they are not expected to be repaid during fiscal year 2007. These notes receivable comprised the following at June 30, 2006:

Notes	$285,591
Employee Notes	90,494
Housing Rehabilitation and Affordable Housing Notes	4,929,514
First Time Home-Buyer Notes	4,985,338
Housing Elevation Notes	28,978
Total	$10,319,915

NOTE 5 - NOTES RECEIVABLE (Continued)

A. Notes Receivable

The City has provided loans to various homeowners and businesses for rehabilitation due to flood damage. The maximum loan amount is $5,000 carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2006 was $6,632.

In fiscal year 2000, the City sold an air compressor to Western Placer County JPA. The loan balance of $22,592 was repaid during fiscal year 2006.

In fiscal year 1989, the City made a loan to a property owner in the amount of $7,719, secured by a first deed of trust. The note does not bear interest and payment is deferred until July 2, 2007 unless the property is transferred or sold. The balance of this note has been offset by a reservation of fund balance.

The Agency engages in a commercial rehabilitation program designed to aid small business owners in renovating and rehabilitating commercial property in need of repair. These notes will be forgiven at the end of the Owner Participation Agreement term, which is five to fifteen years, if the property has not been sold. If the property is sold prior to the completion of the agreement term, a proportionate amount of the note will be forgiven. The notes are secured by a deed of trust on the property. At June 30, 2006, $271,240 in notes had been issued to thirteen property owners.

B. Employee Notes Receivable

All full-time and part-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to $2,500 to purchase a computer. All requests for loans are subject to review by the Information Technology Department and must be approved by the Human Resources Director. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must pay off any outstanding balance on their loans upon ending employment with the City. As of June 30, 2006, 97 employees had $90,494 in notes due to the City.

C. Housing Rehabilitation and Affordable Housing Notes Receivable

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these loans and notes are expected to be repaid in full, their balance has been offset with the liability, Due to Other Governments, as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from these programs at June 30, 2006 was $4,929,514.

NOTE 5 - NOTES RECEIVABLE (Continued)

D. First Time Home-Buyer Notes Receivable

The City and the Agency engage in a first time home-buyer program designed to encourage home ownership among low income persons. Under this program, grants or loans are provided at no interest and are due upon sale or transfer of the property. These loans have been offset by due to other governments and deferred revenue as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from this program at June 30, 2006 was $4,985,338.

E. Housing Elevation Notes Receivable

In fiscal 1997, the Federal Emergency Management Agency (FEMA) approved Hazard Mitigation Grant Program funds to be used for residential home elevation projects in the City at a maximum of $33,934 per household, with the total federal share not to exceed $1,493,096. The City provides matching funds to each eligible household at a maximum of $5,000 in the form of a zero percent, deferred loan payable upon sale, change of title or change of use (See A. above). As of June 30, 2006, eleven loans funded through the FEMA Hazard Mitigation Grant Program were outstanding with a total balance of $28,978.

NOTE 6 - DEFERRED RECEIVABLES

The City has entered into a number of agreements with developers to defer permit fees for various projects within the City. The terms of these agreements call for various interest rates and payment dates. Although these fees are expected to be repaid in full, their balance has been offset by deferred revenue in governmental funds, as they are not expected to be repaid early enough to be treated as a current asset. The long-term portion of these receivables at June 30, 2006 was $2,809,105, which has been classified as deferred receivables, and the short-term portion of these receivables, which totaled $38,991 at June 30, 2006 is included in accounts receivable.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT

The City may enter into development agreements in an effort to provide incentives to develop new businesses and new tax revenues. The substance of these agreements is that developers or other public agencies will be paid a portion of future sales tax or traffic mitigation fee revenues produced by their developments. These payments are conditioned on the generation of sales tax revenues or traffic mitigation fee revenues by these developments and the City is not required to use any other resources to pay these amounts.

A. Galleria at Roseville

In fiscal 2001, the City entered into a lease agreement with the Galleria at Roseville regional mall. The purpose of this agreement was to share revenue with the mall developers based on the generation of certain levels of sales tax. The Developer agreed to construct the mall, along with water and storm sewer mains, a bike trail, pedestrian walks, landscaping, parking areas and infrastructure improvements to surrounding streets. The mall opened for business in August 2000 and the term of the revenue sharing agreement commenced on that date. The remaining portion of sales tax revenues to be returned approximated $17 million at June 30, 2006. The agreement terminates in 2017, regardless of whether this amount has been returned; after that date all future sales tax revenues remain with the City. During fiscal year 2006 payments made to the developer under the agreement totaled $2,592,039.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT (Continued)

B. Wal-Mart at Roseville

In fiscal year 2003, the City entered into a Wal-Mart Sales Tax Revenue Sharing Agreement with the City of Rocklin. The City agreed to share retail sales tax with the City of Rocklin after the retail sales commenced at the new Wal-Mart location in Roseville on October 28, 2003. The City will make certain sales tax revenue payments to Rocklin for thirty-six months from the day of the store opening which occurred in 2004. In addition, the City has the option to share sales tax revenue with City of Rocklin for an extended period of not more than 24 months. The City of Rocklin completed a final audit of the sales tax generated by the new tenant, and the final payment of approximately $450 thousand will be made in fiscal year 2007.

C. Civic Plaza Project

In fiscal 2004, the Agency agreed to sell four parcels of land to Vernon Street Associates, LLC for $150,000, for the purpose of the construction of an office complex and public parking garage. Two of the parcels were owned by the Agency and two by the City. The City parcels were conveyed to the Agency in fiscal 2006 and subsequently all four parcels were sold to the Developer. The office complex is being built on the land sold to the Developer and is funded by the Developer. The developer has agreed to construct the parking garage for the Agency funded by $5,817,000 of bond proceeds from the Agency's 2002 Tax Allocation Bonds, a $360,000 contribution from the Developer, and a $900,000 contribution from the General Fund. In addition, the Developer has agreed to contribute $20,000 annually, plus an inflationary escalator beginning in 2010, towards the maintenance and operation costs of the parking garage. The Agency anticipates increasing the project contract amount in fiscal 2007 by $2.2 million, funded by an additional $111,415 from the 2002 Tax Allocation Bonds and $2.1 million from the City's General Fund. Construction is expected to be completed in fiscal 2007.

D. Land held for redevelopment

In fiscal year 2006, the Agency purchased 238 Vernon Street in the amount of $1,002,290, which is being held for future development projects. This parcel is accounted for the lower of cost or net realizable value.

NOTE 8 – CAPITAL ASSETS

A. Policies

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Capital assets with limited useful lives are depreciated over their estimated useful lives. Alternatively, the "modified approach" is used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

NOTE 8 – CAPITAL ASSETS (Continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives and capitalization thresholds listed below to capital assets:

	Useful lives	Capitalization Thresholds
Buildings	20-40 years	$10,000
Improvements	40 years	10,000
Machinery and Equipment	3-12 years	5,000
Bike Paths	20 years	10,000
Bridges	90 years	10,000
Culverts	75 years	10,000
Curb, Gutter, Sidewalks & Median Curbs	20 years	10,000
Drain Inlets	50 years	10,000
Flood Control Improvements	75 years	10,000
Soundwall	35 years	10,000
Stormdrains	75 years	10,000
Traffic Signals	20 years	10,000
Plants and Substations		
Electric	10-120 years	10,000
Sewer	15-60 years	10,000
Water	15-75 years	10,000
Electric Improvements:		
Electric	7-100 years	10,000
Sewer	75 years	10,000
Water	75 years	10,000

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 8 - CAPITAL ASSETS (Continued)

B. Capital Asset Additions and Retirements

Capital assets at June 30 comprise:

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Governmental activities					
Capital assets not being depreciated:					
Land	$22,062,494	$1,320,766	($799,729)		$22,583,531
Streets (modified)	159,271,316	1,801,626		$5,777,045	166,849,987
Parks (modified)	54,382,618	3,857,806		2,011,928	60,252,352
Landscaping (modified)	24,609,465	1,280,052		3,249,144	29,138,661
Construction in progress	63,420,753	89,090,501	(5,404,243)	(20,263,644)	126,843,367
Total capital assets not being depreciated	323,746,646	97,350,751	(6,203,972)	(9,225,527)	405,667,898
Capital assets being depreciated:					
Buildings	79,895,972				79,895,972
Improvements	4,259,672	487,706			4,747,378
Equipment	43,866,622	8,469,652	(655,386)	897,500	52,578,388
Bike paths	7,173,994	60,000			7,233,994
Bridges	45,570,000			1,020,903	46,590,903
Culverts	18,872,843	30,597		24,115	18,927,555
Curb, gutter, sidewalk, & median curbs	118,184,698	750,337		1,782,931	120,717,966
Drain inlets	18,175,850	11,591		705,864	18,893,305
Flood control improvements	15,567,227	811,593		914,126	17,292,946
Soundwall	18,302,112	737,487		2,323,877	21,363,476
Stormdrains	49,362,029	951,805		996,476	51,310,310
Traffic signals	18,655,503			264,966	18,920,469
Total capital assets being depreciated	437,886,522	12,310,768	(655,386)	8,930,758	458,472,662
Less accumulated depreciation for:					
Buildings	(27,641,123)	(1,964,768)			(29,605,891)
Improvements	(805,173)	(153,286)		31,793	(926,666)
Equipment	(29,739,457)	(4,399,463)	645,160	(13,353)	(33,507,113)
Bike paths	(3,259,863)	(358,921)			(3,618,784)
Bridges	(4,837,833)	(512,005)			(5,349,838)
Culverts	(3,153,509)	(252,003)			(3,405,512)
Curb, gutter, sidewalk, & median curbs	(65,474,801)	(4,878,772)			(70,353,573)
Drain inlets	(4,973,269)	(370,692)			(5,343,961)
Flood control improvements	(1,071,585)	(219,068)			(1,290,653)
Soundwall	(3,341,686)	(566,651)			(3,908,337)
Stormdrains	(7,361,622)	(671,149)			(8,032,771)
Traffic signals	(9,595,257)	(808,196)			(10,403,453)
Total accumulated depreciation	(161,255,178)	(15,154,974)	645,160	18,440	(175,746,552)
Net capital assets being depreciated	276,631,344	(2,844,206)	(10,226)	8,949,198	282,726,110
Governmental activity capital assets, net	$600,377,990	$94,506,545	($6,214,198)	($276,329)	$688,394,008

