NEW ISSUE — FULL BOOK-ENTRY

RATING: Standard & Poor's:
AAA (Insured); A+ (Underlying)
(See "RATING")

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Matters".

$6,500,000
CITY OF ALBANY
General Obligation Bonds
Election of 2002
Series 2007

$5,000,000
CITY OF ALBANY
General Obligation Bonds
Election of 2006
Series 2007

Dated: Delivery Date **Due: August 1, as shown below**

The $6,500,000 City of Albany, General Obligation Bonds, Election of 2002, Series 2007 (the "2002 Election Bonds"), are being issued by the City of Albany (the "City") pursuant to a resolution adopted by the City Council of the City. The 2002 Election Bonds were authorized at an election of the registered voters of the City held on November 5, 2002 approving the issuance of $14,500,000 of bonds. Pursuant to this authorization, the City issued $8,000,000 of General Obligation Bonds in June, 2003. The $5,000,000 City of Albany, General Obligation Bonds, Election of 2006 (the "2006 Election Bonds") are being issued by the City pursuant to a resolution adopted by the City Council of the City. The 2006 Election Bonds were authorized at an election of the registered voters of the City held on November 5, 2006. Proceeds of the 2002 Election Bonds and the 2006 Election Bonds (together, the "Bonds") will be used for various capital facilities as approved by the voters of the City.

The Bonds are general obligations of the City, and the City has covenanted to direct the County and the County is obligated to levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates).

Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008. The Bonds are issuable as fully registered securities in book entry form in denominations of $5,000. The Bonds will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by The Bank of New York Trust Company N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds (see "APPENDIX G — Book-Entry-Only System Description").

The scheduled payment of principal of and interest on the 2002 Election Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2002 Election Bonds by XL Capital Assurance Inc. The scheduled payment of principal of and interest on the 2006 Election Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2006 Election Bonds by MBIA Insurance Corporation.

XL CAPITAL ASSURANCE
for the 2002 Election Bonds

mbia
WISDOM IN ACTION
for the 2006 Election Bonds

The Bonds are subject to optional and mandatory redemption prior to maturity. Pursuant to the Official Notice of Sale dated July 17, 2007, on July 26, 2007 the 2002 Election Bonds were awarded to Morgan Stanley & Co. Incorporated and the 2006 Election Bonds were awarded to Stone & Youngberg LLC. The Bonds are delivered when, as and if issued, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the City. Certain legal matters are being passed upon for the City by the City Attorney. It is anticipated that the Bonds will be available for delivery through DTC on or about August 14, 2007, in New York, New York.

This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The date of this Official Statement is July 26, 2007.

2002 Election Bonds
Maturity Schedule
Base CUSIP[1] : 012086

Maturity August 1	Principal Amount	Interest Rate	Yield/ Price	CUSIP	Maturity August 1	Principal Amount*	Interest Rate	Yield/ Price	CUSIP
2008	$95,000	7.00%	3.50%	BX1	2020	180,000	4.25	100	CK8
2009	105,000	7.00	3.60	BY9	2021	190,000	4.30	100	CL6
2010	110,000	7.00	3.65	BZ6	2022	195,000	4.30	4.35	CM4
2011	120,000	7.00	3.70	CA0	2023	205,000	4.375	4.40	CN2
2012	125,000	7.00	3.75	CB8	2024	215,000	4.40	4.45	CP7
2013	135,000	6.00	3.80	CC6	2025	225,000	4.50	100	CQ5
2014	140,000	4.00	3.85	CD4	2026	235,000	4.50	4.55	CR3
2015	150,000	4.00	3.95	CE2	2027	245,000	4.60	100	CS1
2016	155,000	4.00	4.00	CF9	2028	255,000	4.60	4.62	CT9
2017	160,000	4.00	4.00	CG7	2029	265,000	4.625	4.65	CU6
2018	165,000	4.00	100	CH5	2030	280,000	4.625	4.65	CV4
2019	175,000	4.20	100	CJ1					

$2,375,000 5.00% Term Bonds maturing August 1, 2037 Yield: 4.40% CUSIP: 012086 CW2 *

*: Priced to August 1, 2017 call date.

2006 Election Bonds
Maturity Schedule
Base CUSIP[1] : 012086

Maturity August 1	Principal Amount	Interest Rate	Yield/ Price	CUSIP	Maturity August 1	Principal Amount*	Interest Rate	Yield/ Price	CUSIP
2008	$70,000	8.00%	3.50%	CX0	2018	125,000	4.125	4.15	DH4
2009	80,000	8.00	3.60	CY8	2019	130,000	4.25	100	DJ0
2010	85,000	6.00	3.65	CZ5	2020	140,000	4.25	4.35	DK7
2011	90,000	6.00	3.70	DA9	2021	145,000	4.30	4.40	DL5
2012	100,000	6.00	3.75	DB7	2022	150,000	4.375	4.45	DM3
2013	105,000	4.25	3.80	DC5	2023	155,000	4.50	100	DN1
2014	110,000	4.25	3.85	DD3	2024	165,000	4.50	4.53	DP6
2015	115,000	4.25	3.92	DE1	2025	170,000	4.50	4.56	DQ4
2016	120,000	4.25	4.00	DF8	2026	180,000	4.50	4.58	DR2
2017	125,000	4.00	4.08	DG6	2027	185,000	4.50	4.60	DS0

$1,075,000 5.00% Term Bonds maturing August 1, 2032 Yield: 4.45% CUSIP: 012086 DT8 *
$1,380,000 5.00% Term Bonds maturing August 1, 2037 Yield: 4.50% CUSIP: 012086 DU5 *

*: Priced to August 1, 2017 call date.

CITY OF ALBANY
ALAMEDA COUNTY, CALIFORNIA

CITY COUNCIL

Robert S Lieber, *Mayor*
Marge Atkinson, *Vice Mayor*
Farid Javandel, *Councilmember*
Jewel Okawachi, *Councilmember*
Joanne Wile, *Councilmember*

CITY STAFF

Beth Pollard, *City Administrator*
Charles Adams, *Finance and Administrative Services Director*
Robert Zweben, *City Attorney*
Kim Denton, *Treasurer*
Ann Chaney, *Community Development Director*

PROFESSIONAL SERVICES

BOND COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Stone & Youngberg LLC
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

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

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Commission in any press release and in any oral statement made with the approval of an authorized officer of the Commission or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Commission or any other entity described or referenced in this Official Statement since the date of this Official Statement.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained in this Official Statement and if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Modification of Prices: The prices of the offering and sale of the Bonds may be changed from time to time by the Underwriter after such bonds are released for sale and such bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell such bonds into investment accounts. In connection with the offering of bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices for such bonds at a level above that which might prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Bonds not registered: The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in such Act. The Bonds have not been registered or qualified under the securities laws of any state.

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REGIONAL LOCATION MAP

City of Albany
Alameda County, California

$6,500,000	**$5,000,000**
CITY OF ALBANY	**CITY OF ALBANY**
General Obligation Bonds	**General Obligation Bonds**
Election of 2002	**Election of 2006**
Series 2007	**Series 2007**

INTRODUCTION

This Official Statement, which includes the cover page and appendices, provides information in connection with the sale of the City of Albany, General Obligation Bonds, Election of 2002, Series 2007 in the principal amount of $6,500,000 (the "2002 Election Bonds"), and the City of Albany, General Obligation Bonds, Election of 2006, Series 2007 in the principal amount of $5,000,000 (the "2006 Election Bonds"). The 2002 Election Bonds and the 2006 Election Bonds are referred to collectively as the "Bonds".

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices, and the documents summarized or described in this Official Statement. 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.

The City

The City of Albany (the "City") is located in Alameda County, California, about 13 miles east of San Francisco. The territory of the City encompasses approximately 1.5 square miles. The population of the City on January 1, 2007 was 16,764 persons.

Sources of Payment for the Bonds

The Bonds represent general obligations of the City payable from *ad valorem* property taxes levied and collected by the County of Alameda (the "County"). The City has covenanted to direct the County and the County is obligated to annually levy *ad valorem taxes* for the payment of the Bonds and related interest upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See "THE BONDS -- Security".

Bond Insurance

Concurrently with the issuance of 2002 Election Bonds, XL Capital Assurance Inc. ("XLCA") will deliver its financial guaranty insurance policy ("XL Bond Insurance Policy"), which guarantees the payment of principal of and interest on the 2002 Election Bonds. Concurrently with the issuance of the 2006 Election Bonds, MBIA Insurance Corporation ("MBIA") will deliver its financial guaranty insurance policy ("MBIA Bond Insurance Policy"), which guarantees the payment of principal of and interest on the 2006 Election Bonds. See "BOND INSURANCE ON THE 2002 ELECTION BONDS", "BOND INSURANCE ON THE 2006 ELECTION BONDS", and "APPENDIX F – FORMS OF MUNICIPAL BOND INSURANCE POLICIES."

Description of the Bonds

Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the cover page, under the book-entry system maintained by DTC only through brokers and dealers who are or act through DTC Participants. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "APPENDIX G -- Book-Entry-Only System Description."

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of $5,000.

Optional Redemption. The Bonds maturing on or after August 1, 2018, may be redeemed prior to maturity at the option of the City, in whole or in part on any date beginning on August 1, 2017, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption. See "THE BONDS -- Optional Redemption of the 2002 Election Bonds" and "THE BONDS – Optional Redemption of the 2006 Election Bonds".

Mandatory Sinking Fund Redemption. The 2002 Election Term Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption beginning on August 1, 2031. See "THE BONDS -- Mandatory Sinking Fund Redemption of the 2002 Election Bonds".

The 2006 Election Term Bonds maturing on August 1, 2032, are subject to mandatory sinking fund redemption beginning on August 1, 2028. The 2006 Election Term Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption beginning on August 1, 2033. See "THE BONDS -- Mandatory Sinking Fund Redemption of the 2006 Election Bonds ".

Payments. Interest on the Bonds accrues from August 14, 2007, and is payable semiannually on each February 1 and August 1, commencing February 1, 2008. Principal on the Bonds is payable on August 1, commencing August 1, 2008, in the amounts and years set forth on the cover page.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. See "LEGAL MATTERS – Tax Matters".

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and pursuant to resolutions adopted by the City Council and a Paying Agent Agreement). See "THE BONDS - Authority for Issuance".

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York on or about August 14, 2007.

Continuing Disclosure

The City will covenant for the benefit of the Bond owners to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under the caption "OTHER INFORMATION – Continuing Disclosure" and "APPENDIX E - Form of Continuing Disclosure Certificate."

Other Information

This Official Statement speaks only as of its date, and the information contained here is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the City Clerk of the City of Albany, 1000 San Pablo Avenue, Albany, California 94706, (510) 528-5710. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the City. The information and expressions of opinions are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of the Official Statement. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

THE FINANCE PLAN

Sources and Uses of Funds

Purpose of Issues

The net proceeds of the 2002 Election Bonds will be used to finance the costs to repair and improve recreational facilities; structural improvements to the fire department, police department and city hall buildings, residential street improvements, bike path improvements and construction, and safety lighting; create new parks and improve existing parks; and resurface city streets.

The net proceeds of the 2006 Election Bonds will be used to finance the renovation and expansion of the City's Fire Station, construction of an Emergency Operations Center at the City's Police/Fire complex and adding sustainable building features at the Fire/Policy/Civic Center complex.

The sources and uses of funds with respect to the Bonds are as follows:

Table 1
City of Albany
General Obligation Bonds

Sources of Funds	**2002 Election Bonds**	**2006 Election Bonds**
Principal Amount of Bonds	$6,500,00.00	$5,000,000.00
Net Original Issue Premium	177,193.90	133,562.35
Total Sources	$6,677,193.90	$5,133,562.35
Uses of Funds		
Project Fund	$6,500,000.00	$5,000,000.00
Debt Service Fund (1)		33,396.15
Costs of Issuance (2)	177,193.90	100,166.20
Total Uses	$6,677,193.90	$5,133,562.35

(1) Net original issue premium to be deposited in the Debt Service Fund.
(2) Includes bond counsel fees, financial advisor fees, rating fees, insurance expenses, printing expenses and other costs of issuance with respect to the Bonds.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Chapter 4 (commencing with section 43600) of Division 4 of Title 4 of the California Government Code and Article 3.7 of Chapter 4 (commencing with section 53720) of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act") and other applicable law, and pursuant to a resolution adopted by the City Council on July 16, 2007, and a paying agent agreement between The Bank of New York Trust Company, N.A., San Francisco, California (the "Paying Agent"), and the City dated as of August 1, 2007 (the "Paying Agent Agreement").

The City received authorization at an election held on November 5, 2002, by an affirmative vote of 69.4% of voters within the City to issue $14,500,000 of general obligation bonds (the "2002 Authorization").

The 2002 Election Bonds are the second and final series of bonds to be sold under the 2002 Authorization. The City Council authorized the issuance and sale of the 2002 Election Bonds by a resolution adopted on July 16, 2007.

The City received authorization at an election held on November 5, 2006, by an affirmative vote of 76.3% of voters within the City to issue $5,000,000 of general obligation bonds (the "2006 Authorization"). The 2006 Election Bonds will be the only series of bonds to be sold under the 2006 Authorization. The City Council authorized the issuance and sale of the 2006 Election Bonds by a resolution adopted on July 16, 2007.

Security

The Bonds are general obligations of the City. The City has the power, is obligated and has covenanted to direct the County to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of the Bonds and related interest. The County will levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into the Debt Service Funds for the Bonds which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due.

The amount of the annual *ad valorem* tax levied by the City to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate. Economic and other factors beyond the City's control, such as general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the state of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. For further information regarding the City's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR THE REPAYMENT OF BONDS".