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Business-type activities					
Capital assets, not being depreciated:					
Land	$16,060,224	$65,522			$16,125,746
Landscaping	550,000				550,000
Construction in progress	70,102,472	124,556,748	($26,028)	($31,221,683)	163,411,509
Total capital assets not being depreciated	86,712,696	124,622,270	(26,028)	(31,221,683)	180,087,255
Capital assets, being depreciated:					
Buildings	11,826,851	176,179			12,003,030
Improvements	10,760,868	35,182		239,049	11,035,099
Machinery and Equipment	15,166,665	1,275,459	(202,660)	(14,553)	16,224,909
Bike Paths	1,064,167				1,064,167
Drain Inlets	18,500				18,500
Storm Drains	30,863				30,863
Plant and Substations	270,887,289	2,521,151		9,915,763	283,324,200
Distribution	785,173,691	40,599,642	(686,344)	21,376,192	846,463,181
Total capital assets being depreciated	1,094,928,894	44,607,613	(889,004)	31,516,451	1,170,163,949
Less accumulated depreciation for:					
Buildings	(3,310,767)	(304,908)			(3,615,679)
Improvements	(2,710,064)	(259,713)		(3,428)	(2,973,205)
Machinery and Equipment	(6,367,627)	(1,867,914)	172,024	13,354	(8,050,163)
Bike Paths	(79,812)	(53,208)			(133,020)
Drain Inlets	(555)	(370)			(925)
Storm Drains	(618)	(412)			(1,030)
Plant and Substations	(42,798,874)	(6,643,086)			(49,441,960)
Distribution	(117,913,470)	(11,774,704)	102,076	(28,365)	(129,614,463)
Total accumulated depreciation	(173,181,787)	(20,904,315)	274,100	(18,439)	(193,830,445)
Net capital assets being depreciated	921,747,107	23,703,298	(614,904)	31,498,012	976,333,504
Business-type activity capital assets, net	$1,008,459,803	$148,325,568	($640,932)	$276,329	$1,156,420,759

NOTE 8 - CAPITAL ASSETS (Continued)

C. *Depreciation Allocation*

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
General government	$1,079,238
Community development and planning	159,624
Public works	8,889,175
Police	472,351
Fire	439,714
Library	123,320
Parks and recreation	392,928
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	3,598,624
Total Governmental Activities	$15,154,974
Business-Type Activities	
Electric	$5,016,959
Water	5,413,630
Wastewater	9,011,997
Solid Waste	268,015
Golf Course	395,336
Local Transportation	783,855
School-age Child Care	14,523
Total Business-Type Activities	$20,904,315

D. *Streets, Parks and Landscaping Covered By The Modified Approach*

The City has elected to use the modified approach discussed above with respect to its roads, most of which are relatively new. The City's policy based on current funding is to maintain the arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, instead of providing depreciation. During fiscal 2006 the City expended $7,213,261 to preserve its roads. The City estimates that it will be required to expend approximately $5,521,428 in fiscal 2007 to maintain its roads at this condition level.

The City has also elected to use the modified approach with respect to its parks and landscaping, most of which are relatively new. The City's policy based on current funding is to maintain the parks and landscape at an average Ground Management Index (GMI) of Level 2, instead of providing depreciation. During fiscal 2006 the City expended $4,309,606 to preserve its parks and landscaping. The City estimates that it will be required to expend approximately $5,111,124 in fiscal 2007 to maintain its parks at this condition level.

NOTE 9 - LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

A. *Current Year Transactions and Balances*

	Original Issue Amount	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activity Debt:						
Certificates of Participation:						
2003A Public Facilities Refunding Bond, 2.0%-5.0%, due 8/1/25	$18,275,000	$17,710,000		$605,000	$17,105,000	$615,000
Tax Allocation Bonds						
2002 Roseville Redevelopment Project 3%-5.14%, due 9/1/33	14,500,000	13,960,000		225,000	13,735,000	275,000
Installment Purchase Obligations:						
Equipment	3,351,714	306,140	$2,239,765	108,919	2,436,986	256,415
Other Long Term Obligations:						
Foothill Blvd. Extension, due 4/1/07	114,423	6,250		3,027	3,223	3,223
Total Governmental Activity Debt:	$36,241,137	$31,982,390	$2,239,765	$941,946	$33,280,209	$1,149,638
Business-type Activity Debt:						
Certificates of Participation:						
1997 Electric System Revenue, 3.6%-5.25%, due 2/1/17	$11,880,000	$635,000		$310,000	$325,000	$325,000
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	21,630,000	2,135,000		500,000	1,635,000	520,000
2002 Electric System Revenue, variable rate, due 2/1/24	40,385,000	30,980,000		5,360,000	25,620,000	225,000
Less deferred amount on refunding	(3,780,476)	(3,264,957)		(171,839)	(3,093,118)	
2004 Electric System Revenue, 3.00%-5.25%, due 2/1/34	39,940,000	39,940,000			39,940,000	330,000
2005 Electric System Revenue, Series A 3.00%-5.00%, due 2/1/23	52,900,000	52,900,000			52,900,000	
2005 Electric System Revenue, Series B variable rate, due 2/1/35	90,000,000	90,000,000			90,000,000	
2005 Electric System Revenue, Series C variable rate, due 2/1/35	60,000,000	60,000,000			60,000,000	
2003B Golf Course Refunding Bond, 2.0%-5.0%, due 8/1/23	8,240,000	7,945,000		315,000	7,630,000	320,000
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	33,000,000	26,075,000		1,335,000	24,740,000	1,395,000
Total Certificates of Participation	354,194,524	307,345,043		7,648,161	299,696,882	3,115,000
Revenue Bonds:						
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	59,465,118	8,924,501		1,337,999	7,586,502	1,394,878
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37,919,000	37,919,000			37,919,000	
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	52,544,900	51,353,167		338,563	51,014,604	352,105
Less deferred amount on refunding	(6,333,890)	(5,806,065)		(263,921)	(5,542,144)	
Total Revenue Bonds	143,595,128	92,390,603		1,412,641	90,977,962	1,746,983
Other Long Term Obligations:						
Notes, 5%, due 10/1/17	333,108	182,351		10,295	172,056	10,810
Total Business-type Activity Debt:	$498,122,760	$399,917,997		$9,071,097	$390,846,900	$4,872,793

NOTE 9 - LONG-TERM DEBT (Continued)

B. 2003A Public Facilities Refunding Bonds

On July 17, 2003 the City issued $18,275,000 of Public Facilities Refunding COPs to advance refund the outstanding 1993 Public Facilities COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal payments are payable annually and interest payments are due semi-annually on February 1 and August 1 through 2025.

C. 2002 Roseville Redevelopment Project Tax Allocation Bonds

On October 23, 2002 the Redevelopment Agency issued Tax Allocation Bonds in the original principal amount of $14,500,000 to fund certain redevelopment activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue. Principal payments are payable annually on September 1 and interest payments are due semi-annually on March 1 and September 1, through September 1, 2033.

D. Installment Purchase Obligations

The City is purchasing various pieces of computer equipment on the installment basis. The City has also entered into long-term contracts for the lease/purchase of various public safety equipment.

E. Foothill Blvd. Extension

The City acquired several parcels of land, in August of 1989, within the Foothill Boulevard Extension Assessment District to build the Corporation Yard. Upon acquisition, the City took over the assessment debt in the amount of $114,423, due on these parcels. Principal and interest payments are payable annually on April 1, through April 1, 2007.

F. 1997 Electric System Revenue Certificates of Participation

The City issued Certificates of Participation in the original principal amount of $11,880,000 on November 1, 1997 to finance a substation for the Electrical System and to refinance its' 1985 COP's and is repayable from net revenue of the Electric Utility System. Principal payments are payable annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2017.

In December of 2002 the City defeased a portion of the 1997 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on February 1, 2008 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1997 Electric System Revenue Certificates of Participation outstanding in the amount of $4,290,000 are considered defeased.

NOTE 9 - LONG-TERM DEBT (Continued)

G. 1999 Electric System Revenue Certificates of Participation

On August 3, 1999, the City issued $21,630,000 of Certificates of Participation to finance a portion of the cost of capital improvements and is repayable from net revenue of the Electric Utility System. The Certificates bear interest at 4.0% - 5.5% and are due semi-annually on February 1 and August 1. Principal payments are due annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2024.

In December of 2002 the City defeased a portion of the 1999 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on August 1, 2009 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1999 Electric System Revenue Certificates of Participation outstanding in the amount of $17,685,000 are considered defeased.

H. 2002 Electric System Revenue Certificates of Participation

On December 17, 2002 the City issued $40,385,000 of Certificates of Participation to defease portions of the 1997 and 1999 Electric System Revenue Certificates of Participation above and finance a portion of the cost of capital improvements. The COP's are repayable from net revenue of the Electric Utility System. Principal Payments are due annually in two installments on January 1 and February 1 in fiscal years ending June 30, 2003 through June 30, 2006. The remaining principal payments are due annually on February 1 and interest payments are due monthly, through February 1, 2024.

The 2002 Electric System Revenue Certificates of Participation were issued as variable rate COP's, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 22-year interest rate swap agreement for the entire amount of its 2002 Electric System Revenue Certificates of Participation as discussed in P. below. The combination of the variable rate COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the COPs was 2.99% at June 30, 2006.

I. 2004 Electric System Revenue Certificates of Participation

On July 1, 2004 the City issued $39,940,000 of Certificates of Participation to finance capital improvements to the City's Electric System. The COP's are repayable from net revenue of the Electric Utility System. The COPs bear interest at 3.00%-5.25% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2005. Principal payments are due annually on February 1 beginning February 1, 2007.

NOTE 9 - LONG-TERM DEBT (Continued)

J. 2005 Electric System Revenue Certificates of Participation, Series A; 2005 Electric System Revenue Certificates of Participation, Series B; and 2005 Electric System Variable Rate Revenue Certificates of Participation, Series C;

On May 26, 2005 the City issued Certificates of Participation Series A, Series B, and Series C in the original principal amounts of $52,900,000, $90,000,000, and $60,000,000 respectively, to finance certain Electric System improvements, primarily including construction of the Roseville Energy Park.

The Series A COPs bear interest at 3.00%-5.00% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2023.

The Series B COPs were issued as auction rate securities with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 30-year interest rate swap agreement for the entire amount of the Series B COPs as discussed in P. below. The combination of the variable rate Series B COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the Series B COPs was 3.19% at June 30, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

The Series C were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. Interest payments are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

K. 2003B Golf Course Refunding Certificates of Participation

On July 17, 2003 the City issued $8,240,000 of Golf Course Refunding COPs, the proceeds of which are to be used to advance refund the outstanding 1993 Golf Course COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal and interest payments are due annually on August 1 through 2025.

L. 1997 Water Utility Revenue Certificates of Participation

The City issued Certificates of Participation in the original principal amount of $33,000,000 on September 1, 1997 to finance the acquisition, construction, and installation of additions to the water utility system, and is repayable from net revenue from the Water Utility System. Principal payments are payable annually on December 1 and interest payments are due semi-annually on December 1 and June 1, through December 1, 2018.

NOTE 9 - LONG-TERM DEBT (Continued)

M. 2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A; and 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B

In November 2000, the South Placer Wastewater Authority issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. Upon completion, this Plant will benefit the City of Roseville, the South Placer Municipal Utility District, and the County of Placer. These three entities in return share the obligation of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements.

The South Placer Wastewater Authority Wastewater Revenue Bonds, Series A were issued as fixed rate bonds. On September 17, 2003, $84,525,000 of the Series A Bonds were defeased by the 2003 Wastewater Refunding Revenue Bonds as mentioned below. Remaining principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027. At June 30, 2006 the outstanding balance of the defeased portion of the Series A Bonds was $84,525,000.

The South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2006 was $172,905. Beginning in fiscal year 2029, principal payments will be made in addition to the variable interest payments.