Description of the Bonds

In general, the 2002 Election Bonds and the 2006 Election Bonds contain terms and provisions that are substantially similar. The following is a summary of certain provisions relating to both issues of Bonds, unless otherwise specified.

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. Purchasers will not receive certificates representing their interest in the Bonds.

Interest on the Bonds is payable semiannually on February 1 and August 1 of each year (the "Interest Payment Dates"), commencing February 1, 2008. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication unless (i) it is registered and authenticated as of an Interest Payment Date, in which event it shall bear interest from such date, or (ii) it is registered and authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is registered and authenticated on or prior to January 15, 2008, in which event it shall bear interest from the date of original issuance and authentication of the bonds; *provided*, however, that if at the time of registration and authentication of a Bond, interest is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

The Bonds shall be issued in the denomination or any integral multiple of $5,000. The Bonds mature on August 1, in the years and amounts set forth on the cover page.

See the maturity schedule on the cover page and "DEBT SERVICE SCHEDULES."

Interest on the Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Paying Agent

The Bank of New York Trust Company N.A., located in San Francisco, California, will act as the registrar, transfer agent, and paying agent for the Bonds. As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

In the event that either (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) the City determines to terminate DTC as a securities depository for the Bonds, then the City will discontinue the book-entry system with DTC. If the City fails to identify another securities depository to replace DTC, then the Bonds shall no longer be required to be registered in the Bond Register) in the name of DTC, but shall be registered in whatever name or names the owners transferring or exchanging Bonds shall designate, in accordance with the provisions of the Paying Agent Agreement.

Payment

Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Paying Agent mailed on the applicable Interest Payment Date to the owner at such owner's address as it appears on the Bond Register maintained by the Paying Agent at the close of business on the fifteenth day of the month preceding the Interest Payment Date, or at such other address as the owner may have filed with the Paying Agent for that purpose; *provided* that an owner of $1,000,000 or more aggregate principal amount of Bonds, or the owner of all of the Bonds at the time outstanding, shall, at his or her option, receive payment of interest by wire transfer to an account in the United States of America designated by such owner to the Paying Agent no later than the fifteenth day of the month immediately preceding the applicable Interest Payment Date. Principal of the Bonds is payable in lawful money of the United States of America at the principal office of the Paying Agent in San Francisco, California.

Optional Redemption of the 2002 Election Bonds

The 2002 Election Bonds maturing on or before August 1, 2017, are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 2018, shall be subject to redemption prior to their respective maturity dates as a whole or in part on any date as designated by the City and, absent any such designation, in inverse order of maturities and by lot within a maturity from money provided at the option of the City, in each case on and after August 1, 2017, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption of the 2002 Election Bonds

The 2002 Election Term Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption, in part by lot, prior to their stated maturity, on each August 1 on and after August 1, 2031, at a redemption price equal to 100% of the principal amount called for redemption, without premium, plus accrued interest to the date of redemption in the aggregate respective principal amounts set forth in the following table:

Redemption Date (August 1)	Principal Amount of Bonds to be Redeemed
2031	$290,000
2032	305,000
2033	320,000
2034	340,000
2035	355,000
2036	375,000
2037	390,000
Total	$2,375,000

Optional Redemption of the 2006 Election Bonds

The 2006 Election Bonds maturing on or before August 1, 2017, are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 2018, shall be subject to redemption prior to their respective maturity dates as a whole or in part on any date as designated by the City and, absent any such designation, in inverse order of maturities and by lot within a maturity from money provided at the option of the City, in each case on and after August 1, 2017, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption of the 2006 Election Bonds

The 2006 Election Term Bonds maturing on August 1, 2032, are subject to mandatory sinking fund redemption, in part by lot, prior to their stated maturity, on each August 1 on and after August 1, 2028, at a redemption price equal to 100% of the principal amount called for redemption, without premium, plus accrued interest to the date of redemption in the aggregate respective principal amounts set forth in the following table:

Redemption Date (August 1)	Principal Amount of Bonds to be Redeemed
2028	$195,000
2029	205,000
2030	215,000
2031	225,000

2032	235,000
Total	$1,075,000

The 2006 Election Term Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption, in part by lot, prior to their stated maturity, on each August 1 on and after August 1, 2033, at a redemption price equal to 100% of the principal amount called for redemption, without premium, plus accrued interest to the date of redemption in the aggregate respective principal amounts set forth in the following table:

Redemption Date (August 1)	Principal Amount of Bonds to be Redeemed
2033	$250,000
2034	260,000
2035	275,000
2036	290,000
2037	305,000
Total	$1,380,000

Redemption Procedure

The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Bonds designated for redemption, at their addresses appearing on the bond registration books maintained by the Paying Agent and to the Securities Depositories and the Information Services (as such terms are defined in the Paying Agent Agreement); but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds. The Paying Agent shall not mail any notice of redemption until it has sufficient moneys on deposit to pay the redemption price of all Bonds to be redeemed; *provided*, however, that such restriction shall not apply when the Bonds are redeemed with the proceeds of another obligation of the City; and provided further that in the event the Bonds are being redeemed with such proceeds, the City shall have the right to cancel the notice of redemption by providing written notice of such cancellation to the Paying Agent at least seven business days prior to the date set for redemption.

Such notice shall state the redemption date and the redemption price and, if less than all of the then outstanding Bonds are to be called for redemption, shall designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and shall require that such Bonds be then surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Partial Redemption of Bonds

Upon surrender of Bonds redeemed in part only, the City shall execute and the Paying Agent shall authenticate and deliver to the owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption of Bonds

From and after the date fixed for redemption, if notice of such redemption shall have been duly given as provided in the Paying Agent Agreement and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Paying Agent Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

Defeasance

The City shall have the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, and interest and any premium on, such outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Paying Agent or an escrow agent, in trust, at or before maturity, money which, together with, in the event of a discharge of all of the Bonds, the amounts then on deposit in the funds and accounts provided for in the Paying Agent Agreement is fully sufficient to pay such outstanding Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Paying Agent or an escrow agent, in trust, cash and Federal Securities (as defined below) in such amount as the City shall determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and, in the event of a discharge of all of the Bonds, moneys then on deposit in the fund and accounts provided for in the Paying Agent Agreement, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (a), (b) or (c) above, and if such Bonds are to be redeemed prior to the maturity, notice of such redemption shall have been given as in the Paying Agent Agreement provided or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the funds and moneys provided for in the Paying Agent Agreement and all other obligations of the City under the Paying Agent Agreement with respect to such outstanding Bonds shall cease and terminate. Notice of such election shall be filed with the Paying Agent. Notwithstanding the foregoing, the obligation of the City to pay or cause to be paid to the owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Paying Agent pursuant to the Paying Agent Agreement shall continue in any event.

Upon compliance by the City with the foregoing with respect to all bonds outstanding, any funds held by the Paying Agent after payment of all fees and expenses of the Paying Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City.

"Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Registration, Transfer and Exchange of Bonds

The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "Bond Register"), which shall at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

In the event that the book-entry system as described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption of (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion of Bonds).

Bonds may be exchanged at the principal office of the Paying Agent in San Francisco, California, for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption (except with respect to the unredeemed portion of Bonds).

DEBT SERVICE SCHEDULES

The following tables show the debt service schedules with respect to the Bonds (assuming no optional redemptions).

Table 2
City of Albany
2002 Election Bonds

Year Ending August 1	Annual Principal Payment (1)	Annual Interest Payment (2)	Total Annual Debt Service
2008	$95,000.00	$304,000.92	$399,000.92
2009	105,000.00	308,740.00	413,740.00
2010	110,000.00	301,390.00	411,390.00
2011	120,000.00	293,690.00	413,690.00
2012	125,000.00	285,290.00	410,290.00
2013	135,000.00	276,540.00	411,540.00
2014	140,000.00	268,440.00	408,440.00
2015	150,000.00	262,840.00	412,840.00
2016	155,000.00	256,840.00	411,840.00
2017	160,000.00	250,640.00	410,640.00
2018	165,000.00	244,240.00	409,240.00
2019	175,000.00	237,640.00	412,640.00
2020	180,000.00	230,290.00	410,290.00
2021	190,000.00	222,640.00	412,640.00
2022	195,000.00	214,470.00	409,470.00
2023	205,000.00	206,085.00	411,085.00
2024	215,000.00	197,116.26	412,116.26
2025	225,000.00	187,656.26	412,656.26
2026	235,000.00	177,531.26	412,531.26
2027	245,000.00	166,956.26	411,956.26
2028	255,000.00	155,686.26	410,686.26
2029	265,000.00	143,956.26	408,956.26
2030	280,000.00	131,700.00	411,700.00
2031	290,000.00	118,750.00	408,750.00
2032	305,000.00	104,250.00	409,250.00
2033	320,000.00	89,000.00	409,000.00
2034	340,000.00	73,000.00	413,000.00
2035	355,000.00	56,000.00	411,000.00
2036	375,000.00	38,250.00	413,250.00
2037	390,000.00	19,500.00	409,500.00
TOTAL	$6,500,000.00	$5,823,128.48	$12,323,128.48

(1) Principal payments for maturities from August 1, 2031, to August 1, 2037, represent mandatory sinking fund payments for the 2002 Election Term Bonds due August 1, 2037.

(2) Interest payments on the 2002 Election Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2008, through and including August 1, 2037.

Table 3
City of Albany
2006 Election Bonds

Year Ending August 1	Annual Principal Payment (1)	Annual Interest Payment (2)	Total Annual Debt Service
2008	$70,000.00	$234,493.69	$304,493.69
2009	80,000.00	237,678.76	317,678.76
2010	85,000.00	231,278.76	316,278.76
2011	90,000.00	226,178.76	316,178.76
2012	100,000.00	220,778.76	320,778.76
2013	105,000.00	214,778.76	319,778.76
2014	110,000.00	210,316.26	320,316.26
2015	115,000.00	205,641.26	320,641.26
2016	120,000.00	200,753.76	320,753.76
2017	125,000.00	195,653.76	320,653.76
2018	125,000.00	190,653.76	315,653.76
2019	130,000.00	185,497.50	315,497.50
2020	140,000.00	179,972.50	319,972.50
2021	145,000.00	174,022.50	319,022.50
2022	150,000.00	167,787.50	317,787.50
2023	155,000.00	161,225.00	316,225.00
2024	165,000.00	154,250.00	319,250.00
2025	170,000.00	146,825.00	316,825.00
2026	180,000.00	139,175.00	319,175.00
2027	185,000.00	131,075.00	316,075.00
2028	195,000.00	122,750.00	317,750.00
2029	205,000.00	113,000.00	318,000.00
2030	215,000.00	102,750.00	317,750.00
2031	225,000.00	92,000.00	317,000.00
2032	235,000.00	80,750.00	315,750.00
2033	250,000.00	69,000.00	319,000.00
2034	260,000.00	56,500.00	316,500.00
2035	275,000.00	43,500.00	318,500.00
2036	290,000.00	29,750.00	319,750.00
2037	305,000.00	15,250.00	320,250.00
TOTAL	$5,000,000.00	$4,533,286.29	$9,533,286.29

(1) Principal payments for maturities from August 1, 2028 to August 1, 2032, represent mandatory sinking fund payments for the 2006 Election Term Bonds due August 1, 2032. Principal payments for maturities from August 1, 2033 to August 1, 2037 represent mandatory sinking fund payments for the 2006 Election Term Bonds due August 1, 2037

(2) Interest payments on the 2006 Election Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2008, through and including August 1, 2037.

BOND INSURANCE ON THE 2002 ELECTION BONDS

The following information has been supplied by the XL Capital Assurance Inc. (“XLCA”) for inclusion in this Official Statement. No representation is made by the City or the Underwriter as to the accuracy or completeness of the information.

XLCA 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 XLCA and its affiliates set forth under this heading. In addition, XLCA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XLCA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

XLCA is an indirect wholly owned subsidiary of Security Capital Assurance Ltd (“SCA”), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd currently beneficially owns approximately 47.5% of SCA’s outstanding shares.

The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). **SCA is not obligated to pay the debts of or claims against XLCA.**

Financial Strength and Financial Enhancement Ratings of XLCA

XLCA's insurance financial strength is rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch, Inc. (“Fitch”). In addition, XLCA has obtained a financial enhancement rating of “AAA” from Standard & Poor’s. These ratings reflect Moody’s, Standard & Poor’s and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. (“XLFA”) described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. XLCA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Reinsurance

XLCA has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 75% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financial statements of XLFA, as of December 31, 2006, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $2,007,395,000, $874,028,000, $54,016,000 and $1,079,351,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the Bondholders will have direct recourse against XLCA only, and XLFA will not be directly liable to the Bondholders.

Capitalization of XLCA

Based on the audited financial statements of XLCA, as of December 31, 2006, XLCA had total assets, liabilities, and shareholder's equity of $1,224,735,000, $974,230,000, and $250,505,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2006 filed with the State of New York Insurance Department, XLCA has total admitted assets of $429,073,000, total liabilities of $222,060,000, total capital and surplus of $207,013,000 and total contingency reserves of $20,876,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of $328,231,000, total liabilities of $139,392,000, total capital and surplus of $188,839,000 and total contingency reserves of $13,031,000 determined in accordance with SAP.

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by SCA and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of XLCA

XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY XLCA, INCLUDING THE XL BOND INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

BOND INSURANCE ON THE
2006 ELECTION BONDS

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy (the “Policy”).

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “2006 Election Bonds Bond Insurance”. Additionally, MBIA makes no representation regarding the 2006 Election Bonds or the advisability of investing in the 2006 Election Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City of Albany to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2006 Election Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2006 Election Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2006 Election Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2006 Election Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the 2006 Election Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2006 Election Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2006 Election Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2006 Election Bonds or presentment of such other proof of ownership of the 2006 Election Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2006 Election Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2006 Election Bonds in any legal proceeding related to payment of insured amounts on the 2006 Election Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2006 Election Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2006 Election Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2006 Election Bonds. MBIA does not guaranty the market price of the 2006 Election Bonds nor does it guaranty that the ratings on the 2006 Election Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the 2006 Election Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

APPLICATION OF PROCEEDS OF THE BONDS

Project Fund

The proceeds from the sale of the 2002 Election Bonds and the 2006 Election Bonds respectively, shall be paid to the City to the credit of the "2002 Election Project Fund" and the "2006 Election Project Fund", which shall be established as a separate fund to be maintained distinct from all other funds of the City.

Money in the Project Funds shall be held by the City and disbursed for the payment of Project Costs (as such term is defined in the Paying Agent Agreement), including the payment of the costs of issuing the respective bonds. If, upon completion of the project, amounts remain in the Project Funds, the City shall transfer such amounts to the Debt Service Funds. At such time that no amounts remain on deposit in the Project Funds, the City shall close the Project Funds. Amounts on deposit in the Project Funds may be invested in Authorized Investments (as defined below) and earnings on such investments shall be retained in the Project Funds.

Debt Service Fund

The City shall establish the 2002 Election Debt Service Fund and the 2006 Election Debt Service Fund, (collectively, the "Debt Service Funds") which shall be established as a separate fund to be maintained distinct from all other funds of the City. The proceeds of *ad valorem* taxes levied to pay debt service on the Bonds and if any, other moneys lawfully available to pay debt service on the Bonds as provided in the Paying Agent Agreement shall be deposited into the Debt Service Funds. The City shall also deposit in the Debt Service Funds any premium paid with respect to the Bonds. Amounts on deposit in the Debt Service Funds may be invested in Authorized Investments and earnings on such investments shall be credited to such fund.

All moneys in the Debt Service Funds shall be used and withdrawn by the City solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable. On the last day of July and January in each year, commencing January 2008, the City shall transfer to the Paying Agent moneys on deposit in the Debt Service Funds for application by the Paying Agent on the next succeeding Interest Payment Date to the payment of principal of and interest on the Bonds.

Bond Service Fund

The Paying Agent shall establish as separate funds the 2002 Election Bond Service Fund and the 2006 Election Bond Service Fund (collectively the "Bond Service Funds"). All moneys received by the Paying Agent from the City as a transfer from the Debt Service Funds shall be deposited into the Bond Service Funds. The moneys on deposit in the Bond Service Funds shall be used solely to pay principal and interest on the Bonds when due. The funds in the Bond Service Funds shall be invested in a money market fund (including any fund for which the Paying Agent or any of its affiliates maintains or acts as sponsor or advisor) assigned a rating of Aaa by Moody's and AAA by S&P and Fitch. Investment earnings on amounts on deposit in the Bond Service Funds shall be retained in such fund.

Investment of Bond Proceeds

Amounts on deposit in the Project Funds and the Debt Service Funds may be invested in Authorized Investments. Pursuant to the Paying Agent Agreement, Authorized Investments means any investments permitted by law to be made with any moneys belonging to or in custody of, the City.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the City. (See "THE BONDS - Security".) Articles XIIIA and XIIIB of the Constitution and Proposition 62 and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIIIA and all applicable laws.

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the California Constitution ("Article XIIIA"). Article XIIIA, as amended, limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value", and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition of improvement of real property approved on or after July 1, 1978, by two-thirds or more of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception for bonds approved by a two-thirds vote.

Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

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

Legislation Implementing Article XIIIA

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIIIB to the California Constitution ("Article XIIIB"). Under Article XIIIB, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit was originally to be based on certain fiscal year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any consecutive two-year period exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the City receives any proceeds of taxes in excess of the allowable limit, the City may implement an existing procedure to concurrently increase the City's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIIIB were modified by Proposition 111 in 1990.

Proposition 62

On November 4, 1986, California voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters, and requires new or higher special taxes to be approved by two-thirds of both such local agency's governing body and such local agency's voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) requires local agencies to stop collecting any new or higher tax adopted on or after August 1, 1985, unless a majority of the voters approved the tax by November 4, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995, in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The requirements of Proposition 62 have generally been superseded by the enactment of Article XIIIC of the California Constitution (Proposition 218) in 1996.

Future Initiatives

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

TAX BASE FOR REPAYMENT OF BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the City. The Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the City. The City's general fund is not a source for the repayment of the Bonds.

Ad Valorem Property Taxation

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. A $10.00 fee also applies to all delinquent second installments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted after 5:00 p.m. on June 30. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs, a $15 redemption fee, and a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuations

The assessed valuation of property in the City is established by the County Assessor, except for public utility property that is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within the City had a net taxable assessed valuation for fiscal year 2006-07 of $1,639,861,768. Shown in the following table are the assessed valuations for the City for the period from 1979-80 to 2006-07. The City’s assessed valuation increased by 371% between fiscal year 1986-87 and fiscal year 2006-07, representing an annual compound growth rate of 6.78%.

Table 4
City of Albany
Assessed Value of Taxable Property
1979-80 to 2006-07

Fiscal Year	Net Taxable Assessed Valuation	Annual % Change
1979-80	$270,402,540	--
1980-81	280,691,876	3.8%
1981-82	310,479,005	10.6
1982-83	334,503,570	7.7
1983-84	358,506,278	7.2
1984-85	388,037,499	8.2
1985-86	415,154,924	7.0
1986-87	441,488,643	6.3
1987-88	507,689,423	15.0
1988-89	518,037,982	2.0
1989-90	568,473,219	9.7
1990-91	614,340,958	8.1
1991-92	654,405,035	6.5
1992-93	693,196,977	5.9
1993-94	739,789,685	6.7
1994-95	765,794,508	3.5
1995-96	788,033,934	2.9
1996-97	808,926,820	2.7
1997-98	832,504,598	2.9
1998-99	884,001,808	6.2
1999-00	924,791,033	4.6
2000-01	1,025,167,592	10.9
2001-02	1,105,756,920	7.9
2002-03	1,173,081,350	6.1
2003-04	1,259,343,320	7.4
2004-05	1,365,761,134	8.5
2005-06	1,507,297,240	10.4
2006-07	1,639,861,768	8.8

Note: Assessed values represent net taxable assessed valuation of secured and unsecured property, including the homeowner's exemption. Assessed valuations of utility property assessed by the State Board of Equalization are not included, beginning in 1988-89.
Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the City is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as parcels of real or personal property. Unitary and certain other state-assessed property are allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

Tax Levies and Delinquencies

The following table shows the secured tax charges and delinquencies for all taxes collected in the City by the County between 2001-02 and 2005-06.

Table 5
City of Albany
Secured Tax Charges and Delinquencies
2001-02 to 2005-06

Fiscal Year	Secured Tax Charge (1)	Amount Delinquent June 30	% Delinquent June 30
2001-02	$1,986,670.72	$50,072.75	2.52 %
2002-03	2,124,436.31	47,896.11	2.25
2003-04	2,214,688.21	43,267.79	1.95
2004-05	2,416,524.67	47,166.13	1.95
2005-06	2,649,472.02	59,612.46	2.25

(1) 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

Tax Rates

There are a total of two tax rate areas in the City. The largest tax rate area located within the City, Tax Rate Area 22-000, has a fiscal year 2006-07 assessed valuation of $1,588,434,018, representing 97% of the City's taxable assessed valuation. The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 22-000 during the five-year period from 2002-03 to 2006-07.

Table 6
City of Albany
Summary of Ad Valorem Tax Rates (1)
Tax Rate Area 22-000

	2002-03	2003-04	2004-05	2005-06	2006-07
County-wide	1.0000	1.0000	1.0000	1.0000	1.0000
Albany Unified School District	.1481	.1312	.1611	.1316	.1653
Peralta Community College District	.0176	.0159	.0208	.0238	.0272
Bay Area Rapid Transit District	-	-	-	.0048	.0050
East Bay Regional Park District	.0065	.0057	.0057	.0057	.0085
East Bay Municipal Utility District, Special District No. 1	.0084	.0079	.0076	.0072	.0068
City of Albany	.0993	.1375	.1345	.1311	.1281
Total	$1.2799	$1.2982	$1.3297	$1.3042	$1.3409

Source: California Municipal Statistics, Inc
(1) $1 per $100 of Assessed Valuation

Largest Property Owners

The following table shows the 10 largest owners of taxable property in the City as determined by secured assessed valuation in fiscal year 2006-07.

Table 7
City of Albany
Largest Local Secured Property Taxpayers
2006-07

	Property Owner	Land Use	2006-07 Assessed Valuation	% of Total (1)
1.	Ladbroke Land Holdings Inc.	Recreational – Race Track	$44,532,546	2.76%
2.	Target Corporation	Commercial	28,911,186	1.79
3.	Charlotte L. and Edward F. Biggs, Sr.	Apartments	9,077,036	0.56
4.	Erik and Rose L. Eichner	Apartments	8,944,336	0.55
5.	Albany Bowl Properties	Bowling Alley	4,490,566	0.28
6.	1001 Eastshore Partners	Commercial	4,328,880	0.27
7.	Safeway Inc.	Commercial	4,085,094	0.25
8.	Matt Nassiri and Katy Farrokhtala	Apartments	3,941,673	0.24
9.	Charles L. Meier	Commercial	3,900,424	0.24
10.	James J. and Barbara V. Kelley	Commercial	3,355,714	0.21
			$115,567,455	7.15%

(1) 2006-07 Local Secured Assessed Valuation: $1,613,130,018
Source: California Municipal Statistics, Inc.

Direct and Overlapping Bonded Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. for June 1, 2007. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

Table 8
City of Albany
Statement of Direct and Overlapping Bonded Debt

2006-07 Assessed Valuation:	$1,639,861,768
Redevelopment Incremental Valuation:	33,827,360
Adjusted Assessed Valuation:	$1,606,034,408

Public Agency Debt	% Applicable	Outstanding Debt on 6/1/07 (1)	
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			
Bay Area Rapid Transit District	0.407%	$ 354,843	
Peralta Community College District	3.219	8,680,999	
Albany Unified School District	100.	38,125,000	
City of Albany	**100.**	**7,550,000**	(1)
East Bay Municipal Utility District	1.165	12,757	
East Bay Municipal Utility District, Special District No. 1	2.967	1,020,796	
East Bay Regional Park District	0.597	984,466	
City of Albany Assessment District No. 1996-1	100.	4,600,000	
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$61,328,861	
Less: East Bay Municipal Utility District (100% self-supporting)		12,757	
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$61,316,104	
DIRECT AND OVERLAPPING GENERAL FUND DEBT (1):			
Alameda County General Fund Obligations	1.024%	$ 5,975,511	(2)
Alameda County Pension Obligations	1.024	2,609,427	
Alameda County Board of Education Certificates of Participation	1.024	5,018	
Alameda-Contra Costa Transit District Certificates of Participation	1.232	232,910	
Peralta Community College District Pension Obligations	3.219	4,893,679	
City of Albany Certificates of Participation	**100.**	**1,965,000**	
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$15,681,545	
GROSS COMBINED TOTAL DEBT		$77,010,406	(3)
NET COMBINED TOTAL DEBT		$76,997,649	

(1) Excludes issue to be sold.
(2) Includes share of City of Oakland-Alameda County Coliseum obligations.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:
Direct Debt ($7,550,000) 0.46%
Total Gross Direct and Overlapping Tax and Assessment Debt .. 3.74%
Total Net Direct and Overlapping Tax and Assessment Debt...... 3.74%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($9,515,000)... 0.59%
Gross Combined Total Debt... 4.80%
Net Combined Total Debt.. 4.79%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $0

(1): Includes general fund obligations of the City and other public agencies that are not obligations of property in the City of Albany.

CITY OF ALBANY

General Information

The City is located in Alameda County approximately 8 miles north of Oakland, the County seat, and about 13 miles east of San Francisco, and encompasses an area of approximately 1.5 square miles. The City of Albany was incorporated in 1908 and is a full service charter city operating under a Council-Administrator form of government. The City Council is comprised of five elected Council members served by a full-time City Administrator and staff. The Mayor is selected annually from the sitting councilmembers and serves a one-year term. Councilmembers are elected at-large for staggered four-year terms and are limited to two consecutive four-year terms. The City Treasurer and City Attorney are also elected positions.

Population

The City's population as of January 1, 2007 was 16,764 persons. The City is the thirteenth-most populous incorporated community in the County. The population of the City in 2007 and other recent years is shown in the following table.

Table 9
City of Albany
Population
1970 to 2007

Year	Population	Annual % Change
1970	14,674	
1980	15,130	0.3%
1990	16,327	0.8%
2000	16,444	0.1%
2001	16,617	1.1%
2002	16,713	0.6%
2003	16,743	0.2%
2004	16,708	-0.2%
2005	16,677	-0.2%
2006	16,680	0.0%
2007	16,764	0.5%

Source: California Department of Finance and U.S. Census Bureau

Municipal Services

The City provides municipal services related to police, fire protection, public works, parks and recreation, community development, and general City administration. In addition, the City operates sewage collection services as an enterprise function, with user fees paying for the cost of the service. In addition to general government activities, the City Council has financial accountability for the Police and Fire Relief and Pension Plan, the Public Facilities Financing Authority, and the Albany Municipal Services Joint Powers Authority. The City has established the Community Reinvestment Agency (the “Agency”) to promote economic development and redevelopment within the City. The Agency is a component unit of the City and its financial activities have been included within the financial statements of the City. The City had 104 staff employees (full-time equivalents) as of June 30, 2006.