N. 2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds

On September 17, 2003 the South Placer Wastewater Authority issued $97,000,000 of Refunding Wastewater Revenue Bonds to defease a portion of the Series A Wastewater Revenue Bonds, as discussed above. The City's share of this obligation was determined to be 54.17%. These proceeds were placed in an irrevocable trust to provide for all future debt service payments on the Refunded Bonds. Principal and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

The 2003 Wastewater Refunding Revenue Bonds were issued as auction rate bonds with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the Authority entered into a 24-year interest rate swap agreement for the entire amount of its 2003 Refunding Revenue bonds as discussed in P. below. The combination of the variable rate Bonds and a floating rate swap creates synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the Bonds was 3.55% at June 30, 2006.

O. Notes Payable

The City borrowed $333,108 original principal amount, on November 9, 1977, from the U. S. Department of Commerce to aid in financing drought emergency projects. The debt is repayable from the surplus revenue account of the Water Revenue Bonds. Principal and interest payments are payable annually on October 1, through October 1, 2017.

NOTE 9 - LONG-TERM DEBT (Continued)

P. Interest Rate Swap Agreements

The City entered into interest swap agreements in connection with the 2002 Electric System Revenue Certificates of Participation and the 2005 Electric Revenue Certificates of Participation, Series B. The City has a 54.17% interest in the Authority which entered into an interest swap agreement in connection with the 2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds.

These transactions allow the City to create synthetic fixed rates on the COPs and Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreements are disclosed below.

Terms. The terms, including the counterparty credit ratings of the outstanding swaps, as of June 30, 2006, are included below. The swap agreements contain scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the associated bond issues.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Termination Date
2002 Electric System Revenue COP	$25,620,000	12/18/2002	Morgan Stanley Capital Services Inc.	A+	2.980%	62% of 30-day LIBOR	2/1/2024
2005 Electric System Revenue COP, Series B	36,000,000	6/30/2005	Bear Stearns Financial Products Inc.	AAA	3.613%	70.5% of 30-day LIBOR	2/1/2035
2005 Electric System Revenue COP, Series B	54,000,000	6/30/2005	Morgan Stanley Capital Services Inc.	A+	3.613%	70.5% of 30-day LIBOR	2/1/2035
2003 Wastewater Refunding Revenue Bonds (City portion)	51,014,604 (A)	9/17/2003	Morgan Stanley Capital Services Inc.	A+	3.433%	62% of 30-day LIBOR	11/1/2027
	$166,634,604						

(A) The Authority's swap agreement is based on the notional amount of $94,175,000 equivalent to the outstanding balance on the 2000B Bonds. The City's share of these underlying Bonds is 54.17%, or $51,014,604. Only the City's portion of the swap agreement is shown above, since the City is only obligated for that portion of the Authority's bonds.

Based on the swap agreements, the City owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

NOTE 9 - LONG-TERM DEBT (Continued)

Fair value. Fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by each swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2006, the fair value of the swaps were in favor of the City as follows:

Related Bond Issue	Fair Value	
2002 Electric System Revenue COP	$1,003,562	
2005 Electric System Revenue COP, Series		
Bear Stearns Financial Products Inc.	1,961,741	
Morgan Stanley Capital Services Inc.	3,045,127	
2003B Wastewater System Refunding Revenue Bonds	511,220	(A)
	$6,521,650	

(A) The fair value of the Authority 's swap agreement was $946,704.
The City's share is 54.17% or $511,220.

Credit risk. As of June 30, 2006, the City was exposed to credit risk on the outstanding swaps because the swaps had positive fair values. These amounts may increase if interest rates increase in the future. However, if interest rates decline and fair values of the swaps were to become negative, the City would no longer be exposed to credit risk. The City will be exposed to interest rate risk only if a counterparty to a swap defaults or if the swap is terminated.

Basis risk. Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the bondholders temporarily differs from the variable swap rates received from the applicable counterparty. The City bears basis risk on the swaps. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying COPs and Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

NOTE 9 - LONG-TERM DEBT (Continued)

Termination risk. The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the City's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at Q:

For the Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net Interest	Total
2007	$577,105	$5,538,881	($102,625)	$6,013,361
2008	940,648	5,514,366	(102,101)	6,352,913
2009	974,190	5,482,377	(100,858)	6,355,709
2010	1,612,733	5,440,949	(98,954)	6,954,728
2011	1,666,275	5,386,478	(95,748)	6,957,005
2012-2016	18,454,041	25,234,450	(461,662)	43,226,829
2017-2021	21,975,638	21,835,534	(437,944)	43,373,228
2022-2026	45,635,596	17,084,701	(395,396)	62,324,901
2027-2031	41,998,375	12,117,404	(403,377)	53,712,402
2032-2036	32,800,000	7,628,156	(279,954)	40,148,202
	$166,634,601	$111,263,296	($2,478,619)	$275,419,278

Q. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2007	$1,149,638	$1,436,135	$4,872,793	$15,324,484
2008	1,126,997	1,421,673	6,068,755	15,120,543
2009	1,118,157	1,387,311	7,275,160	14,900,219
2010	1,126,019	1,349,838	8,499,303	14,641,478
2011	1,155,813	1,310,437	10,436,183	14,369,851
2012-2016	6,470,133	5,858,137	58,880,278	66,086,933
2017-2021	7,163,452	4,372,673	66,706,723	54,386,392
2022-2026	8,515,000	2,468,625	71,170,596	43,127,820
2027-2031	3,605,000	931,125	83,972,083	34,057,185
2032-2036	1,850,000	104,000	81,600,288	19,126,221
Total	$33,280,209	$20,639,954	399,482,162	$291,141,126
Reconciliation of long-term debt				
Less deferred amount on refunding			(8,635,262)	
Net long-term debt			$390,846,900	

NOTE 10 – DEBT WITHOUT CITY COMMITMENT

A. *Special Assessment Districts*

Special Assessment Districts, including Mello Roos Districts, in various parts of the City have issued debt to finance infrastructure improvements and facilities within their boundaries. The City is the collecting and paying agent for the debt issued by these Districts, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not recorded as long-term debt of the City. The outstanding balance of each of these issues as of June 30, 2006 is as follows:

North Roseville-Rocklin Sewer Refunding District	$555,000
Foothills Boulevard Extension Assessment District	850,000
Northeast Roseville Community Facilities District #1 & #2	16,900,000
North Roseville Community Facilities District #1	21,720,000
North Central Roseville Community Facilities District #1	41,575,000
Northwest Roseville Community Facilities District #1	25,010,000
Woodcreek West Community Facilities District #1, Series 2005	20,440,000
Stoneridge Parcel 1 Community Facilities District #1	1,865,000
Stoneridge East Community Facilities District # 1	15,080,000
Stoneridge West Community Facilities District # 1	12,085,000
Crocker Ranch Community Facilities District # 1, Series 2002	4,325,000
Crocker Ranch Community Facilities District # 1, Series 2003	14,980,000
Stone Point Community Facilities District # 1	11,030,000
Fiddyment Ranch Community Facilities District # 1	37,350,000
Longmeadow Parkside Community Facilities District # 1	9,165,000
Westpark Community Facilities District # 1	57,905,000
Roseville Finance Authority Revenue Bonds, Series 2006 A and B	40,515,000
Total	$331,350,000

In March 2006, the City issued the Highland Reserve North Community Facilities District Bonds (HRN Bonds) in the principal amount of $33,120,000 and the Woodcreek East Community Facilities District Bonds (WEC Bonds) in the principal amount of $6,245,000, to refinance the Highland Reserve North Community Facilities District #1, Series 1999, and the Woodcreek East Community Facilities District #1, Series 2000, Bonds, respectively. Also in March 2006, the Roseville Finance Authority (RFA) issued $40,515,000 principal amount of Revenue Bonds. Proceeds from the Revenue Bonds were used by a Trustee to purchase the HRN Bonds and the WEC Bonds which are held as investments ($36,365,000 as of June 30, 2006) and collateral for the repayment of the Revenue Bonds. District property owners pay assessments on their property under the respective HRN and WEC Bond indentures to the Trustee as owner of the HRN and WEC Bonds. The Trustee then uses these assessments to pay debt service on the Revenue Bonds. Neither the faith and credit nor the general taxing power of the City of Roseville have been pledged to the payment of the Bonds. Therefore, the investment and the Bonds have not been included in the accompanying financial statements.

NOTE 11 – NET ASSETS AND FUND BALANCES

A. *Net Assets*

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects (expended) or contributions received in permanent funds (unexpended), debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. *Fund Balances, Reserves and Designations*

In the Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. *Reserves*

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity, which provided the funds. The City cannot modify or remove these restrictions or reserves. At June 30, 2006, reservations included:

Reserves for **advances, inventories, deferred receivables and notes receivable, and prepaids** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **capital projects** is the portion of fund balance to be used for projects approved by the Council.

Reserve for **low and moderate income housing** is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

D. Designations

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for economic reserve is the portion of fund balance which represents 10% of the original adopted operating expenditure budget to be used in the event of fiscal need.

Designated for carryover of capital improvement projects is the portion of fund balance to be used for approved capital projects.

E. Fund Balance and Net Assets Deficits

The Roseville Aquatics Complex Maintenance Permanent and Automotive Services Internal Service Funds had deficit fund balances at June 30, 2006 in the amounts of $1,786 and $108,532, respectively. Future revenues are expected to offset these deficits.

NOTE 12 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	3%	2.7.%
Required employee contribution rates	9%	8%
Required employer contribution rates	27.929%	17.057%
Actuarially required contributions	$4,360,965	$9,840,595

The City's labor contracts require it to pay employee contributions as well as its own.

NOTE 12 - PENSION PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2006, 2005 and 2004 amounted to $14,201,560, $16,350,444 and $12,344,738 respectively. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$71,045,091	$59,434,080	$11,611,011	83.7%	$11,047,254	105.103%
2004	80,707,509	66,152,912	14,554,597	82.0%	12,799,408	113.713%
2005	97,938,304	75,260,002	22,678,302	76.8%	15,457,592	146.700%

Miscellaneous Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$144,786,456	$111,129,154	$33,657,302	76.8%	$42,975,594	78.317%
2004	166,048,078	124,996,283	41,051,795	75.3%	46,309,329	88.647%
2005	194,259,046	145,741,567	48,517,479	75.0%	52,630,299	92.200%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 13 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks. The City maintains insurance coverage from a commercial carrier for its long-term disability and dental benefit plan.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member agencies. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

A. Risk Coverage

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA) which covers general liability claims up to $40,000,000, property damage up to $5,000,000, and boiler and machinery up to $21,250,000. The City has a self-insured retention or deductible of $500,000, $25,000, and $5,000, respectively, per claim. Once the City's self-insured retention for general liability claims is met, CJPRMA becomes responsible for payment of all claims up to the limit. CJPRMA has purchased commercial insurance against property damage and boiler and machinery claims. During the fiscal year ended June 30, 2006, the City contributed $1,221,987 for coverage during the current year and received a refund of $166,290 of prior year excess contributions.