Employee Relations and Collective Bargaining

Three labor unions and associations represent City employees. The three employee groups are shown below. Management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council.

Employee Group	Employees	Contract Expires
United Public Employees, Local 1021	30	March 31, 2009
Albany Peace Officers Association	33	October 31, 2009
Albany Firefighters Association	18	December 31, 2011

Insurance and Self-Insurance Programs

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA). This twenty-member entity provides general liability insurance, employment practices liability insurance, property insurance, earthquake insurance, automobile insurance, and legal assistance.

The City is self-insured for workers' compensation costs up to $150,000 per occurrence, and the City maintains a dedicated reserve account for workers' compensation claims. Claims in excess of $150,000 are covered by the Local Agency Worker's Excess Compensation Joint Powers Authority, and claims from $500,000 to $50,000,000 are covered by excess workers' compensation insurance provided by commercial insurance carriers.

The City is self-insured for general liability claims up to $50,000 per occurrence, and the City maintains a dedicated reserve account for general liability claims. Claims in excess of $50,000 are covered by the BCJPIA, and claims from $1,000,000 to $14,000,000 by the California Affiliated Risk Management Authorities (CARMA).

The Worker's Compensation and General Liability reserve funds are part of the City's proprietary operations, as they are designated Internal Service Funds.

Retirement Systems

The City participates in the California Public Employees Retirement System (PERS) and maintains a City pension plan for police and fire employees employed by the City before July 1, 1971. All qualified permanent and probationary City employees are eligible to participate in the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating members in California. Benefits vest after five years of service and are payable monthly for life upon retirement. PERS requires City employees to contribute between 8% and 9% of their annual salary. These benefit provisions and all other requirements are established by State statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS.

As of the last actuarial valuation dated June 30, 2006, a total of 29 members participated in the Police and Fire Relief and Pension Plan. The City is required to contribute 18% of participating member' annual salary to this plan. There were no active plan participants as of June 30, 2006 and the plan is closed to new participants. The plan was fully funded in fiscal year 2004.

Based on the last actuarial study the total pension benefit obligation for this plan was $14,075,219 and the actuarial book value of assets available for benefits totaled $14,479,158.

Deferred Compensation

City employees may defer a portion of their compensation under a City-sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plan. In accordance with Governmental Accounting Standards Board ("GASB"), the City revised the plan to no longer make the funds available to the City's general creditors, and accordingly, the City does not report these assets in the financial statements.

Education

Public education for students in grades K-12 residing in the City is provided by the Albany Unified School District. The City is served by three elementary schools, one intermediate school, one high school, one continuation school and one adult school.

Utilities

Pacific Gas and Electric Company provide natural gas and electricity to the City. East Bay Municipal Utility District provides water and wastewater treatment services to the City.

LEGAL MATTERS

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (" the Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a bond is sold is less than the amount payable at maturity, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each bond is sold is greater than the amount payable at maturity, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. Deminimis original issue discount is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of the purchasers of bonds who purchase bonds after the initial offering of a substantial amount of such maturity. Owners of such bonds should consult their own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the bond (said term being the shorter of the bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a bond is amortized each year over the term to maturity of the bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

Legality for Investment in California

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to receive *ad valorem* taxes or to collect other revenues or contesting the City's ability to issue and retire the Bonds.

OTHER INFORMATION

Continuing Disclosure

The City has covenanted for the benefit of the Bond owners to make available certain financial information and operating data relating to the City by not later than eight months after the end of the City's fiscal year (which date would be the March 1 following the current end of the City's fiscal year on June 30), commencing March 1, 2008, with the report for the 2006-07 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be provided to each Repository and to the appropriate State information depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "APPENDIX E - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the successful bidder in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Rating

Standard & Poor's Ratings Services has assigned an underlying rating of "A+" to the Bonds, and an insured rating of "AAA" to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy will be issued with respect to the 2002 Election Bonds by XLCA and to the 2006 Election Bonds by MBIA. An explanation of the significance of such rating may be obtained only from the rating agency furnishing the same at the following address: Standard & Poor's, 55 Water Street, New York, New York 10041. The City furnished to such rating agency certain information and materials. Generally, a rating agency bases its rating on such information and materials so furnished and on investigations, studies and assumptions made by it. There is no assurance that the rating mentioned above will continue for any given period of time or that the rating may not be lowered or withdrawn entirely by such rating agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Underwriting

Pursuant to the terms of a public bid held on July 26, 2007, Morgan Stanley & Co. Incorporated, as 2002 Election Bonds Underwriter, has agreed to purchase the 2002 Election Bonds from the District at a purchase price of $6,500,000.00. The 2002 Election Bonds Underwriter has represented to the District that the 2002 Election Bonds were reoffered to the public at the prices or yields set forth on the cover page of the Official Statement, at an aggregate reoffering price of $6,677,193.90. Based on such representations, underwriter's compensation for the 2002 Election Bonds will be $92,793.90 (adjusting for a bond insurance premium of $14,400.00 and other costs of issuance of $70,000.00). The 2002 Election Bonds Underwriter will be obligated to take and pay for all of the 2002 Election Bonds, if any Bond is purchased.

Pursuant to the terms of a public bid held on July 26, 2007, Stone & Youngberg LLC, as 2006 Election Bonds Underwriter, has agreed to purchase the 2006 Election Bonds from the District at a purchase price of $5,033,396.15. The 2006 Election Bonds Underwriter has represented to the District that the 2006 Election Bonds were reoffered to the public at the prices or yields set forth on the cover page of the Official Statement, at an aggregate reoffering price of $5,133,562.35. Based on such representations, underwriter's compensation for the 2006 Election Bonds will be $24,666.20 (adjusting for a bond insurance premium of $20,500.00 and other costs of issuance of $55,000.00). The 2006 Election Bonds Underwriter will be obligated to take and pay for all of the 2006 Election Bonds, if any Bond is purchased.

Additional Information

Quotations from and summaries and explanations of the Bonds, the Resolutions, and the constitutional provisions, statutes and other documents referenced in this Official Statement, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained here has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date of this Official Statement, the information contained here, to the best of their knowledge and belief, is true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made here, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the City Council.

CITY OF ALBANY

By: /s/ Beth Pollard
City Administrator

APPENDIX A

THE AREA ECONOMY

The City encompasses a portion of the County of Alameda. The following economic data for the City and the County are presented for information purposes only. The Bonds are not a debt or obligation of the City or the County, and taxes to pay the Bonds are levied only on taxable property located within the District.

General

The City is located in northwestern Alameda County and is bordered by the cities of Berkeley on the south and El Cerrito on the north. The U.S. Interstate Highway 80 traverses the City.

The County is one of the nine counties in the greater metropolitan San Francisco Bay Area. The County possesses a diverse economic base featuring a wide range of manufacturing industries. The County is home to leading research centers at the University of California Berkeley, Lawrence Berkeley National Laboratory, Lawrence Livermore National Laboratory, and many private biotechnology firms. The Port of Oakland, which ranks among the top four in the nation and 20 in the world in terms of annual container traffic, has a significant impact on the economy of the Bay Area.

Population

The County's population as of January 1, 2007 was 1,526,148 persons, making it the 7th-most populous county in the State. The City's population in 2007 represented about 1% of the population of the County. The population of the County is shown in the following table. Since 1990, the County's population has increased by 20%, representing an annual compound growth rate of 1.1%.

Table A-1
Alameda County
Population Growth, 1990-2007

Year	Population	Annual % Change
1970	1,073,184	--
1980	1,105,379	0.3
1990	1,276,702	1.5
2000	1,443,939	1.2
2001	1,465,753	1.5
2002	1,483,623	1.2
2003	1,491,495	0.5
2004	1,496,377	0.3
2005	1,501,256	0.3
2006	1,509,981	0.6
2007	1,526,148	1.1

Source: California Department of Finance and U.S. Census Bureau

Employment

The following table summarizes wage and salary employment in the County from 2001 to 2005. Across all industries, Alameda County recorded a loss of 27,600 jobs over the period 2001–2005. Most of the loss occurred in manufacturing and trade, transportation, and utilities. Despite the overall loss, other industries gained jobs during the period. Since 2001, financial activities, education and health services, and natural resources, mining, and construction added a combined total of 13,000 jobs.

Table A-2
Alameda County
Annual Average Wage and Salary Employment, 2001-2005

Industry	2001	2002	2003	2004	2005
		Employment			
Education and Health Services	73,000	74,300	76,700	76,000	77,600
Financial Activities	29,900	31,700	35,300	35,000	36,300
Government	129,200	133,600	132,100	130,400	129,200
Information	20,900	19,200	18,800	17,300	17,100
Leisure and Hospitality	51,200	50,800	50,600	50,400	51,100
Manufacturing	90,400	81,700	77,400	77,600	75,600
Natural Resources, Mining, and Construction	41,300	39,700	40,500	42,000	44,300
Other Services	24,200	24,200	24,300	22,700	21,700
Professional and Business Services	110,200	101,600	99,800	101,800	103,600
Total Farm	900	800	600	700	700
Trade, Transportation, and Utilities	148,200	141,900	137,800	133,900	134,700
Total	719,400	699,500	693,900	687,800	691,900

Source: California Employment Development Department

The following table summarizes civilian employment and unemployment in the County from 2002 to 2006. The County's total labor force was 8.5% greater in 2006 than in 2002. The employed labor force in the County was 5.5% greater in 2006 than in 2002.

The unemployment rate in the County in 2006 was 4.4%. In contrast, the average unemployment rate in California in 2006 was 4.8%.

Table A-3
Alameda County
Civilian Labor Force, Employment and Unemployment
Annual Averages, 2002-2006

Year	Employed Labor Force	Unemployed Labor Force	Unemployment Rate
2002	678,600	29,200	4.1%
2003	694,900	24,900	3.5
2004	713,100	21,700	3.0
2005	717,400	34,400	4.6
2006	715,800	52,100	6.8

Source: California Employment Development Department

Major Employers

The largest employers in the City are as follows:

Table A-4
City of Albany
Largest Employers, 2006

Firm	Number of Employees	% of Total Employment	Nature of Business
Albany Unified School District	450	5.0%	Public Education
U.S. Dept of Agriculture and Research	208	2.3	Agricultural Research
Target Store	185	2.1	Department Store
City of Albany	104	1.2	Municipal government
Golden Gate Fields	100	1.1	Race Track
Safeway	88	1.0	Retail Grocery
U.S. Dept of Forest Services	45	0.5	Forest Research
Albany Ford-Subaru	44	0.5	Automotive dealer
NVT Technologies Inc.	32	0.4	Maintenance Service
Albany Bowl	30	0.3	Bowling

Source: City of Albany. Total employment in Albany is approximately 9,000.

The largest employers in the County are as follows:

Table A-5
Alameda County
Largest Employers, 2004

Firm	Employees	Nature of Business
University of California Berkeley	12,970	Education
County of Alameda	9,740	Local government
Oakland City Unified School District	8,000	Public Education
Lawrence Livermore National Lab	7,950	National research lab
US Post Office	6,500	Postal service
Kaiser Permanente Medical Group Inc	5,450	Health services
New United Motor Mfg Inc	4,700	Automobile manufacturing
Kaiser Foundation Hospitals	4,340	Hospital
City of Oakland	4,290	Local government
Safeway Stores Inc	3,590	Retail grocery store
Lawrence Berkeley Laboratory	3,500	National research lab
Pacific Bell / Cingular Wireless	3,360	Telecommunications
Fremont Unified School District	3,290	Public Education
PeopleSoft Pleasanton-West Region	3,200	Software
Providian Bancorp Services	3,140	Credit cards
Albertsons	2,830	Retail food
Bay Area Rapid Transit District	2,800	Commuter rail
Federal Express	2,790	Air cargo

Source: Economic Development Alliance for Business, 2004

Construction Activity

Construction activity in the City and the County is summarized in the following tables with respect to building permit valuations and number of dwelling units constructed.

Table A-6
City of Albany
Building Permits and Valuations, 2002-2006

	2002	2003	2004	2005	2006
Valuation ($000):					
Residential	$3,728	$2,963	$3,806	$7,347	$15,909
Non-residential	468	507	845	1,513	2,116
Total	$4,196	$3,470	$4,651	$8,860	$18,025
Dwelling Units:					
Single family	2	4	6	5	2
Multiple family	12	0	0	0	25
Total	14	4	6	5	27

Source: 2002 – 2005 Construction Industry Research Board. 2006 City of Albany.

Table A-7
Alameda County
Building Permits and Valuations, 2002-2006

	2002	2003	2004	2005	2006
Valuation ($000):					
Residential	$1,086,263	$1,259,877	$1,533,319	$1,394,365	$1,529,481
Non-residential	770,269	608,282	705,736	773,740	816,194
Total	$1,856,531	$1,868,159	$2,239,055	$2,168,105	$2,345,675
Residential Units:					
Single family	2,306	2,087	2,269	1,518	1,681
Multiple family	1,266	2,433	3,422	2,898	4,035
Total	3,572	4,520	5,691	4,416	5,716

Source: Construction Industry Research Board.

Income

Total personal income in the County increased by 75% between 1995 and 2005, representing an average annual compound growth rate of 5.2%. Per capita personal income in the County grew by 63% during this time, representing an average annual compound growth rate of 5.0%. Per capita personal income in the County in 2005 was 16% higher than the State and 25% higher than the United States.

The following tables summarize personal income for the County for 1995 to 2005.