The City is also a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which covers workers' compensation claims up to $1,750,000 and provides additional coverage up to $146,000,000. The City has a self-insured retention of up to $250,000 per claim. During the fiscal year ended June 30, 2006, the City contributed $590,075 for current year coverage.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CJPRMA, 2333 San Ramon Valley Blvd., Suite 250, San Ramon, CA 94583 and LAWCX, c/o James P. Marta, CPA, 5921 Landis Avenue, Suite 1, Carmichael, CA 95608.

B. Insurance Internal Service Funds

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

NOTE 13 - RISK MANAGEMENT (Continued)

The change in the Worker's Compensation Internal Service Fund's claims liability, including claims incurred but not reported is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$5,432,000	$5,118,000
Current year claims	2,000,000	1,600,000
Change in prior year claims	(477,000)	(543,000)
Claims paid, current year claims	(330,000)	(206,000)
Claims paid, prior year claims	(81,000)	(537,000)
Claims liability, end of year	$6,544,000	$5,432,000
Due in one year	$577,000	$411,000

The City's liability for uninsured general liability claims, including claims incurred but not reported is reported in the General Liability Internal Service Fund. The liability is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$2,043,000	$1,835,000
Current year claims	1,200,000	750,000
Change in prior year claims	(1,199,000)	1,329,000
Claims paid, current year claims	(85,000)	(106,000)
Claims paid, prior year claims	(33,000)	(1,765,000)
Claims liability, end of year	$1,926,000	$2,043,000
Due in one year	$994,500	$118,000

The Unemployment Reserve and Vision Internal Service Funds had no outstanding claims liability at June 30, 2006.

NOTE 14 - PREPAID PURCHASED ELECTRICITY

During fiscal 1999 the City paid $6,138,335 to the Northern California Power Agency (NCPA) (see Note 15) as a capital contribution for the Geothermal and Hydroelectric Projects debt refinancing. This contribution has been capitalized on the City's balance sheet and will be amortized in conjunction with the related debt service savings. The amount amortized for fiscal year 2006 was $210,350.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA)

A. General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

The City is a member of NCPA, a joint powers agency which operates under a joint powers agreement among twenty-one public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities, and to optimize the use of those facilities and the members position in the industry. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and certain members have entered into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

The City receives no income from NCPA, and does not participate in all of its projects. Further, NCPA does not measure or determine The City's equity in NCPA as a whole. NCPA reports only The City's share of its General Operating Reserve, comprised of cash and investments, and The City's share of those Projects in which The City is a participant. These amounts are reflected in the financial statements as Investment in NCPA Reserve.

During the year ended June 30, 2006, the City incurred expenses totaling $17,079,776 for purchased power and assessments and prepaid assets paid to NCPA.

The City's interest in certain NCPA Projects and Reserve, as computed by NCPA using unaudited information, is set forth below.

	June 30, 2006
General Operating Reserve (including advances)	$9,749,631
Associated Member Services (including advances)	722,580
Undivided equity interest, at cost, in certain NCPA Power Projects:	
Geothermal Projects	406,675
Calaveras Hydroelectric Project	511,224
Combustion Turbine Project No. 1	63,903
Geothermal Public Power Line	Nil
Combustion Turbine Project No. 2	554,480
Graeagle Hydroelectric Project	Nil
	$12,008,493

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

The General Operating Reserve represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

B. Projects

Geothermal Projects

A purchased power agreement with NCPA obligates the City for 7.880% of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Plant Number 1 and Plant Number 2.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. NCPA has continued to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and has evaluated a number of alternatives to increase water reinjection at strategic locations. NCPA, together with other steam developers and the Lake County Sanitation District, has completed the construction of a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District have constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Based on an internal assessment of the melded costs of power from the Geothermal Project and all other resources available to the members, NCPA believes its members will continue to be able to operate their electric utilities on a competitive basis, when compared to local investor-owned utility rates, while meeting all electric system obligations including those to NCPA. In January 1996, NCPA issued $167,940,000 (1996 Refunding Series B), and $5,420,000 (1996 Taxable Series C) in variable rate revenue bonds, the proceeds of which were used to refund a portion of the 1987 Refunding Series A Revenue Bonds. In August 1998, NCPA remarketed $121,590,000 (1996 Refunding Series A) of revenue bonds changing the interest rate from a weekly interest rate to a long term rate. The City is obligated to pay its contractual share of the debt until it is fully satisfied, regardless of resulting cost or availability of energy. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $164,647,974, while its long-term debt totaled $125,259,152 and other liabilities totaled $39,388,822. The City's share of the Project's long-term debt amounted to $9,870,421 at that date.

On October 28, 2004 NCPA approved a resolution to finance the expansion and remodeling of NCPA main office building located in Roseville. The expansion is included as part of the Geothermal Projects funded by the bonds mentioned above. The City will recover its 7.880% share of the cost of the expansion which was $204,958, with a 5% return on the investment over a ten year period. As of June 30, 2006 the City was owed $192,879.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 12% of this Project's debt service and operating costs. On April 16, 2002, NCPA completed the $86,620,000 refunding of revenue bonds at a weekly variable interest rate, initially set at 5.097%, and a net present value savings of $10,160,431. During fiscal year 2002 the City paid $11.6 million to NCPA for its share of refunding the 1992 Refunding Series A Bonds and costs of issuance related to the 2002 Refunding Series A, B and C Bonds. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $511,981,096 while its long-term debt totaled $487,145,361 and other liabilities totaled $24,835,735. The City's share of the Project's long-term debt amounted to $58,457,443 at that date.

Combustion Turbine Project No. 1

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. In December 1989, NCPA issued $68,958,257 in fixed rate revenue bonds, the proceeds of which were used to defease the bonds then outstanding. Under the NCPA power purchase agreement, the City is obligated to pay 13.5840% of this Project's debt service and operating costs. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $21,066,765, while its long-term debt totaled $18,661,892 and other liabilities totaled $2,404,870. The City's share of the Project's long-term debt amounted to $2,534,285 at that date.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Geothermal Public Power Line

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 14.1756% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued $16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 14.1756% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $4,107,495, while its long-term debt totaled $4,047,104 and other liabilities totaled $60,391. The City's share of the Project's long-term debt amounted to $573,879 at that date.

Combustion Turbine Project No. 2 (Steam Injected Gas Turbine Project)

The City is a participant in a 49.8 megawatt Steam Injected Gas Turbine project which was built under turnkey contract near the City of Lodi and declared substantially complete on April 23, 1996. In October 1992, NCPA issued $152,320,000 of Multiple Capital Facilities Revenue Bonds to finance this project, a similar project for the Turlock Irrigation District in Ceres, and Lodi system facilities. Under the NCPA power purchase agreement, the City is obligated to pay 36.50% of the debt service and operating costs for the Lodi unit.

The City's participation in procurement of natural gas for fuel for existing and new combustion turbine units was approved in 1993. Although there is currently no additional debt financing, the City and NCPA have committed to long-term payments for gas transmission pipeline capacity, and entered a purchase contract for natural gas. The City is obligated to pay 17.9218%.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $68,829,566, while its long-term debt totaled $65,885,524 and other liabilities totaled $2,944,042. The City's share of the Project's long-term debt amounted to $24,048,216 at that date.

Graeagle Hydroelectric Project

The City's participation in this small hydroelectric project was approved in 1993. Although this project does not involve any financing, it does involve a long-term contractual commitment to purchase the power produced by the project.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

C. Provision for Disputed SCS Charges

In November 1999, PG&E filed with FERC its Schedule Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Roseville and other users certain costs imposed by the ISO on PG&E for the period April 1998 to August 2002. In June 2004, PG&E began billing NCPA for these costs, and NCPA, in turn, began billing its members, including Roseville. These costs, which were billed over a twelve-month period, accumulated to approximately $7.4 million, including interest, and were subject to a final determination by the FERC of the amount actually owed. Roseville maintained its position that PG&E had no legal or factual basis for its proposed tariff, and continued to vigorously contest this charge. In fiscal year 2006, the dispute was settled. PG&E returned funds paid by NCPA in excess of the settlement agreement and Roseville's share was $7,933,292 which was added to the General Operating Reserve.

D. NCPA Financial Information

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

NOTE 16 – SOUTH PLACER WASTEWATER AUTHORITY

The City is a member of the South Placer Wastewater Authority (SPWA), a joint powers agency which operates under a joint powers agreement among three public agencies, the City of Roseville, South Placer Municipal Utility District and Placer County. The purpose of SPWA is to provide for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities.

Under the terms of a funding agreement, the City will own and operate the Regional Wastewater Facilities. Under the terms of this agreement the member agencies will share the operating costs of the Facilities after construction is complete. The Regional Wastewater Facilities include the Dry Creek Plant and the Pleasant Grove Plant. In November 2000, the SPWA issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. On September 2003, the SPWA issued Refunding Revenue Bonds in the original principal amounts of $97,000,000. The purpose of these bonds is to advance refund the 2000 Revenue Bonds Series A. The three agencies are responsible for the repayment of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements, as discussed in Note 9.

During the year ended June 30, 2006, the City paid $5,156,127 to SPWA based on connection fees collected during the fiscal year.

The City records its share of income and expenses from SPWA in the Wastewater Enterprise Fund and these changes are reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings. The City's Interest in SPWA Reserves at June 30, 2006 was $111,170,459.

SPWA's financial statements can be obtained from the City of Roseville, 311 Vernon Street, Roseville, California, 95678.

NOTE 17 - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at the Roseville sanitary landfill site, which is closed, through the year 2024. Accordingly, the City has recorded a liability and expense in the Enterprise Solid Waste Fund for the estimated postclosure care cost. The recorded amount is based on applicable state and local laws and regulations concerning closure and postclosure care. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users or the usage of future tax revenues. As of June 30, 2006, landfill closure liability was $3,678,093.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements, as discussed in Note 15. The City's estimated share of such debt outstanding at June 30, 2006 was $95,484,244. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2006 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, other than disclosed above, which is likely to have a material adverse effect on the financial position of the City.

On March 3, 1999 the City entered into an agreement with the State of California, acting by and through its Department of Transportation (CalTrans) to modify the interchange on Route 80 at Douglas Boulevard. The City is responsible for all costs in excess of original cost of construction. As of June 30, 2006, the project is complete, but the City has not yet been billed by CalTrans. The City estimates that its share of the project will be $500 thousand payable to CalTrans for construction, construction engineering, and construction management.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

On September 30, 2005 the City signed a Lease and Sublease Agreement with Roseville Investments, LLC for the development of two hotels and a conference center within the North Central Roseville Specific Plan Area. According to the terms of the Agreement, the City will lease the property in an aggregate amount of $10 million from the Developer. The City will advance the lease payments for the public improvements at the site. The Developer will then sublease the public improvements from the City commencing upon the issuance of a certificate of occupancy for the first hotel for a term of ten years. At the end of the 10-year period, the Developer is required to make a balloon payment for any remaining rental payments up to the $10 million.