Table A-8
Alameda County
Personal Income, 1995-2005
(in thousands)

Year	Personal Income	Annual Percent Change
1995	$35,647,562	--
1996	38,094,218	6.9%
1997	40,665,176	6.7
1998	44,390,480	9.2
1999	48,316,845	8.8
2000	55,790,773	15.5
2001	56,121,667	0.6
2002	55,316,772	-1.4
2003	56,424,129	2.0
2004	59,179,948	4.9
2005	62,331,734	5.3

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

Table A-9
Per Capita Personal Income, 1995-2005

Year	Alameda County	California	United States
1995	$26,473	$24,161	$23,076
1996	28,029	25,312	24,175
1997	29,459	26,490	25,334
1998	31,574	28,374	26,883
1999	33,856	29,828	27,939
2000	38,457	32,458	29,843
2001	38,135	32,859	30,562
2002	37,731	32,769	30,795
2003	38,666	33,469	31,466
2004	40,737	35,380	33,090
2005	42,956	36,936	34,471

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

Retail Sales

Retail sales in the City accounted for 0.7% of the total retail sales in the County in 2005. The following tables show annual taxable sales in the City and the County in 2001 to 2005.

Table A-10
City of Albany
Taxable Sales, 2001-2005

Year	Number of Outlets (As of July)	Total Taxable Sales ($000)	% Change
2001	481	$119,544	
2002	468	121,582	1.70%
2003	486	118,312	-2.69
2004	486	139,164	17.62
2005	493	176,362	26.73

Source: California State Board of Equalization.

Table A-11
Alameda County
Taxable Sales, 2001-2005

	Taxable Sales ($000)			
	2002	2003	2004	2005
Apparel	$501,148	$519,274	$566,713	$625,984
General Merchandise	1,883,422	1,904,012	1,989,603	1,798,740
Specialty Stores	2,195,765	2,122,372	2,272,171	2,087,101
Food Stores	733,183	733,608	732,950	744,339
Eating Places	1,516,332	1,542,242	1,621,608	1,709,868
Home Furnishings & Appliances	771,352	797,883	808,098	843,587
Building Materials	1,285,773	1,315,685	1,508,037	1,581,211
Auto Dealers & Auto Supplies	3,939,535	4,065,249	4,233,998	4,506,132
Other Retail Stores	549,077	561,824	610,664	652,265
Total Retail Stores	13,375,587	13,562,149	14,343,842	15,228,482
Business and Personal Services	1,161,531	1,092,232	1,142,550	1,061,582
All Other Outlets	6,727,511	6,720,648	7,509,973	7,952,917
Total All Outlets	$21,264,629	$21,375,029	$22,996,365	$24,242,981
Annual Percentage Change				

Source: California State Board of Equalization.

APPENDIX B

CITY FINANCIAL INFORMATION

The information in this section concerning the operations of the City and the City's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the City. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment of debt service with respect to the Bonds. See "THE BONDS - Security".

Accounting Practices

The accounting practices of the City conform to generally accepted accounting principles. City accounting is organized on the basis of funds and account groups, with each fund and account group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not identified as requiring special fund placement. The City's fiscal year begins on July 1 and ends on June 30.

In addition, the Governmental Accounting Standards Board ("GASB") has released Statement No. 34 which makes certain changes in the annual financial statements for all governmental agencies in the United States that report in accordance with GASB, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective in July 1, 2002 for the City, as well as for any other governmental agency reporting in accordance with GASB with annual revenues of between $10 million and $100 million.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. These fund revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts that can not be measured or are not available are not accrued as revenue in the current fiscal year.

Those revenues susceptible to accrual are property taxes, franchise taxes, interest revenue and charges for services. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue since they are remitted shortly after year end. Fines, licenses and permits are not susceptible to accrual because they are not measurable until received in cash. Expenditures are also generally recognized under the modified accrual basis of accounting.

All proprietary and fiduciary funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Financial Statements

The City's general fund finances the legally authorized activities of the City for which restricted funds are not provided. General fund revenues are derived from such sources as taxes, fees, use of money and property, and aid from other governmental agencies. Audited financial statements for the City the fiscal year ended June 30, 2006, and prior fiscal years are on file with the City and available for public inspection at the office of the City Administrator, 1000 San Pablo Avenue, Albany, California 94706, telephone number (510) 528-5710.

The following table shows the audited balance sheet statement for the City for the 2003-04, 2004-05 and 2005-06 fiscal years. The audited financial statements for the year ended June 30, 2006 are included in Appendix C.

Table B-1
Audited Financial Statements – General Fund
Fiscal Years Ending June 30, 2004 - 2006

	2003-04	2004-05	2005-06 (1)
Assets			
Cash and investments	$5,541,171	$6,431,463	$3,313,912
Accounts receivable	2,225,840	2,388,525	2,298,441
Total Assets	$7,767,011	$8,819,988	$5,612,353
Liabilities			
Accounts payable	$ 477,656	$ 200,828	$ 701,263
Deposits and deferred revenue	3,427,510	4,650,223	722,748
Total Liabilities	3,905,166	4,851,051	1,424,011
Fund Equity			
Fund Balance Reserved	3,303,436	1,258,092	1,250,254
Fund Balance Unreserved			
Designated	416,768	396,260	342,760
Undesignated	141,641	2,314,585	2,595,328
Total Fund Equity	3,861,845	3,968,937	4,188,342
Total Liabilities and Fund Balances	$7,767,011	$8,819,988	$5,612,353

Source: City of Albany, Audited Financial Statements.

(1) In order to comply with the requirements of GASB 34, in fiscal year 2005-06, $3,250,843 of assets and contingent liabilities associated with the City's self-insured workers compensation and general liabilities insurance programs were transferred from the general fund to an internal service fund.

The following table shows the audited income and expense statements for the City for the 2003-2004, 2004-05 and 2005-06 fiscal years, the City's estimated actual financial results for the fiscal year 2006-07, and the City's budget for the 2007-08 fiscal year. Excerpts from the City's audited financial statements for the year ended June 30, 2006 are included in Appendix C.

Table B-2
Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ending June 30, 2005 - 2008

	2003-04	2004-05	2005-06	Est. Actual 2006-07	Budget 2007-08
Revenues					
Property taxes	$ 2,520,211	$ 3,491,779	$ 4,037,091	$ 4,412,376	$ 4,605,374
Sales taxes	1,356,985	1,599,449	2,042,834	2,341,221	2,458,282
Franchise and other taxes (1)	4,506,463	4,502,985	4,387,293	4,053,409	3,780,251
Licenses and permits	329,035	210,087	195,709	152,743	123,005
Fines and forfeitures	281,592	216,450	153,619	162,581	220,276
Earnings on investments	98,561	137,270	287,254	311,961	289,458
Revenues from other agencies	820,715	169,266	214,023	266,584	183,447
Service charges	1,036,568	1,103,755	1,170,042	1,223,030	1,211,111
Other revenues	619,656	245,035	407,408	251,218	209,570
Total Revenues	11,569,786	11,676,076	12,895,273	13,175,123	13,080,774
Expenditures					
General Government (2)	3,291,193	3,418,893	2,420,027	1,989,143	2,321,935
Police	3,437,281	3,808,482	4,347,333	4,601,360	5,141,947
Fire & Emergency Medical Services	2,931,252	3,159,889	3,439,147	3,607,941	3,692,695
Community Development & Env Res.	2,116,008	1,978,862	2,235,061	2,035,696	2,412,525
Recreation & Community Services	1,068,741	1,236,126	1,426,572	1,469,672	1,712,250
Capital Outlay	33,195	-	-	-	-
Debt service (3)					
Principal	-	-	-	-	-
Interest	32,751	-	-	-	-
Total Expenditures	12,910,421	13,602,252	13,868,140	13,703,812	15,281,352
Excess (Deficiency) of Revenue over Expenditures	(1,340,635)	(1,926,176)	(972,867)	(528,689)	(2,200,578)
Other Financing Sources (Uses)					
Transfers in (4)	2,302,814	2,309,948	2,687,606	2,739,723	2,808,749
Transfers out (5)	(841,063)	(585,037)	(4,746,177)	(2,164,136)	(605,890)
Other sources		308,357			
Total Other Financing Sources (Uses)	1,461,751	2,033,268	(2,058,571)	575,587	2,202,859
Revenues over expenditures	121,116	107,092	(3,031,438)	46,898	2,281
Fund Balance, Beginning of Year (July 1)	3,740,729	3,861,845	3,968,937	4,188,342	4,235,240
Prior Year Adjustment (6)			3,250,843		
Fund Balance, End of Year (June 30)	$ 3,861,845	$ 3,968,937	$ 4,188,342	$ 4,235,240	$ 4,237,521

Notes:

(1) Decrease in franchise and other taxes from 2005-06 is due to a decline in property transfer tax revenue. The number of transfers declined 17% between 2005-06 and 2006-07.

(2) General Government Expenditures notes:
(i) 2005-06 – Insurance expense declined $681,000 largely as a result of lower payment to the workers' compensation self-insurance reserve, which required a higher payment in prior years when the reserve was under-funded. Also, a $500,000 lump sum pay down of unfunded pension liabilities was made in 2004-05, but in 2005-06 the comparable pay down was only $165,000.
(ii) 2006-07 – The decrease in expenditures is due to a change in accounting policy to charge all current year general liability and workers compensation insurance expenditures to the internal service funds established in 2005-06.
(iii) 2007-08 – A portion of the budgeted increase in expenditures is due to the addition of new staff positions for economic development and information technology.

(3) Debt service payments on the 1997 Refunding Certificates of Participation flow in through the Lighting and Landscape Assessment District Fund (a Special Revenue Fund) and are paid through the Debt Service APFFA Fund (a Debt Service Fund).

(4) Transfers in are composed of transfers from Special Revenue Funds to the General Fund, to cover expenditures incurred in the General Fund.

(5) Transfers out are made to establish reserves such as equipment replacement and compensated absences, to fund capital projects, and to provide funding for activities recorded in internal service funds. Transfer out in 2005-06 included $3,250,843 transferred to internal service funds for general liability and workers' compensation insurance reserve.

(6) The prior year period adjustment in 2005-06 represented the reclassification of self-insurance assets and liabilities from the General Fund to an internal service fund, as discussed in notes 2 and 5.

Source: City of Albany Audited Financial Statements and City of Albany.

Budget Process

By mid-May in even numbered years, the City Administrator submits to the City Council a proposed biennial operating budget for the ensuing two fiscal years. The operating budget includes proposed expenditures and sources of financing. Public hearings and work sessions are conducted to obtain comments on the budget. The City Council adopts the budget through passage of a budget resolution at which time the proposed expenditures become appropriations to the various City departments. The budget is effective the following July 1 and may be amended by subsequent City Council resolutions. All intrafund transfers above $5,000 require the approval of the City Administrator. Interfund transfer approval must be obtained from both the City Administrator and the Finance and Administrative Services Director. Such approval shall only be given provided the interfund transfer does not change the total initial appropriation for all funds requiring budgets. Changes in appropriations must be approved by the City Council.

Budgets for the General Fund, Special Revenue Fund, and the Capital Projects Fund are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

Revenue Sources

The City receives revenues from several sources, including franchise fees, property taxes, sales taxes, special taxes, permits, grants and subventions from other governments, and charges for services. The City's major revenue sources are described below.

<u>Franchise and Other Taxes</u>. The largest components of other taxes are property transfer taxes, utility user's taxes, business license taxes, and racetrack taxes. Franchise fees include gas, electricity, cable TV, and garbage collection fees. Franchise and other taxes accounted for about 34.0% of City general fund revenue in 2005-2006 and 38.6% in 2004-05.

<u>Property Taxes</u>. *Ad valorem* property taxes levied by the County pursuant to Proposition 13 represent the City's second-largest source of revenue. Revenues from the property tax represented about 31.3% of total general fund revenues in 2005-06 and 29.9% in 2004-05.

<u>Sales Tax</u>. Sales and use taxes represent the third largest source of revenue to the City. The City receives a portion of the sales and use tax levied by the State on retail sales occurring in the City. In 2005-06, revenues from the sales tax represented about 15.8% of total general fund revenues and 13.7% in 2004-05.

<u>Charges for Services:</u> The City imposes charges for various services, including planning fees, child care services, senior services, recreation center services, building rental fees. These fees represented about 9.1% of the general fund revenues in 2005-06 and 9.5% in 2004-05.

<u>Pension Tax Override:</u> In 1982, the City imposed a voter-approved ad valorem property tax to provide funding for the City's police and fire employees pension obligations. The tax rate is adopted annually by City Council resolution, and is currently .0993% of assessed value. The revenue from this tax is deposited in the Police and Fire Pension Override Tax Fund, annual contributions from this fund to the PERS Safety Police and Fire Retirement Plans are recorded as transfers-out of the Police and Fire Pension Override Tax Fund, and transfers-in to the General Fund. Lump sum payments of unfunded liabilities (side funds) of the PERS Safety Police and Fire Retirement Plans are recorded as expenditures in the Police and Fire Pension Override Tax Fund.

General Obligation Bonds

The City has $7,550,000 outstanding in general obligation bonds. After the issuance of the Bonds, there will be no further bond issuance capacity from the Elections of 2002 and 2006 authorizations.

Certificates of Participation

The City issued certificates of participation in December 1997 in the principal amount of $4,760,000 (the "1997 Certificates"). The proceeds of the 1997 Certificates were used to refund two outstanding series of lease revenue bonds sold in 1989 and 1992. $1,965,000 in principal remains outstanding. The annual lease payments associated with the 1997 Certificates can be found in the audited financial statements in Appendix C.