Construction and Other Commitments

The City has the following outstanding construction commitments at June 30, 2006:

Projects	Amounts
Roseville Energy Park	$42,404,175
WTP Expansion Phase III	26,772,889
Mahany Library	9,524,682
Antelope/PFE Pipeline	4,828,966
Reserve Drive Extension	4,490,530
Re Operation Center	3,879,085
Fire Station #7	3,087,681
William Hughes Park	1,421,270
Blue Oaks Substation	1,248,739
Antelope Creek Bike Trail	1,059,407
Downtown Vernon Specific Plan	732,523
WestPlan Substation	535,178
12KV OH/UG Conversion	514,481

NOTE 19 - TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The State of California directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2006, the Agency paid $323,743 as a result of the State directive.

NOTE 20-SUBSEQUENT EVENTS

Effective July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services for the City's power transmission and supply needs. The City informed NCPA it will withdraw and discontinued its participation in the NCPA Power Pool. NCPA will continue to provide power to the City to meet the needs as scheduled by APM. Withdrawal from NCPA will not relieve the City of its obligations discussed in Note 15.

On November 14, 2006 the Redevelopment Agency issued Project Tax Exempt Allocation Bonds, Project Taxable Tax Allocation Bonds, and Taxable Tax Allocation Housing Bonds in the original principal amounts of $13,155,000, $3,285,000, and $6,505,000, respectively, to fund certain redevelopment and housing activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue.

APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. Such summary does not purport to be complete, and reference is made to the entire Indenture for full and complete statements of such summarized provisions and all provisions of the Indenture.

DEFINITIONS

"Accountant's Certificate" means a certificate signed by an independent certified public accountant or a firm of independent certified public accountants, selected by the Issuer, who may be the accountant or firm of accountants who regularly audit the books of the Issuer.

"Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time.

"Authorized Officer" means the Executive Director of the Issuer and any other officer or employee of the Issuer authorized to perform specific acts or duties by resolution duly adopted by the Issuer.

"Beneficial Owner" means, with respect to Bonds registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository.

"Bond" or "Bonds" means any of the Issuer's Gas Revenue Bonds, Series 2007 authorized by the Indenture.

"Bond Counsel" means an attorney or firms of attorneys of recognized national standing in the field of law relating to municipal bonds and the exclusion of interest on municipal bonds from gross income for federal income tax purposes selected by the Issuer.

"Bond Register" means the books for the registration of the ownership and the transfer of ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

"Business Day" means any day excluding (a) a Saturday or Sunday, any day on which banks located in the State of California or the State of New York, are required or authorized by law or other governmental action to close, and (b) any day on which the New York Mercantile Exchange or the Trustee is closed.

"Commodity Swap" means the ISDA Master Agreement, Schedule and Confirmation between the Issuer and the Swap Counterparty, or any replacement agreement permitted by the Indenture, pursuant to which the Issuer will pay to the Swap Counterparty an index-based floating price and the Swap Counterparty will pay to the Issuer a fixed price in relation to the daily quantities of Gas to be delivered under the Prepaid Gas Agreement.

"Commodity Swap Payments" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Swap Counterparty by the Issuer.

"Commodity Swap Receipts" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Issuer by the Swap Counterparty.

"Debt Service Fund" means the Debt Service Fund established in the Indenture.

"Defeasance Securities" means (a) Government Obligations and (b) time deposits and certificates of deposit to the extent that such deposits or certificates of deposit are Qualified Investments, and such interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment, or irrevocable instructions have been given to call for redemption or repayment, of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date

other than at the option of the depositor or holder thereof, and which are fully secured by Government Obligations to the extent not insured by the Federal Deposit Insurance Corporation.

"Event of Default" means an event defined as such in the Indenture.

"Fiscal Year" means (a) the twelve (12) Month period beginning on July 1 of each year and ending on the next June 30, or (b) such other twelve (12) Month period established by the Issuer from time to time, upon Written Notice to the Trustee, as its fiscal year.

"Fitch" means Fitch, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Forward Purchase Agreement" means a written agreement among the Trustee, the Issuer and a Qualified Provider to purchase securities which are Qualified Investments for a Fund with moneys to be deposited in such Fund during the term of such agreement.

"Fund" or "Funds" means, as the case may be, each or all of the funds established in the Indenture.

"Funding Agreement" means that certain Funding and Assignment Agreement, dated as of February 1 , 2007, between the Issuer and the Funding Provider, as the same may be amended and supplemented.

"Funding Guarantee" means the Guarantee, dated February 1, 2007, from Merrill Lynch & Co. guaranteeing the payment obligations of the Funding Provider under the Funding Agreement.

"Gas Supply" means the Issuer's purchase of Gas pursuant to the Prepaid Gas Agreement and related contractual arrangements and agreements, and the purchase of any Gas to replace Gas not delivered as required pursuant to the Prepaid Gas Agreement.

"Government Obligations" means

(a) Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations;

(b) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which: (i) are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice; (ii) are rated in the highest Rating Category of S&P and Moody's; and (iii) are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in clause (a) above, which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable notice, as appropriate; and

(c) Any other bonds, notes or obligations of the United States of America or any agency or instrumentality thereof which, if deposited with the Trustee for defeasance purposes, will result in a rating on the Bonds which are deemed to have been paid pursuant to the defeasance provisions of the Indenture that is in the highest Rating Category of each Rating Agency that is then maintaining a rating on such Bonds.

"Interest Payment Date" means February 15 and August 15 of each year, commencing August 15, 2007.

"Internal Revenue Code" means the Internal Revenue Code of 1986.

"Mandatory Termination Payment" shall have the meaning given such term in the Prepaid Gas Agreement.

"Month" means a calendar month.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Municipality" means the City of Roseville, California, a municipal corporation and chartered city of the State.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel addressed to the Issuer and delivered to the Trustee.

"Outstanding," when used with reference to Bonds, means as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(a) Bonds cancelled (or portions thereof deemed to have been cancelled) by the Trustee at or prior to such date;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(c) Bonds deemed to have been paid as provided in Section 12.01.

"Owner" means any Person who shall be the registered owner of any Bond or Bonds.

"Person" means natural persons, firms, associations, corporations and public bodies.

"Qualified Investments" means any of the following investments, if and to the extent that the same are at the time legal investments of the Issuer's funds:

(a) Government Obligations;

(b) Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations:

(1) Federal Home Loan Bank System - senior debt obligations;

(2) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations;

(3) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations;

(4) Resolution Funding Corporation;

(5) Farm Credit System – consolidated system-wide bonds and notes

(c) Certificates of deposit and other evidences of deposit at state and federally chartered banks, savings and loan institutions or savings banks deposited and collateralized as required by law;

(d) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;

(e) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one of the two highest Rating Categories of a Rating Agency; or with entities which have collateralized their obligations under such agreements with obligations described in (a) or (b) above;

(f) Corporate bonds rated at least Aa3 by Moody's and AA- by S&P;

(g) Direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest Rating Categories of a Rating Agency;

(h) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by or on behalf of the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of principal of and interest on such obligations, rated in one of the two highest Rating Categories by a Rating Agency;

(i) Money market funds registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, and having a rating by S&P of AAA-m-G AAA-m, or AA-m or a rating by Moody's of Aaa, Aa1, or Aa2; or

(j) Any other investments permitted by applicable law for the investment of the funds of the Issuer, including commercial paper, which are rated at least Aa3/P-1 by Moody's and AA-/A-1+ by S&P.

"Qualified Provider" means a financial institution which is a domestic or foreign bank, broker-dealer, or insurance company having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch or whose obligations under a Forward Purchase Agreement are guaranteed by an entity having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch; provided, that if such bank, broker-dealer, or insurance company is no longer rated at least Aa3 by Moody's or AA- by S&P or AA- by Fitch, the Trustee and the Issuer shall require such bank, broker-dealer, or insurance company to post such collateral or make such other security arrangements as the Issuer shall determine are appropriate for its interests; and upon the posting of such collateral or the making of such other security arrangements as the Issuer shall determine are appropriate for its interests, such bank, broker-dealer, or insurance company shall continue to be a Qualified Provider.

"Rating Agency" means each of Moody's, S&P and Fitch or any other rating agency so designated in a Supplemental Indenture.

"Rating Category" means one or more of the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category or categories by a numerical modifier, plus or minus signs, or otherwise.

"Rating Confirmation" means evidence satisfactory to the Trustee that upon the effectiveness of any proposed action, all Outstanding Bonds will continue to be assigned at least the same or equivalent ratings (including the same or equivalent numerical or other modifiers within a Rating Category) by each Rating Agency then rating such Outstanding Bonds.

"Redemption Price" means, with respect to any Bond, the amount payable upon the redemption thereof pursuant to such Bond or the Indenture other than any amounts due as accrued but unpaid interest.

"Revenue Fund" means the Revenue Fund established in the Indenture.

"Revenues" means: (a) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of Gas or otherwise with respect to the Gas Supply; (b) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (c) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (d) any Commodity Swap Receipts received by the Issuer; and (e) any amounts paid under the Funding Agreement or the Funding Guarantee; but excluding from subsection (a) above the following items (i) any Termination Amount; (ii) any Unearned Amount; (iii) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds pursuant to Section 4.01(b); (iv) amounts paid under the Supply Agreement after the termination thereof; and (v) any upfront payment made by a Qualified Provider; and excluding from subsection (e) above, any amounts paid as a

Mandatory Termination Advance (as defined in the Funding Agreement) and any amounts advanced under the Funding Guarantee in connection with a Mandatory Termination Advance.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Scheduled Debt Service Deposits" means the required Monthly deposits to the Debt Service Fund or the required cumulative deposits in respect of the principal and interest payments coming due on the Bonds on each Interest Payment Date or date for payment of maturing principal, as the same may be amended as set forth in the Indenture.

"Sinking Fund Installment" means each amount so designated and set forth in the Indenture.

"State" means the State of California.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture executed and delivered by the Issuer and the Trustee in accordance with the applicable provisions of the Indenture.

"Supply Agreement" means the Natural Gas Supply Agreement, dated as of February 1, 2007, between the Issuer and the Municipality, as the same may be amended from time to time in accordance with the terms thereof and the Indenture.

"Swap Counterparty" means, with respect to the initial Commodity Swap, JP Morgan Chase Bank, N.A., and any successor to the foregoing, or, if any such Commodity Swap is replaced, the counterparty to such replacement Commodity Swap satisfying the requirements of the Indenture.

"Swap Payment Fund" means the Swap Payment Fund established in the Indenture.

"Tax Agreement" means the Tax Certificate and Agreement between the Issuer and the Trustee, dated as of the date of issuance and delivery of the Bonds.

"Tax-Exempt Status of the Bonds" means that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

"Trustee" means The Bank of New York Trust Company, N. A., and its successor or successors and any other corporation or national banking association which may at any time be substituted in its place pursuant to the Indenture.

"Trust Estate" means (a) the proceeds of the sale of the Bonds, (b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Guarantee and the Supply Agreement, the Funding Agreement and the Funding Guarantee (c) the Revenues, (d) any Termination Amount, (e) any Mandatory Termination Payment and (f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein.

COMMODITY SWAP

Provisions Regarding Commodity Swap. In connection with the Gas Supply the Issuer shall enter into the initial Commodity Swap with the Swap Counterparty. The following shall apply to the initial Commodity Swap and any replacement Commodity Swap:

(i) The method for the calculation of the Commodity Swap Payments and Commodity Swap Receipts, as applicable, and the scheduled payment dates therefor are set forth in the Indenture.