2004 Sewer Revenue Bonds

The City issued sewer revenue bonds in September 2004, in the principal amount of $8,675,000 (the "Sewer Revenue Bonds"). The proceeds of the Sewer Revenue Bonds were partially used to refund outstanding 1993 Sewer Revenue Bonds of $2,750,000. The balance of the bond proceeds is being used to fund a 5-year program to replace sewer lines throughout the City. Principal of $8,030,000 remains outstanding as of June 30, 2007. Payment of the Sewer Revenue Bonds is secured by and payable from sewer fee assessments that are collected by the County Tax Collector in conjunction with property tax collection. The annual payments associated with the Sewer Revenue Bonds can be found in the audited financial statements in Appendix C.

Special Assessment Bonds

On February 10, 1999 the City issued Limited Obligation Improvement Bonds in the amount of $6,230,000, pursuant to the provisions of the Improvement Bond Act of 1915 and the 1972 LLMD Act. The Bonds were issued to finance certain improvements and acquisitions in the City's Open Space, Recreational Playfield, and Creek Restoration Assessment District No. 1996-1 (the District). The installments of principal and interest sufficient to meet annual debt service on the Bonds will be billed by the County of Alameda to owners of assessment parcels located within the District.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision is pledged to the payment of the Bonds. Therefore, the debt is not recorded in the City's financial statements excepted for footnote disclosure. The annual special assessment bond payments can be found in the audited financials in Appendix C.

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APPENDIX C

EXCERPTS FROM 2005-2006 AUDITED FINANCIAL STATEMENTS OF THE CITY

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City of Albany

For the Fiscal Year Ended June 30, 2006

Comprehensive Annual Financial Report

CITY OF ALBANY, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by:
Department of Finance and Administrative Services

CITY OF ALBANY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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CITY OF ALBANY NORTHERN GATEWAY TO ALAMEDA COUNTY CALIFORNIA

City of Albany

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CITY ADMINISTRATOR
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CITY CLERK
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CITY COUNCIL
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COMMUNITY DEVELOPMENT & ENVIRONMENTAL RESOURCES
• Building
• Engineering
• Environmental Resources
• Maintenance
• Planning
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FINANCE & ADMINISTRATIVE SERVICES
CITY TREASURER
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POLICE
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RECREATION & COMMUNITY SERVICES
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FAX (510) 528-8914
• Friendship Club/ Childcare Program
PH. (510) 559-7220
• Senior Center
PH. (510) 524-9122
FAX (510) 524-8940
• Teen Center
PH. (510) 525-0576

December 4, 2006

Honorable Mayor and
Members of the City Council
City of Albany, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Albany for the fiscal year ended June 30, 2006. This report consists of management's representations concerning the finances of the City of Albany. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Albany has established a comprehensive internal control framework that is designed to both protect the City's assets from loss, theft, or misuse, and to compile reliable information for the preparation of the City of Albany's financial statements, in conformity with United States generally accepted accounting principles (GAAP).

The cost of internal controls should not outweigh their benefits; therefore, the City of Albany's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

This report is composed of the following sections:

- Introductory Section This section includes this letter of transmittal, a directory of principal officials, an organization chart, a location map, and the GFOA Certificate of Achievement for Excellence in Financial Reporting.

- Financial Section This section includes the City's independent auditors' report, management's discussion and analysis, basic financial statements, and required supplementary information.

- Statistical Section This section provides historical perspective and trend information including population, demographics, assessed valuations, revenues, expenditures and debt. This information is presented in both tabular form and graphically, where appropriate.

Odenberg, Ullakko, Muranishi & Co. LLP, a firm of licensed certified public accountants, has audited the accompanying City of Albany's financial statements. The goal of their independent audit was to provide reasonable assurance that the financial statements of the City of Albany, for the fiscal year ended June 30, 2006, are free of material misstatement. Their independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Albany's financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The engagement for this independent audit of the financial statements of the City of Albany was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The City’s expenditures of federal funds for the year ended June 30, 2006 were below the level for which a separate “Single Audit” is required by federal guidelines.

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

AWARDS

The City of Albany’s CAFR for the year ended June 30, 2005, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). This was the thirteenth consecutive year that the City has received this prestigious award that is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded this certificate, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and acceptable legal requirements.

The GFOA certificate is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate award requirements, and we shall submit it to the GFOA for review and consideration for award.

PROFILE OF THE CITY

The City lies in the northwestern corner of Alameda County, bordered by the cities of El Cerrito and Richmond on the north and the City of Berkeley on the east and south sides. The most distinguishing geographical feature in the city is Albany Hill, which anchors the northwest corner of the city. The City was incorporated in 1908 as the City of Ocean View, but the name was changed to Albany in 1909. In 1927 the City adopted its first charter, giving the City full control over its own affairs as long as there is no conflict with state or federal laws.

The City is governed by a five-member City Council who annually elects a council member to serve as Mayor. Council members serve four year staggered terms. Other elected officials are the City Treasurer and the City Attorney. A City Administrator is appointed by the Council to carryout the policies and ordinances of the Council and to supervise the daily activities of City employees.

The City provides a full range of services including police and fire protection, paramedic service, street and sewer maintenance, recreational activities and cultural events. A public library is operated by the County of Alameda, in facilities provided by the City.

The 2000 Census reported the following demographic information for the City:

- ❖ Population 16,444
- ❖ Race

o	White	9,461	57.6%
o	Asian	4,094	24.9%
o	Hispanic (any race)	1,312	8.0%
o	African American	644	3.9%
o	Other	153	.9%
o	Two or more races	780	4.7%

- ❖ Sex Male 46.6%, Female 53.4%
- ❖ Age

o	Under 5 years		6.0%
o	5 to 17 years		16.8%
o	18 to 64 years		66.1%
o	65 years and over		11.1%

- ❖ Housing Occupancy

o	Occupied housing units	7,011	
o	Owner occupied	3,550	50.6%
o	Renter occupied	3,461	49.4%

- ❖ Highest Education (25 years and over)

o	High school graduate		10.9%
o	Bachelor's degree		30.0%
o	Graduate or professional degree		34.0%

The estimated population of the City in 2006 is 16,680.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The City of Albany maintains its financial records and prepares financial statements in accordance with generally accepted accounting principles applicable to governmental entities. The general ledger accounts of the City are organized on the basis of funds with each fund considered an individual accounting entity. The funds are categorized into three major fund types: Governmental, Proprietary and Fiduciary.

A biannual operating budget and a capital improvement program budget are adopted by the City Council prior to the beginning of the fiscal year, with budget reviews and revisions occurring within the fiscal year when necessary. The City Council may amend the budget through resolution or minute action throughout the fiscal year. In addition, the City Administrator and the Finance & Administrative Services Director may approve intrafund and interfund line-item transfers throughout the year, provided that the interfund transfer does not exceed the total initial appropriation. Operating appropriations not expended within the fiscal year are not carried over to the following fiscal year. Capital improvement program funds not expended within the fiscal year are carried forward each fiscal year until the project is completed or terminated.

Internal accounting controls that have been previously developed and implemented, as well as any new controls adopted during the year, are reviewed annually, to ensure that they provide for reasonable safeguarding of assets and reliability of financial records. To the extent feasible, the City maintains separation of duties so that no individual has access to both the City's assets and the City's accounting records. Additional accounting and administrative controls in place include dual custody check writer keys, serial numbered purchase orders, protected check stock, fund transfer restrictions, monthly bank account reconciliation, review of payroll registers, and restricted access to computer programs and files.

REPORTING ENTITY

As of June 30, 2006, four separate legal entities exist, which are controlled by or dependent upon the City of Albany. These entities are:

- ***The City of Albany Police and Fire Relief or Pension Plan*** is a separate legal trust established to provide pension benefits for eligible City employees. The Trust's governing board is comprised of the Mayor or designee, City Treasurer, City Clerk, Fire and Police representatives and appointed alternates. All accounting and administrative functions are performed by the City and the financial activities of the Trust are included in the accompanying financial statements as the Police and Fire Pension Trust Fund.

- ***The City of Albany Public Facilities Financing Authority*** was established to facilitate financing, by the City, of the acquisition of real property and improvements for the benefit of the community. The Authority's board is comprised of the City Council, all accounting and administrative functions are performed by City staff, and the Authority is financially dependent upon the City. The financial activities of the Authority are included in the accompanying financial statements in the Public Facilities Financing Authority Debt Service Fund.

- ***The Albany Community Reinvestment Agency*** was formed to promote economic development and redevelopment within the City. The redevelopment project area was formed in 1997 along the Cleveland Avenue/Eastshore Highway. The Agency is a component unit of the City and its financial activities have been included within the financial statements of the City.

- ***The Albany Municipal Services Joint Powers Authority* (JPA)** was established by the City of Albany and the Albany Community Reinvestment Agency to employ management employees of the City that are not members of an organized bargaining unit. Members of the Albany City Council serve on the governing board of the JPA, and all expenses of the JPA are reimbursed by the City of Albany.

GENERAL GOVERNMENT FUNCTIONS

The City Council and staff management have established as a citywide objective, quick and efficient response to the needs of the citizens of Albany. Local government functions are performed by the nine departments listed below:

- City Administrator
- City Clerk
- City Treasurer
- City Attorney
- Finance & Administrative Services
- Police
- Fire & Emergency Medical Services (EMS)
- Recreation & Community Services
- Community Development

The functions of each department and major accomplishments, within the last year follow:

City Administrator

The City Administrator advises and makes recommendations to the City Council concerning conditions or situations that require Council direction or policy determination. It is the responsibility of the City Administrator to implement the policies of the Council. In conjunction with the Finance and Administrative Services Director, the City Administrator prepares the recommended operating and capital improvement program budgets for Council consideration and adoption.

The City Administrator serves as the Municipal Employee Relations Officer, the City's Risk Manager, and as the Executive Director of the Albany Public Facilities Financing Authority and the Albany Community Reinvestment Agency. Personnel administration, city economic development activities, franchise agreement administration, and public information programs are all under the direct supervision of the City Administrator who is assisted by three staff members.

During this last year, the City Administrator completed two-year objectives established by Council in March 2005. Staff accomplishments include the negotiation of a collective bargaining agreement with the Albany Peace Officers Association, development of tax measures for pavement and drainage infrastructure improvements and Library services – which were successfully passed by the voters in June, 2006, the broadcasting of City Council meetings, and oversight over various capital improvement projects including the reconfiguration and traffic calming of Marin Avenue, and development of plans for rehabilitation of parks and the City Hall and Police & Fire Station complex.

City Clerk

The City Clerk is the custodian of the official records of the City. The City Clerk prepares the agenda packet for City Council meetings, records official minutes of Council proceedings, and prepares and distributes the official documents for actions taken by the City Council. In addition, the City Clerk maintains the legislative history, certifies copies of official documents, receives and opens bid documents, publishes legal notices, administers oaths, receives claims and lawsuits against the City, and serves as the City's Elections Officer. The City Clerk is also certified as a passport agent and accepts applications at Albany City Hall. In addition, the City Clerk serves as the Deputy City Treasurer and is a member of the Police and Fire Relief and Pension Fund Board of Trustees. The City Clerk performs the above duties as a department of one person, with back-up support from Administrative staff.

City Treasurer

The City Treasurer is an elected, part-time position responsible for the receipt and safe keeping of the City's financial assets. The Treasurer works closely with the Finance and Administrative Services Department, but the treasurer's position is independent from that department, and as such, provides enhanced internal control through segregation of duties, such as signing checks that are prepared by the Finance and Administrative Services Department. The Treasurer is responsible for investing the City's cash reserves and any other available funds, such as bond proceeds prior to their expenditure. The Treasurer is responsible for administration and compliance enforcement of the City's business license program.

The City Treasurer also serves as a Trustee of the Police and Fire Relief or Pension Fund, oversees the investment of the Fund's assets, and is responsible for the administration of the Fund. The City Treasurer performs the above duties as a department of one person, with support from Finance staff.

City Attorney

The City Attorney is an elected official whose duty is to advise the City Council and staff on all matters of general and municipal law. The City Attorney provides legal counsel on municipal legal matters, including application of the California Environmental Quality Act, planning and development legislation, conduct of public meetings, employee-employer relations, contracts, real property transactions and other matters. The City Attorney also either oversees litigation matters that are being handled by special outside counsel or represents the City in litigation.

Finance & Administrative Services

The Finance & Administrative Services Department has three primary areas of responsibility: (1) general accounting and financial reporting, (2) budget preparation and financial planning, and (3) telephonic communications systems development and maintenance.

General accounting and financial reporting includes accounts payable, accounts receivable, payroll, business license administration and issuance of various permits and other cashier functions. The department prepares monthly revenue and expenditure reports for internal management purposes, quarterly general fund revenue and expenditure statements for the City Council, and the City's Comprehensive Annual Financial Report (CAFR). The department prepares numerous reports required by the state, including the Cities Financial Transactions Report.

Budget preparation and financial planning responsibilities include preparation of the biannual operating budget, the five-year capital improvement program (CIP), analyses of labor contract proposals, budget oversight and control, debt issuance, and the financial component of grant administration.

The department administers the telephonic communications facilities of the City, including cellular phones and voicemail.

Major activities of the department in the past year were: preparation of an operating budget for fiscal years 2006-07 and 2007-08, coordination of the publication of a five year capital improvement plan for the fiscal years 2006-07 through 2010-11, updating and publication of the Master Fee Schedule, and facilitated the lump sum payment of unfunded pension liabilities of the City four Cal PERS pension plans, thus avoiding double digit percentage increases in pension contribution rates.

The staff of the Finance and Administrative Services Department consists of the Director, an Accountant and three Accounting Technicians.

Police

The Albany Police Department is responsible for the preservation of public peace, enforcement of laws, and protection of life and property. These responsibilities are accomplished through police patrol, traffic control and enforcement, criminal investigation and the ongoing dispatch and records management support functions.

The Albany Police Department provides a high level of service to the community by responding quickly to all calls for service. The department operates its own police and fire dispatch center, insuring that emergency calls (911) are answered by dispatchers who are supervised by Albany Police Department Sergeants under the direction of a Police Lieutenant.

The Albany Police Department focuses on crime prevention through an active community policing effort. In addition, the Police Department sponsors the City's Police Athletic League (PAL). The Albany PAL program provides a myriad of structured year-round athletic activities as well as supervised field excursions for teenagers. The Albany PAL also serves high school students who are interested in community service projects, through the Youth Directors Council (YDC).

The Police Department is staffed by the Department Chief, two Lieutenants, five Sergeants, sixteen patrol officers, two Detectives, one School Resource Officer, five Dispatchers, and various support personnel for the equivalent of thirty-seven full-time employees.

Fire and Emergency Medical Services

The Albany Fire and Emergency Services Department provides the community with a wide range of services, including fire suppression and rescue services, paramedic emergency medical response and ambulance transport, fire prevention services, and community education and disaster preparedness. The Fire Department is also responsible for the City's Emergency Operations Center (EOC). The EOC facility will serve as the central command and communications center in the event of a major disaster.

The Fire Department conducts fire and life safety inspections of all businesses and commercial properties. Additionally, the Fire Prevention Office reviews plans and inspects all residential properties that require smoke detectors and fire extinguishing systems. The Department also has responsibilities in the areas of hazardous materials management and emergency response, and storm water inspections. These responsibilities require extensive interaction with merchants, vendors and the public, with a focus on customer service.

The Department is noted for its many successful community service programs and activities such as the sale of low cost bicycle helmets, CPR courses, smoke alarm installation for residents, annual open house and pancake breakfast, and collection of Christmas toys for underprivileged children.

The Department is staffed by a Fire Chief, Battalion Chief/Fire Marshal, 18 line personnel of which 15 are paramedics, and a part-time secretary.

Recreation and Community Services Department

The Recreation and Community Services Department provides services in the following areas:

- Civic arts
- Facility administration
- Child care and summer camps

- Recreation classes, sports classes and special events
- Teen activities
- Senior services
- Paratransit services
- Volunteer Services
- Coordination of the local access cable TV channel

The Department manages four city-owned facilities:

- Albany Community Center
- Senior Center
- Memorial Park Child Care Center
- Teen Center

Management and rental of the City's tennis courts, athletic fields and picnic areas are also the responsibility of this department.

Administrative responsibilities include staff support to the Park and Recreation Commission, the Arts Committee, Citizen's Ad Hoc Cable TV Committee, Ad Hoc Dog Committee, and the Youth Task Force. Staff is also actively involved with the Friends of Albany Seniors, the Albany Police Activities League Board of Directors and the Prevention Council. The Department maintains a collaborative relationship with community groups and organizations such as the YMCA, Albany Unified School District, University Village, service groups, the Albany Chamber of Commerce and other similar entities.

Youth and Childcare Services

The Recreation and Community Services Department offers a range of programs for youth. There are pre-school classes and activities, school-age programs and a vibrant teen program. The Albany Teen Center offers recreational and social activities geared toward middle-school age youth. Activities include sports, computers, counseling, enrichment classes, a music video production studio, community service projects, special events and trips, and homework assistance.

The department's childcare program provides school year licensed childcare and summer camps at the Child Care Center in Memorial Park for children in first through fifth grade. Other programs include a wide variety of weekly specialty activities and special excursions during mid-winter and spring breaks to meet the changing needs of community youth.

Classes, Facility Rentals and Special Events

The Recreation and Community Services Department provides over 200 special interest classes each quarter that are publicized in the Recreation and Community Services Activity Guide. The community may also rent facilities for meetings, parties and special events. The department also sponsors community building special events such as Movie nights, Concerts in the Park, the Spring Arts and Music the July 4th Celebration.

Senior Services

The City of Albany is committed to providing quality senior services and a variety of activities for its senior citizens. Some services like Paratransit are also provided to those who are disabled and are under the age of 60. Activities and services include:

- Information, assistance and referrals for issues such as home assistance, in-home support, legal, health insurance, counseling and case management.

- Modestly priced dinners offered at the Albany Senior Center and the delivery of meals for homebound elderly residents.
- Classes, including Humanities, World Literature, Paper Mache, Watercolor and Drawing, Rosen Movement Exercise, Bridge, Yoga, Tai Chi, Belly Dance, Theatre Exploration, Music Appreciation and Memoir Writing.
- Senior trips, health screenings by a licensed nurse, tax assistance, massage therapy and podiatry are provided for free or low cost.
- Free medical equipment loans, free video checkouts along with other income support materials such as groceries twice per month.
- Door-to-door Paratransit services through the use of taxis and a shopping van.

Volunteer Services

The Recreation and Community Services Department is responsible for maintaining the City's Volunteer Program. This program, designed to both encourage volunteer participation and to create a cohesive system for tracking and managing volunteers. Current activities of the program include creating and producing volunteer application materials, establishing a database for volunteer participation and advertising and expanding the program.

The department is staffed by a Director, 9.75 full-time staff members and 15 to 30 part-time and volunteer staff members, depending on the number of programs and activities in progress at any one time.

Community Development

The Community Development Department provides a broad array of services to the citizens of Albany. The department's primary responsibility is to maintain and improve the physical environment of the City. As such, the department coordinates the current development of the City with the future needs and expectations of the community.

The department is composed of three divisions, Planning and Building, Public Works, and Environmental Resources. The Planning and Building Division is responsible for reviewing and processing all plans for private development in the City, to ensure compliance with applicable zoning and building codes. Approximately 200 zoning applications are processed each year, 850 building permits issued and 30-40 building inspections are conducted each week.

The Public Works Division is responsible for the design, construction, and maintenance of all City-owned public facilities, including streets, sewers, storm drains, parks, public building and grounds. Typical Public Works activities include reviewing the design of planned park improvements, managing the renovation of City buildings, maintaining street signs and markings, engineering plan checking of proposed new private construction, cleaning and repairing sewer lines, street sweeping, collecting trash from public receptacles, mowing parks, maintaining play fields and irrigation, and many others.

Activities of the Environmental Resources Division include management of the City's tree planting program, Waterfront area, Clean Water Program, Waste Management Program, administration of various environmental grants such as oil recycling, building material recycling, and procurement of recycled products.

The City Engineer is a contract employee of the City who reports to the Director of Community Development. The City Engineer provides technical oversight for City construction projects and computes the various special assessments collected by the County Tax Collector.

Department staff provides technical and administrative support for the Planning and Zoning Commission, Traffic and Safety Commission, Waterfront Committee, and the Reinvestment Agency. Staff members also represent the City and provide technical support on a number of interagency and multi-agency ventures, including the Alameda County Department of Housing and Community Development, the Alameda County Congestion Management Agency, the Alameda County Clean Water Program, and the Alameda County Waste Management Authority.

Major activities and accomplishments this past year included completion of the Marin Avenue traffic calming project, adoption of a Wireless Communications ordinance, draft Green Building ordinance, approval of the Civic Center improvement plans, approval of Phase II Memorial Park, Terrace Park and Ocean View Park improvement plans, and completion of several major sewer projects.

The department's staff consists of a Director, Planning Manager, Public Works Manager, and 17 planners, engineers, inspectors, maintenance workers and administrative staff.

ECONOMIC CONDITIONS AND OUTLOOK

Economic conditions in the City for the fiscal year ended June 30, 2006 were favorable, and the outlook for the fiscal year ending June 30, 2007 remains favorable. Most revenue sources increased in the June 30, 2006 year over the prior fiscal year. Property Tax Revenue (including vehicle license fee in-lieu payments from the State) increased $1 million. Sales Tax revenue increased $443,000 (28%) (Including sale tax in-lieu payments from the State). Earnings on Investments increased $480,000 (101%). The State has resumed payment of additional mandated cost reimbursement claims.

The largest decline in revenue for fiscal year 2005-06 was in Property Transfer Taxes that dropped $254,000 (14%) from $1,814,000 to $1,560,000. While the potential exists for further declines in fiscal year 2006-07, first quarter revenues for 2006-07 have exceeded the first quarter revenues for 2005-06.

The outlook for construction and property development in the City of Albany continues to be modest. The owners of Golden Gate Fields, Magna Entertainment, have terminated their application for permits for developing a portion of the Golden Gate Fields property for commercial, residential and recreational use.

Operating expenses for the City will increase in several areas in the next year. Salaries will increase 3% to 8%, as a result of rate increases, step progression, reclassification of employees, and filling of vacant positions. Health care costs are projected to continue to increase at double-digit percentage rates as a result of increase rates charged by the providers, and by employee labor agreements that require the City to pay a greater portion of the health care cost.

Workers compensation insurance costs declined in fiscal year 2005-06 and cost of claims and the premiums for excess liability coverage are expected to decline further as the reform measures enacted by the State Legislature lower the cost of worker claims. General liability insurance and property damage self-insurance costs and excess insurance premiums are expected to remain near current levels unless unforeseen events create higher than normal losses.

A summary assessment of the economic forecast for the City of Albany is that the City can expect its principal sources of revenues to continue a trend of moderate growth, producing sufficient revenue to cover projected operating expenses for fiscal year 2006-07.

MAJOR INITIATIVES

Economic Development/Redevelopment

City officials continue to view the strengthening commercial base of the City as a necessary activity in order that the growth of operating revenues will match the increases in expenses expected to occur over the next several years. The City's economic development strategy is to enhance existing businesses and to attract and cultivate new businesses in the commercial areas of Solano Avenue, San Pablo Avenue, and the Cleveland Avenue/Eastshore Highway area.

Solano Avenue, the *"Main Street"* of *"small town Albany"* continues to be a strong regional attraction, visited by thousands of shoppers, diners and strollers each year. The City has continued its support of Solano Avenue merchants with cash and in-kind contributions to the annual "Solano Stroll."

The City Council continues to support retail development of San Pablo Avenue as outlined in the Streetscape Master Plan. The plan is designed to retain and attract retail business, improve aesthetics, and make the corridor more pedestrian friendly.

The Cleveland Avenue/Eastshore Highway corridor is included in the City's Redevelopment Area. In order to increase the attractiveness of this area for retail development, a freeway connector between the Eastshore Highway and Interstate 80/580 was completed in August 2002. This strategy has proven successful, as four retail outlets, Target, PetsMart, and Bridal Evening Prom Discount have opened in the corridor. Additional enhancements to traffic flow in this area are planned and efforts will continue to introduce revenue generating businesses to the area.

Open Space, Recreational Playfields and Creek Restoration

In November 1996, the citizens of Albany approved Measure R to provide an annual parcel assessment for the acquisition, development and maintenance of Open Space, Recreational Playfields, and Creek Restoration. The proceeds are divided fifty percent (50%) for open space on Albany Hill and twenty five percent (25%) each for playfields and creek restoration.

In February 1999, the City issued a $6.2 million limited obligation bond and pledged the revenues of the Measure R annual assessment to pay the bondholders. Utilizing the revenue from Measure R and the bond proceeds, the City purchased five acres of open space on Albany Hill.

The City is working with the City of Berkeley and the University of California on a project to restore Codornices Creek, and has successfully competed for grant monies to assist in this restoration effort. Creek restoration work along Cerrito Creek near Albany Hill is also being pursued. The latter project is a follow-up to the joint Albany-Berkeley sewer project in the Cerrito Creek area. Creating new recreational playing fields remains a priority of the City.

The City is also working with the University on the replacement of the existing playing fields in University Village when the University undertakes its redevelopment project, and is working with four other cities and other agencies to locate playing fields on the waterfront at the end of Gilman Street adjacent to the Eastshore State Park.

The City continues to have discussions with CalTrans regarding acquisition property on Pierce Street for use as a park. Funds have been designated for purchase of the property, but funding for construction and maintenance of the park have not been secured.

Capital Projects

The following is a brief description of the City's most significant capital projects or programs.

Renovation of Central Facilities

In November 2006, Albany voters approve a bond measure of $5 million to augment the previously approved project to improve Albany's fire safety and emergency response capability by renovating and expanding the Fire Station to better accommodate emergency equipment and personnel; to better serve the community during and after an emergency by constructing an Emergency Operations Center at the Fire/Police complex; and to add sustainable building features to the Fire/Police/Civic Center complex.

Sewer Operations

Albany is continuing its multi-phase sewer rehabilitation program that will result in the replacement or rehabilitation of most of the City's sanitary sewer system. The purpose of the program is to comply with the Clean Water Act and federal and state mandates to reduce groundwater inflow and infiltration as well as to address and correct substandard sewer lines. To finance the sewer rehabilitation program, the existing Sewer Revenue Bonds were issued in September 2004.

The first phase of the program, relocation of the sewer line on San Pablo Avenue, has been completed. The entire line from the Berkeley border to the El Cerrito border was replaced and relocated.

Traffic Management Plan

In May 2000, the City Council approved the Traffic Management Plan. This plan recommends a variety of improvements and programs designed to enhance pedestrian and bicycle safety, as well as traffic safety. Implementation will be a multi-year process and has begun with a number of grant submittals and development of design and implementation plans for traffic calming measures. Current funding is from the Alameda County's Measure B transportation funds and the City's Measure F funds. Reconfiguration of traffic flows on Marin Avenue was completed in October 2005.

Park Improvements

Planning for Phase II of the Memorial Park Improvement Project and improvements to Terrace and Ocean View Parks was begun in 2005. The Memorial Park improvements will involve upgrading of infrastructure and landscaping, including renovation of the entry promenade, turf improvements on the north side of the park, replacing all ball field elements, and several improvements to the picnic area. Terrace Park improvements include a renovated picnic area, new landscaping, drainage upgrades, repaved pathways and basketball courts, and a new restroom. Improvements at Ocean View Park include a new restroom, renovated picnic area, new playground area, new landscaping and pathways, community gardens, and renovated baseball/softball diamond and field lights. The Arts Committee is working to select art for each of the three parks. Bidding of the project is scheduled for February 2007.