(ii) Commodity Swap Payments shall be made by the Issuer out of the Swap Payment Fund.

(iii) At any time the Swap Counterparty is not rated at least Aa3 by Moody's, AA- by S&P, and AA- by Fitch, the Swap Counterparty shall post such collateral or make such security arrangements as are specified in the initial Commodity Swap and at any time the Swap Counterparty is not rated at least A1 by Moody's, A+ by S&P, and A+ by Fitch, the Authority shall use its best efforts to replace such Swap Counterparty and enter into a successor Commodity Swap.

(iv) At the time of entering into a Commodity Swap, each Swap Counterparty shall be a member of International Swaps and Derivatives Association, Inc. and rated at least Aa3 by Moody's, AA- by S&P and AA- by Fitch.

(v) Commodity Swap Receipts received by the Issuer shall be deposited directly into the Revenue Fund.

The Issuer may replace any Commodity Swap then in effect with a similar agreement upon delivery to the Trustee of a Rating Confirmation.

PAYMENTS ON BONDS

Medium of Payment; Form and Date; Letters and Numbers. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the date (hereinafter, the "Regular Record Date") which is the 15th day of the Month next preceding such Interest Payment Date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (hereinafter, "Defaulted Interest") shall forthwith cease to be payable to the Person who was the Owner on the relevant Regular Record Date; and such Defaulted Interest shall be paid by the Issuer to the Person in whose names the Bond is registered at the close of business on a date (hereinafter, the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Issuer shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer of such Special Record Date and, in the name and at the expense of the Issuer, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Owner at its address as it appears upon the Bond Register, not less than 10 days prior to such Special Record Date.

Subject to the provisions described above, each Bond delivered under the Indenture upon registration of transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the Issuer shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bonds so surrendered, Bonds of like maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with unpaid accrued interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

PLEDGE OF TRUST ESTATE

The Bonds shall be special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate. The Trust Estate is pledged and assigned under the Indenture for the payment of the principal and Redemption Price of and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Trust Estate shall immediately be subject to the lien of the pledge of the Indenture without any further physical delivery thereof or other further act, and the lien of such pledge shall be a first lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice thereof.

COVENANTS OF THE ISSUER

Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, the principal or Redemption Price, if applicable, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof.

Extension of Payment of Bonds. The Issuer shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of Revenues or Funds established by the Indenture, including the investment income, if any, thereof, pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by the Trustee, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Power to Issue Bonds and Pledge the Trust Estate. The Issuer is duly authorized under all applicable laws to create and issue the Bonds and to execute and deliver the Indenture and to pledge the Trust Estate, in the manner and to the extent provided in the Indenture. Except to the extent otherwise provided in the Indenture, the Trust Estate will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, or except as provided in the Commodity Swap subordinate to, the security interest, the pledge and assignment created by the Indenture, and all action on the part of the Issuer to that end has been and will be duly and validly taken. The Bonds and the provisions of the Indenture are and will be the valid and legally enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture. The Issuer shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Power to Fix and Collect Fees and Charges for the Sale of Gas. The Issuer has, and, to the extent permitted by law, will have as long as any Bonds are Outstanding, good right and lawful power to fix, establish, maintain and collect fees and charges for the sale and transportation of Gas or otherwise with respect to the Gas Supply, subject to the terms of the Supply Agreement.

Creation of Liens. The Issuer shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other assets of the Issuer and shall not create or cause to be created any lien or charge on the Trust Estate or any other assets of the Issuer other than the lien and charge created by the Indenture, and the lien and charge to secure such refunding obligations and the Commodity Swap.

Enforcement and Amendment of Documents. The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all amounts payable to it pursuant to the Supply Agreement and all other Revenues. The Issuer shall enforce the provisions of the Supply Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Supply Agreement which will impair the ability of the Issuer to comply with the provisions of the Indenture; provided that this provision shall not prevent the Issuer from otherwise taking any action under or in connection with the Supply Agreement which is expressly permitted pursuant to the provisions thereof.

The Issuer shall enforce the provisions of the Prepaid Gas Agreement and the Funding Agreement and duly perform its covenants and agreements thereunder and shall enforce the provisions of the Customer Insurance Policy, the Guarantee and the Funding Guarantee. The Issuer will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee or the Guarantee which will in any manner materially impair or materially adversely affect the rights of the Issuer thereunder or the rights or security of the Trustee or the Owners.

Under the Indenture the Issuer irrevocably appoints and directs the Trustee as its agent to issue notices and to take any other actions that the Issuer is required or permitted to take under (i) the Supply Agreement (including the termination thereof upon the default of the Municipality thereunder), (ii) the Prepaid Gas Agreement (including notices to direct the remarketing of Gas and notice designating an “Early Termination Date” thereunder); (iii) the Funding Agreement (including requesting funds thereunder); (iv) the Customer Insurance Policy (including requesting funds thereunder upon an uncured failure by the Municipality to pay); (v) the Funding Guarantee (including requesting funds thereunder) and (vi) the Guarantee (including requesting funds under such Guarantee immediately upon an uncured failure by the Gas Supplier to pay a Gas Payment). In exercising this agency power, the Trustee shall have the same power as the Issuer to take any such actions as it deems necessary under the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee and the Guarantee. Notwithstanding this grant of agency power, the Issuer shall retain, in the absence of any conflicting action by the Trustee, the right to exercise any rights for which it has appointed the Trustee as its agent in accordance with the foregoing; provided however, if an Event of Default has occurred, the Trustee shall have the right to notify the Issuer to cease exercising such rights and, upon receipt of such notice with a copy provided to the Municipality under the Supply Agreement, the Gas Supplier under the Prepaid Gas Agreement, the Funding Provider under the Funding Agreement and the guarantor under the Guarantee and the Funding Guarantee, the Trustee shall have exclusive authority to exercise such rights, and to collect and apply all amounts payable thereunder, until such time as the Trustee issues a subsequent notice otherwise.

The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all Commodity Swap Receipts or other amounts payable to it pursuant to the Commodity Swap. The Issuer shall enforce the provisions of the Commodity Swap and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with any Commodity Swap which will impair the ability of the Issuer to comply with the provisions of the Indenture.

Upon the failure of the Gas Supplier to pay any amount due under the Prepaid Gas Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Guarantee. Upon the failure of the Advance Provider to pay any amount due under the Funding Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Funding Guarantee.

Accounts and Reports. The Issuer shall keep or cause to be kept with respect to the Gas Supply proper books of record and account (separate from all other records and accounts) in accordance with generally accepted accounting principles, as such may be modified by the provisions of the Indenture, in which complete and correct entries shall be made of its transactions relating to the Gas Supply, the amount of Revenues and the application thereof and each Fund established under the Indenture and relating to its costs and charges under the Supply Agreement and any other contracts for the sale or purchase of Gas, and which, together with the Prepaid Gas Agreement and all contracts and all other books and papers of the Issuer relating to the Gas Supply, shall, subject to the terms thereof, at all times during regular business hours be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Issuer shall file with the Trustee (i) forthwith upon becoming aware of any Event of Default or default in the performance by the Issuer of any covenant, agreement or condition contained in the Indenture, a written certificate of the Issuer and specifying such Event of Default or default and (ii) within 180 days after the end of each Fiscal Year, commencing with the first Fiscal Year ending following the issuance of the Bonds, a written certificate of the Issuer signed by an Authorized Officer stating whether, to the best of such Authorized Officer's knowledge and belief, the Issuer has kept, observed, performed and fulfilled its covenants and obligations contained in the Indenture and that there does not exist at the date of such certificate any default by the Issuer under the Indenture or any Event of Default or other event which, with the giving of notice or the lapse of time, or both, would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Indenture shall be available for the inspection of Owners at the office of the Trustee and shall be mailed to each Owner who shall file a written request therefor with the Issuer. The Issuer may charge each Owner requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Tax Covenants. The Issuer covenants that it shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the Tax-Exempt Status of the Bonds under Section 103 of the Internal Revenue Code and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the Issuer covenants that it will comply with the instructions and requirements of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

In the event that at any time the Issuer is of the opinion that it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such action as specified in such instructions.

If the Issuer shall provide to the Trustee an Opinion of Bond Counsel that any specified action required by the tax covenants in the Indenture is no longer required or that some further or different action is required to maintain the Tax-Exempt Status of the Bonds, the Issuer and the Trustee may conclusively rely on such opinion in complying with the tax covenants in the Indenture and of the Tax Agreement, and the tax covenants shall be deemed to be modified to that extent.

Upon the Issuer's failure to observe or refusal to comply with the tax covenants in the Indenture, the Owners, or the Trustee acting on their behalf pursuant to their written request and direction, shall be entitled to the rights and remedies provided to the Owners under the Indenture, which in do not include upon a covenant default, the right to declare the principal of any Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately.

General. The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

The Issuer shall not consolidate or amalgamate with, or merge with or into, or transfer all or substantially all its assets to, or reorganize, reincorporate or reconstitute into or as, another entity unless, (i) prior to such event, the Issuer receives confirmation from the Swap Counterparty that such event does not trigger a termination event under the Commodity Swap then in effect; and (ii) at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution, the resulting, surviving or transferee entity assumes all the obligations of the Issuer under the Commodity Swap.

The Issuer shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the ratings on the Bonds.

Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in connection with the issuance of such Bonds shall exist, have happened and have been performed in due time, form and manner, and the issuance of such Bonds, together with all other obligations of the Issuer, shall comply in all respects with the applicable laws of the State.

The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

Maintenance of Investment Revenues. At any and all times that any Forward Purchase Agreement is no longer provided by a Qualified Provider, the Issuer shall use its best efforts to replace such Forward Purchase Agreement with a replacement Forward Purchase Agreement with a Qualified Provider containing substantially the same terms as the replaced Forward Purchase Agreement. In the event that there is no such replacement or such replacement generates lower investment income, the Issuer shall increase the Contract Price by an amount that is sufficient to cover such loss of investment income.

EVENTS OF DEFAULT AND REMEDIES

Events of Default. Any one or more of the following shall constitute an Event of Default under the Indenture:

(a) default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) a determination by the Trustee on the third day after the 25th day of any Month, or if such day is not a Business Day on the nest succeeding Business Day, after the transfer of amounts from the Revenue Fund pursuant to the Indenture, that the amount on deposit in the Debt Service Fund (including for purposes of this computation, interest accrued on such deposits and investment income that remains on deposit in such Fund) is not at least equal to the cumulative Scheduled Debt Service Deposits for such Month specified in the Indenture;

(d) default shall be made by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days or, if such default cannot reasonably be remedied within such 60 day period, such longer period so long as diligent efforts are being made to remedy such default, after written notice thereof specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the Issuer by the Trustee or to the Issuer and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding;

(e) the Issuer shall commence a voluntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or shall authorize, apply for or consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or shall make any general assignment for the benefit of creditors, or shall make a written declaration or admission to the effect that it is unable to meet its debts with respect to the Gas Supply as such debts mature, or shall authorize or take any action in furtherance of any of the foregoing;

(f) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer in an involuntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or a decree or order appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or a decree or order for the dissolution, liquidation or winding up of the Issuer and its affairs or a decree or order finding or determining that the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature, and any such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; and

(g) there shall occur any other Event of Default specified in a Supplemental Indenture.

In each and every such case, other than an Event of Default described in clause (d), (e) or (g) above, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Trustee (by notice in writing to the Issuer), or the Owners of not less than a majority in principal amount of the Bonds Outstanding (by notice in writing to the Issuer and to the Trustee) may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. In the case of an Event of Default described in clause (e) or (f) above, the Trustee shall, without further action, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, anything in the Indenture or in the Bonds to the contrary notwithstanding. In the case of an Event of Default described in clause (d) or (g) above, unless the principal amount of all the Bonds shall have already become due and payable, the Trustee or the Owners of not less than a majority in principal amount of the Bonds Outstanding (after notice to the Trustee) may bring a suit in any court of competent jurisdiction to compel specific performance. The right of the Trustee or of the Owners of not less than a majority in principal amount of the Bonds Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable fees, charges, expenses and liabilities of the Trustee, and all other sums then payable by the Issuer under the Indenture (except the principal of, and interest accrued since the next preceding Interest Payment Date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Issuer or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written directions to the contrary by the Owners of a majority in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Accounting and Examination of Records After Default. The Issuer covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Issuer and all other records relating to the Gas Supply shall at all times during regular business hours be subject to the inspection and use of the Trustee and of its agents and attorneys.

Application of Moneys After Default; Enforcement of Agreements. The Issuer covenants that if an Event of Default shall happen and shall not have been remedied, the Issuer, upon the demand of the Trustee, shall (i) to the extent not previously so granted, grant to the Trustee the rights and remedies afforded the Issuer in the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Guarantee, the Funding Agreement and the Funding Guarantee and (ii) pay over or cause to be paid over to the Trustee all Revenues which are not paid directly to the Trustee as promptly as practicable after receipt thereof. During the continuance of an Event of Default, the Trustee shall continue to apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture and any moneys in the Funds held by the Trustee hereunder as provided in the Indenture before the occurrence of such Event of Default.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable charges, expenses and liabilities of the Trustee, and all other sums payable by the Issuer under the Indenture, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Issuer, or provisions satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, thereupon the Issuer, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such restoration of the Issuer, the Trustee and the Owners to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Appointment of Receiver. The Trustee shall have the right, upon the happening of an Event of Default, to apply in an appropriate proceeding for the appointment of a receiver of the Gas Supply.

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Issuer as if the Issuer were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners.

Restriction on Owner's Action. No Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture unless such Owner (i) shall have previously given to the Trustee written notice of the happening of an Event of Default and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee to take such action, (ii) shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the laws of the State or to institute such action, suit or proceeding in its own name, and (iii) shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay, but only from the Trust Estate, in accordance with the terms of the Indenture, at the respective dates of maturity and places therein expressed the principal or Redemption Price of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of execution and delivery of the Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The Issuer and the Trustee may from time to time, subject to the conditions and restrictions in the Indenture contained, enter into a Supplemental Indenture or Indentures which shall thereafter form a part of the Indenture, without the consent of the Owners, for any one or more of the following purposes:

(a) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture;

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) To make any other modification or amendment of the Indenture that will not have a material adverse effect on the Owners;

(d) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(e) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Issuer that are not contrary to or inconsistent with the Indenture as theretofore in effect;

(f) To authorize, in compliance with all applicable law, Bonds to be issued in the form of coupon Bonds registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Bonds, including provisions relating to the timing and manner of provision of any notice required to be given hereunder to the Owners of such coupon Bonds, which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Bonds;

(g) To provide for the execution of a Commodity Swap in accordance with the provisions hereof;

(h) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Indenture of the Revenues or of any other moneys, securities or funds;

(i) To add to the Events of Default in the Indenture additional Events of Default;

(j) To add to the Indenture any provisions relating to the application of interest earnings on any Fund under the Indenture required by law to preserve the Tax-Exempt Status of the Bonds;

(k) To evidence the appointment of a successor Trustee; or

(l) If the Bonds affected by such change are rated by a Rating Agency, to make any change upon receipt of a Rating Confirmation with respect to the Bonds so affected.

In making any determination under subsection (c), the Issuer and the Trustee may rely upon an Opinion of Counsel and/or certificates of investment bankers or other financial professionals or consultants.

Supplemental Indentures Effective With Consent of Owners. At any time or from time to time, a Supplemental Indenture may be entered into by the Issuer and the Trustee providing for any modification or amendment of the Indenture and of the rights and obligations of the Issuer and of the Owners of the Bonds thereunder with the written consent of the Owners of not less than a majority in principal amount of Outstanding Bonds; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like maturity remain Outstanding the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds for purposes of such modification or amendment. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or any Sinking Fund Installment for a Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or any Sinking Fund Installment for a Bond or in the rate of interest thereon without the consent of the Owner of the affected Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

Exclusion of Bonds. Bonds owned or held by or for the account of the Issuer shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Indenture with respect to amendments and supplements to the Indenture, and the Issuer shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Indenture with respect to such amendments and supplements. At the time of any consent or other action taken with respect to amendments and supplements to the Indenture, the Issuer shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

DEFEASANCE

If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture, then the pledge of the Trust Estate, and all covenants, agreements and other obligations of the Issuer to the Owners made hereunder, shall thereupon cease, terminate and be discharged and satisfied. In such event, the Trustee shall pay over or deliver to the Issuer all moneys or securities held by it pursuant to the Indenture which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered for such payment or redemption. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Issuer to the Owners of such Bonds shall thereupon cease, terminate and be discharged and satisfied except for remaining rights of registration of transfer and exchange of Bonds.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Issuer of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed above.

Any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to mail notice of redemption of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by an Accountant's Certificate), to pay when due the principal or Redemption Price, if applicable, of and the interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed or paid within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the Owners of such Bonds at their last addresses appearing upon the Bond Register at the close of business on the last Business Day of the Month preceding the Month for which notice is mailed that the deposit described above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to the defeasance provisions of the Indenture to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Indenture. The Trustee shall, if so directed by the Issuer (A) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity or (B) prior to the mailing of the notice of redemption referred to above with respect to any Bonds which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and, the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds (or the deemed cancellation thereof) shall be sufficient (as evidenced by an Accountant's Certificate) to pay when due the maturing principal or Redemption Price, if applicable, and interest due or to become due on all defeased Bonds not so purchased. With respect to such cancelled Bonds, the Issuer may direct the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with the Indenture. Except as otherwise provided in the Indenture, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the defeasance provisions of the Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities, (x) to the extent such cash will not be required at any time for such purpose (as evidenced by an Accountant's Certificate), shall be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (y) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient (as evidenced by an Accountant's Certificate), together with the other funds and Defeasance Securities then held by the Trustee for such purpose to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds, and interest earned from such reinvestments shall be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such Bonds became due and payable, shall, at the written request of the Issuer, be repaid by the Trustee to the Issuer, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Issuer for the payment of such Bonds; *provided, however*, that before being required to make any such payment to the Issuer the Trustee shall, at the expense of the Issuer, mail by first class mail, postage prepaid, to the Owners of such Bonds at the addresses of such Owners in the Bond Register, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Issuer.

MISCELLANEOUS

Evidence of Signatures of Owners and Ownership of Bonds. Any request, consent or other instrument which the Indenture may require or permit to be signed and executed by the Owners may be in one or more instruments of similar tenor and, except as otherwise provided in the Indenture, shall be signed or executed by such Owners in person or by their attorneys appointed in writing. Proof of (1) the execution of any such instrument, or of an instrument appointing any such attorney, or (2) the holding by any Person of the Bonds shall be sufficient for any purpose of the Indenture (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The fact and date of the execution by any Owner or its attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature, guarantee, certificate or affidavit shall also constitute sufficient proof of its authority.

The ownership of Bonds and the amount, numbers and other identification, and date of holding the same, shall be proved by the Bond Register.

Any request or consent by the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Issuer or the Trustee in accordance therewith.

No Recourse on the Bonds. None of the members of the Issuer, the members of the Board of Directors of the Issuer, any person executing a Bond, or any officer or employee of the Issuer shall be liable personally for the principal or Redemption Price of, or interest on, the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertaking by the Issuer under the Indenture.

APPENDIX D — SCHEDULE OF DAILY CONTRACT QUANTITIES

Month	Daily Contract Quantity (MMBtu/Day)
January	6,000
February	5,000
March	2,500
April	2,500
May	3,000
June	4,500
July	12,000
August	12,000
September	10,000
October	6,000
November	8,000
December	5,500

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APPENDIX E — FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds in definitive form, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, proposes to render its opinion in substantially the following form:

Date of Delivery

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the issuance of $209,350,000 aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement for the Purchase and Sale of Natural Gas (the "Prepaid Gas Agreement"), dated January 24, 2007 between the Authority and Merrill Lynch Commodities, Inc., the Natural Gas Supply Agreement (the "Supply Agreement"), dated as of February 1, 2007 between the Authority and the City of Roseville (the "Municipality"), the Tax Agreement, dated the date hereof, relating to the Bonds (the "Tax Agreement"), certificates of the Authority, the Municipality, the Trustee and others, opinions of counsel to the Authority, the Municipality, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Prepaid Gas Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the

Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy of the description contained therein of, or the remedies available to enforce liens on, any of such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Trust Estate which pledge is subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture, which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture. Neither the faith and credit nor the taxing power of the State of California, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF ROSEVILLE, CALIFORNIA

relating to:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, Series 2007

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF ROSEVILLE (the "City"), for and on behalf of itself and the Roseville Natural Gas Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered by The Bank of New York Trust Company, N. A., as trustee (the "Trustee"), in accordance with a Trust Indenture, dated as of February 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the registered and beneficial owners of the Bonds and in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" means The Bank of New York Trust Company, N. A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as they may be designated from time to time pursuant to the Rule. Any filing under this Disclosure Certificate with a National Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Purchaser*" means Merrill Lynch & Co., the initial purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means seven months after the end of the City's fiscal year, (currently January 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2008, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee, Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy) and the Purchaser. Not later than 15 Business Days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report Date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). 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 by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy)) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; and

(ii) 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 this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City, which shall include financial statements of the City's municipal electric power utility (the "Electric System") 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 Report Date, 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.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Report Date, the following financial information and operating data with respect to the City and the Electric System for the preceding fiscal year as of June 30 of the previous fiscal year:

(1) The principal amount of the outstanding Bonds.

(2) The balance in the Rate Stabilization Fund.

(3) An updated table substantially in the form of Table 1 in Exhibit A to the Official Statement entitled "Customers, Sales and Demand."

(4) An updated table substantially in the form of Table 2 in Exhibit A to the Official Statement entitled "Ten Largest Customers."

(5) An updated table substantially in the form of Table 3 in Exhibit A to the Official Statement entitled "Sources of Power Supply."

(6) An updated table substantially in the form of Table 7 in Exhibit A to the Official Statement entitled "City Share of Outstanding Joint Powers Agencies Debt."

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. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

(vii) Modifications to rights of Bond owners.

(viii) Contingent or unscheduled prepayment of Bonds.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) Rating changes.

(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 law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee, the Purchaser and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy), together with written direction to the Trustee whether or not to notify the Bond owners of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond owners. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N. A. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this 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, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the registered or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions of this Section, the first annual financial information filed pursuant to this Disclosure Certificate containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this 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 or the Dissemination Agent to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Purchaser or the owners of at least 25 percent aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any registered or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee 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 any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Disclosure Certificate pursuant to Section 6 of this Disclosure Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Roseville 311 Vernon Street Roseville, California 95678 Attention: Administrative Services Director Fax: (916) 774-5514
To the Trustee:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Department Fax: (415) 399-1647
To the Purchaser:	Merrill Lynch & Co. Global Markets and Investment Banking 101 California Street San Francisco, CA 94111 Attention: Mr. Ed Burdett, Managing Director Fax: (415) 676-3351

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Purchaser and registered and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: February 6, 2007

CITY OF ROSEVILLE

By: ________________________________
Authorized Representative

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N. A.,
as Dissemination Agent

By: ________________________________
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	CITY OF ROSEVILLE
Name of Issue:	$209,350,000 Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
Date of Issuance:	February 6, 2007

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of February 6, 2007. The City anticipates that the Annual Report will be filed by ________________.

Dated: ________________

DISSEMINATION AGENT

By: ___________________________

Title:

cc: Trustee

APPENDIX G — SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS

APPENDIX G — SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS

Bond Redemption Date	Amortized Value	Bond Redemption Date	Amortized Value
04/02/2007	$224,643,342.15	11/30/2011	$199,503,055.45
04/30/2007	224,563,961.25	01/03/2012	199,407,189.70
05/31/2007	224,478,589.70	01/31/2012	199,327,829.50
07/02/2007	224,396,224.25	02/29/2012	191,981,369.30
07/31/2007	224,322,189.15	04/02/2012	191,882,761.95
08/31/2007	224,238,047.45	04/30/2012	191,801,311.30
10/01/2007	224,148,593.65	05/31/2012	191,713,434.75
10/31/2007	224,061,878.45	07/02/2012	191,628,013.25
11/30/2007	223,980,417.45	07/31/2012	191,550,691.65
12/31/2007	223,896,365.55	08/31/2012	191,463,855.75
01/31/2008	223,817,398.20	10/01/2012	191,372,442.30
02/29/2008	223,738,294.80	10/31/2012	191,283,351.65
03/31/2008	223,640,683.85	11/30/2012	191,199,567.15
04/30/2008	223,555,224.15	12/31/2012	191,112,484.80
06/02/2008	223,463,490.50	01/31/2013	191,030,591.20
06/30/2008	223,385,858.40	02/28/2013	183,280,069.55
07/31/2008	223,302,866.90	04/01/2013	183,185,068.80
09/02/2008	223,211,698.25	04/30/2013	183,104,033.50
09/30/2008	223,125,138.90	05/31/2013	183,019,545.55
10/31/2008	223,031,958.90	07/01/2013	182,940,333.10
12/01/2008	222,944,151.00	07/31/2013	182,863,026.35
12/31/2008	222,859,318.60	09/03/2013	182,774,121.90
02/02/2009	222,774,591.20	09/30/2013	182,694,521.85
03/02/2009	216,040,930.25	10/31/2013	182,606,158.00
03/31/2009	215,950,612.00	12/02/2013	182,520,043.70
04/30/2009	215,863,130.25	12/31/2013	182,441,783.60
06/01/2009	215,771,737.55	01/31/2014	182,362,790.00
06/30/2009	215,688,913.40	02/28/2014	174,260,337.85
07/31/2009	215,603,146.30	03/31/2014	174,169,424.90
08/31/2009	215,513,479.95	04/30/2014	174,091,895.35
09/30/2009	215,421,431.30	06/02/2014	174,008,395.65
11/02/2009	215,322,464.00	06/30/2014	173,937,294.70
11/30/2009	215,238,610.05	07/31/2014	173,860,762.95
12/31/2009	215,148,119.65	09/02/2014	173,778,434.35
02/01/2010	215,063,809.30	09/30/2014	173,699,558.35
03/01/2010	208,322,820.35	10/31/2014	173,614,841.60
03/31/2010	208,227,056.30	12/01/2014	173,534,889.60
04/30/2010	208,136,769.00	12/31/2014	173,457,446.30
06/01/2010	208,042,825.85	02/02/2015	173,379,344.30
06/30/2010	207,957,302.95	03/02/2015	164,867,286.55
08/02/2010	207,865,658.40	03/31/2015	164,790,941.40
08/31/2010	207,776,255.50	04/30/2015	164,717,149.85
09/30/2010	207,681,435.50	06/01/2015	164,640,073.95
11/01/2010	207,582,801.00	06/30/2015	164,569,609.20
11/30/2010	207,493,008.30	07/31/2015	164,497,029.05
12/31/2010	207,400,060.85	08/31/2015	164,421,055.85
01/31/2011	207,312,084.90	09/30/2015	164,343,623.55
02/28/2011	200,316,172.30	11/02/2015	164,259,985.00
03/31/2011	200,213,865.50	11/30/2015	164,189,119.10
05/02/2011	200,120,535.30	12/31/2015	164,112,530.55
05/31/2011	200,035,423.75	02/01/2016	164,040,757.80
06/30/2011	199,952,606.50	02/29/2016	155,112,372.85
08/01/2011	199,866,536.55	03/31/2016	155,032,837.60
08/31/2011	199,777,169.60	05/02/2016	154,957,929.25
09/30/2011	199,685,566.35	05/31/2016	154,889,563.45
10/31/2011	199,589,831.75	06/30/2016	154,823,036.30

SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS (continued)

Bond Redemption Date	Amortized Value	Bond Redemption Date	Amortized Value
08/01/2016	$154,753,790.75	03/31/2021	$99,712,577.70
08/31/2016	154,682,050.65	04/30/2021	99,664,819.30
09/30/2016	154,608,126.55	06/01/2021	99,615,038.15
10/31/2016	154,531,208.75	06/30/2021	99,569,921.60
11/30/2016	154,461,655.30	08/02/2021	99,521,300.05
01/03/2017	154,384,398.75	08/31/2021	99,473,866.75
01/31/2017	154,320,903.85	09/30/2021	99,423,528.10
02/28/2017	144,913,982.55	11/01/2021	99,371,543.30
03/31/2017	144,836,397.45	11/30/2021	99,323,923.55
05/01/2017	144,767,838.15	12/31/2021	99,274,706.15
05/31/2017	144,701,468.10	01/31/2022	99,228,340.50
06/30/2017	144,638,461.95	02/28/2022	87,267,453.85
07/31/2017	144,573,401.65	03/31/2022	87,218,214.05
08/31/2017	144,505,614.80	05/02/2022	87,173,117.55
10/02/2017	144,431,644.90	05/31/2022	87,131,977.55
10/31/2017	144,363,587.65	06/30/2022	87,091,822.80
11/30/2017	144,297,812.60	08/01/2022	87,050,127.65
01/02/2018	144,227,318.25	08/31/2022	87,006,752.00
01/31/2018	144,165,513.90	09/30/2022	86,962,238.70
02/28/2018	134,326,835.75	10/31/2022	86,915,864.30
04/02/2018	134,252,518.35	11/30/2022	86,873,592.75
04/30/2018	134,192,482.90	01/03/2023	86,827,352.25
05/31/2018	134,128,052.30	01/31/2023	86,789,155.30
07/02/2018	134,065,147.15	02/28/2023	74,233,444.15
07/31/2018	134,008,343.30	03/31/2023	74,191,156.85
08/31/2018	133,944,670.85	05/01/2023	74,153,219.45
10/01/2018	133,877,262.95	05/31/2023	74,116,462.20
10/31/2018	133,811,681.75	06/30/2023	74,082,006.95
11/30/2018	133,749,988.30	07/31/2023	74,045,839.55
12/31/2018	133,685,957.00	08/31/2023	74,008,367.55
01/31/2019	133,625,699.70	10/02/2023	73,967,434.50
02/28/2019	123,296,427.65	10/31/2023	73,930,094.05
04/01/2019	123,229,495.50	11/30/2023	73,893,766.30
04/30/2019	123,171,649.25	01/02/2024	73,854,955.10
05/31/2019	123,111,828.60	01/31/2024	73,821,054.85
07/01/2019	123,055,305.55	02/29/2024	60,634,665.20
07/31/2019	123,000,582.15	04/01/2024	60,600,623.60
09/03/2019	122,937,403.10	04/30/2024	60,570,447.65
09/30/2019	122,881,312.05	05/31/2024	60,538,793.85
10/31/2019	122,818,348.50	07/01/2024	60,509,367.50
12/02/2019	122,757,304.30	07/31/2024	60,480,240.15
12/31/2019	122,701,654.50	09/03/2024	60,446,976.50
01/31/2020	122,645,608.10	09/30/2024	60,417,258.85
03/02/2020	111,787,946.30	10/31/2024	60,384,133.85
03/31/2020	111,734,068.65	12/02/2024	60,351,883.10
04/30/2020	111,681,315.90	12/31/2024	60,322,879.35
06/01/2020	111,626,174.70	01/31/2025	60,293,745.35
06/30/2020	111,576,541.95	02/28/2025	46,404,519.75
07/31/2020	111,524,407.85	03/31/2025	46,377,379.90
08/31/2020	111,469,965.35	04/30/2025	46,353,906.45
09/30/2020	111,414,540.20	06/02/2025	46,328,897.75
11/02/2020	111,355,126.95	06/30/2025	46,307,402.80
11/30/2020	111,304,245.05	07/31/2025	46,284,242.35
12/31/2020	111,249,911.05	09/02/2025	46,259,103.40
02/01/2021	111,198,805.85	09/30/2025	46,235,339.35
03/01/2021	99,763,116.15	10/31/2025	46,209,429.10

SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS (continued)

Bond Redemption Date	Amortized Value
12/01/2025	$46,185,497.35
12/31/2025	46,162,169.20
02/02/2026	46,138,979.00
03/02/2026	31,589,659.40
03/31/2026	31,573,238.45
04/30/2026	31,557,130.50
06/01/2026	31,540,396.55
06/30/2026	31,524,914.60
07/31/2026	31,509,119.65
08/31/2026	31,492,393.40
09/30/2026	31,475,041.15
11/02/2026	31,456,749.90
11/30/2026	31,441,267.95
12/31/2026	31,424,686.65
02/01/2027	31,409,349.65
03/01/2027	16,132,653.15
03/31/2027	16,123,673.55
04/30/2027	16,115,335.35
06/01/2027	16,106,676.45
06/30/2027	16,098,658.95
08/02/2027	16,090,160.40
08/31/2027	16,081,501.50
09/30/2027	16,072,361.55
11/01/2027	16,063,061.25
11/30/2027	16,054,723.05
12/31/2027	16,046,224.50
01/31/2028	16,038,367.35

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