Sidewalk Repair Program

This is a program in which the City reimburses homeowners a portion of the repair cost when a city owned tree is involved in the damage of a sidewalk. A pilot program involving about 50 sites in the Marin Avenue area commenced in fiscal year 2006-07.

Sewer Compliance Program

This is a 5-year program that will cover the entire City. The project to be undertaken in fiscal year 2006-07 will replace the easement sewers between Pomona and Key Route from Washington to Marin and the easement line between Adams and Madison Avenue.

Ohlone Greenway Improvements

This project will install light fixtures on the underside of the BART tracks to replicate the current BART lighting in El Cerrito. The project is being coordinated with the BART seismic upgrade and is scheduled for completion in fiscal year 2006-07.

Curtis Neilson Storm Drains

Phase I of the Codornices Creek restoration project has been complete and Phase II is in progress. A tax measure was passed in June 2006, which will provide funding for construction of a new 24-inch storm drain from Neilson Street to Santa Fe Avenue to Codornices Creek.

PENSION

The City participates in the California Public Employees Retirement System (PERS) and maintains a City pension plan for police officers and firefighters employed by the City before July 1, 1971.

All qualified permanent and probationary employees are eligible to participate in PERS. Benefits vest after five years of service and are payable monthly for life upon retirement. Currently PERS requires City miscellaneous employees to contribute 7% and safety employees 9.8% of their annual salary, which is paid by the City. The miscellaneous employee contribution rate will increase to 8% January 1, 2007, as a result of a change in the benefit formula from 2% at 55 years of age to 2.5% at 55 years of age. Benefit provisions and all other requirements are established by state statute and city ordinance. PERS and its Board of Administration determine contributions necessary to fund PERS as indicated by annual actuarial projections.

DEBT ADMINISTRATION

The City currently has general obligation bonded indebtedness of $8 million and other long-term obligations that are comprised of the 1997 Refunding Certificates of Participation and the 2004 Sewer Revenue Bonds.

In December 1997, the City refunded through Certificates of Participation (COP) the 1989 and 1992 Lease Revenue Bonds. The 1989 Lease Revenue bonds financed the purchase of the Library/Community Center site, as well as, improvements to a new maintenance center. The 1992 Lease Revenue bonds financed the construction of the Library/Community Center complex.

The 2004 Sewer Revenue Bonds of $8.674 million were issued to finance a comprehensive sewer rehabilitation program. Semi-annual interest and principal payments are secured by and payable from the Sewer Enterprise Fund's operating revenues.

Long-term debt is discussed in greater detail in the Notes to Financial Statements.

RISK MANAGEMENT

The City of Albany is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA). This seventeen-member entity provides general liability insurance, property insurance, earthquake and automobile insurance and legal assistance. The City also carries employment practices insurance through BCJPIA

Albany is self-insured for workers' compensation costs up to $150,000 per occurrence, and the City maintains a funded reserve workers' compensation claims. The Local Agency Workers' Excess Compensation (LAWXC) Joint Powers Authority covers claims in excess of $150,000. The City is also self-insured for general liability claims up to $50,000.

CASH MANAGEMENT

The City Treasurer manages the City of Albany's investment portfolio. Cash that is not required for current operations is pooled and invested in accordance with City Council policy, which adheres to the "prudent man rule" (California Civil Code §2261, et seq.). This policy affords the City considerable discretion in pursuing investment opportunities provided that the investment is prudent and safe with respect to the protection of principal and is allowable under the current laws of the State of California (Government Code §53600, et seq.). However, the City maintains a conservative investment philosophy that emphasizes liquidity and the protection of principal. Hence, the City has not invested any funds in high-risk securities, including derivatives. In fiscal year 2004-05, the City's available cash (not including debt service accounts) was invested in the Local Agency Investment Fund (LAIF), a governmental agency pooled money fund managed by the California State Treasurer, and in government or government agencies securities, held in safekeeping by Wells Fargo Bank.

ACKNOWLEDGEMENTS

The preparation of the Comprehensive Annual Financial Report was accomplished through the coordinated efforts of Department of Finance and Administrative Services staff members Susan Hsieh, Stephanie Wellemeyer and Minnie Swygert. Guidance in preparation of the report was provided by the City's independent auditors, Odenberg, Ullakko, Muranishi & Co. LLP, Certified Public Accountants, under the direction of Chris Millias, Partner and Scott Miller, Manager. We also wish to express our appreciation to the Albany City Council for their support in our pursuit of excellence in financial reporting.

Respectfully submitted,

Beth A. Pollard

Beth A. Pollard
City Administrator

Charles A. Adams

Charles A. Adams
Finance and Administrative
Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Albany, California

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

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

President

Executive Director

CITY OF ALBANY
PRINCIPAL OFFICERS
JUNE 30, 2006

CITY COUNCIL

Mayor	Allan Maris
Vice Mayor	Farid Javandel
Councilmember	Robert Good
Councilmember	Robert Lieber
Councilmember	Jewel Okawachi

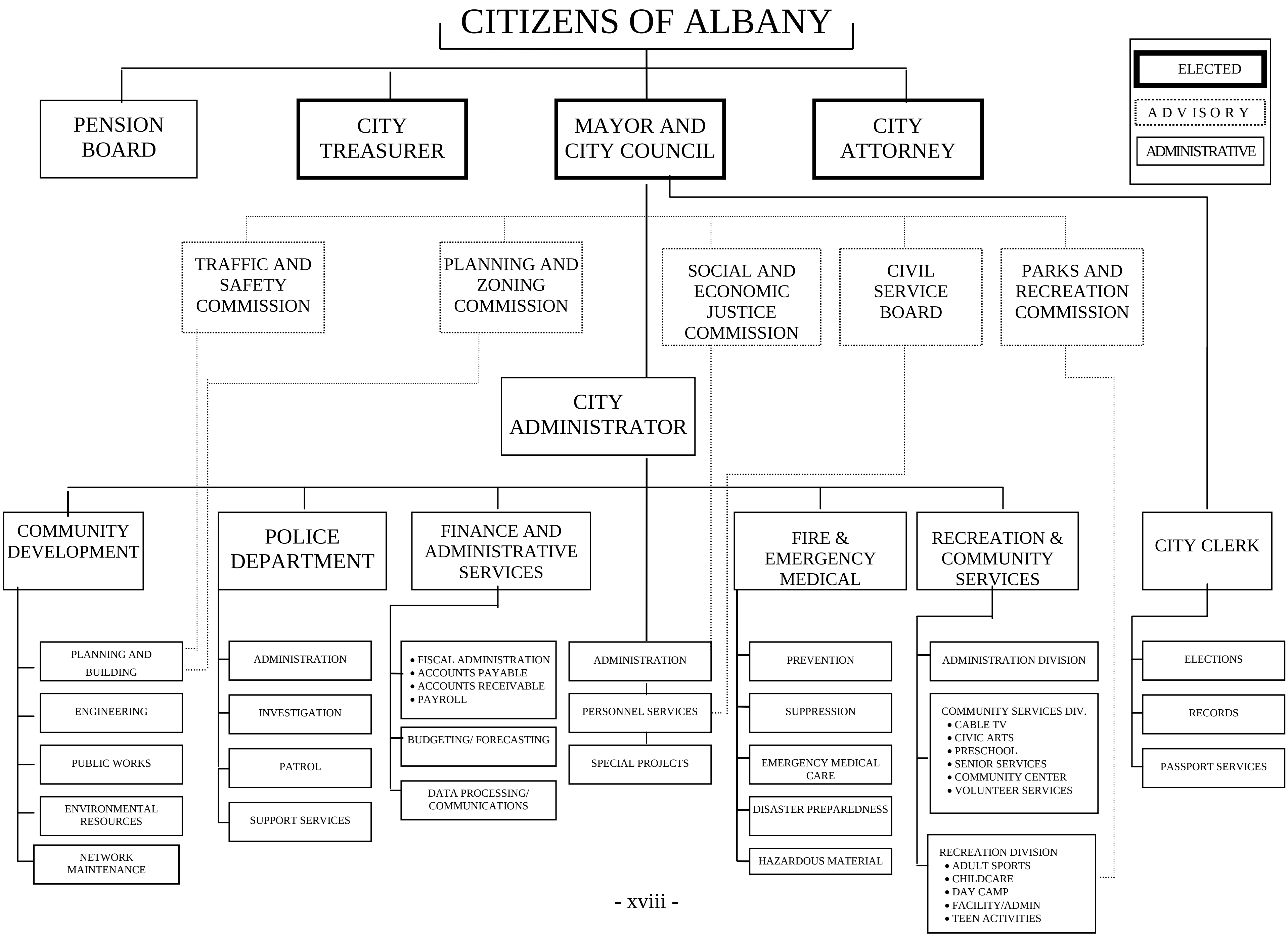
ELECTED OFFICIALS

Treasurer	Kim Denton
City Attorney	Robert Zweben

APPOINTED DEPARTMENT HEADS

City Administrator	Beth Pollard
Finance and Administrative Services Director	Charles Adams
City Clerk	Jacqueline Bucholz
Community Development Director	Ann Chaney
Recreation & Community Services Director	Melinda Chinn
Fire Chief	Marc McGinn
Chief of Police	Mike McQuiston

ORGANIZATION CHART - CITY OF ALBANY



ALBANY CALIFORNIA 94706

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Certified Public Accountants & Consultants

465 California Street, Suite 700 | Telephone: (415) 434-3744
San Francisco, California 94104 | Facsimile: (415) 788-2260

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Albany, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California, (the "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 basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages A3 through A18 and the schedule of funding progress on page D1 are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements, taken as a whole. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Odenberg Ullakko Muranishi & Co LLP

San Francisco, California
October 5, 2006

This is management's discussion and analysis of the City of Albany's financial activities and performance for the fiscal year ended June 30, 2006. Please read this discussion and analysis in conjunction with the transmittal letter, which can be found in the introductory section at the front of this report, and with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

- The Government-wide Statement of Net Assets is the first statement of the Basic Financial Statements (page B1) and is summarized on page A8 of this Management's Discussion and Analysis. The statement shows the City's assets of $68,166,000, liabilities of $24,702,000, and net assets of $43,464,000.

- Net assets, as measured in the government-wide financial statements, increased $2,870,000. Capital assets increased $1,137,000 and long-term debt decreased $1,658,000. The major capital asset additions were replacement of sanitary sewer lines and street improvements.

- The City's long-term debt decrease of $1,658,000 resulted from bond and lease payments and the reclassification of $907,000 accrued liability for compensated absences from long-term liability to current liability, recorded in an internal service fund.

- The Government-wide statement of activities and changes in net assets is summarized on page A9. This statement shows an increase in net assets of $2,870,000 for the fiscal year ended June 30, 2006, as compared to an increase of $3,135,000 for the fiscal year ended June 30, 2005. Expenses for the year increased $1,099,000 and revenues increased $834,000 over the prior year. The major increases in revenue occurred in property taxes and sales taxes. Property tax revenue increased $1,000,000, largely attributable to the increase in assessed value and effect of the "Triple Flip" which provided the City additional property tax revenue of $1,112,000 in lieu of vehicle license fee revenue. Tax increment revenue for the redevelopment area increased $343,000. Sale tax revenue increased $444,000 over the prior year largely due to the timing of State payment of additional property tax revenue to the City, in lieu of sales tax revenue preempted by the State as part of the 2004 "Triple Flip". In lieu payments received in fiscal year 2005-06 totaled $406,000.

Governmental Funds Financial Statements

- A more targeted view of the financial status of the City is provided in the Governmental Funds Financial Statements. These statements appear on pages B3 – B4 of this report, and are discussed in detail in the Fund Financial Statements section of this Management's Discussion and Analysis.

- The core operations of the City are accounted for in the General Fund, and the General Fund fund balance is a key measure of the financial health of the City. As of June 30, 2006, the General Fund fund balance was $4,188,000, a net increase of $219,000 over the balance at June 30, 2005. As of June 30, 2006, the unreserved-undesignated fund balance for the General Fund was $2,595,000.

- To provide for the City's commitment to initiate a waterfront planning study, and to continue systematic funding of general equipment replacement, transfers of $350,000 and $150,000 were made from the General Fund to Capital Projects Funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Basic Financial Statements. This Financial Section of this report also contains supplementary information in pension funding, combining financial statements, and budgetary comparisons for individual funds.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a long-term view of the City's finances.

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

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash receipts or disbursements (full accrual basis accounting). Thus, revenues and expenses are reported in this statement for some items that will only result in cash receipts or disbursements in future fiscal periods, such as property taxes assessed for the year ended June 30, but received between July 1 and August 31, or vacation leave earned in the current year but not utilized until a subsequent year.

In the government-wide financial statements, the activities of the City are classified as governmental or business-type. Total activities are presented for both the current and prior years.

Governmental activities are activities that are principally supported by taxes and intergovernmental revenues. For the City of Albany, governmental activities include police services, fire and emergency medical services, community development and environmental resources, recreation and community services, general government administration, and the activities of four component units.

Component units are organizations whose governing body is: (1) either the governing body of the primary reporting government or (2) a body who reports to the governing body of the primary reporting government, or (3) organizations for which the nature and significance of their relationship with the primary reporting government is such that exclusion would cause the reporting government's financial statements to be misleading or incomplete.

The City of Albany is the primary reporting government in this report, and incorporated into these financial statements are the financial statements of the City of Albany Police and Fire Relief or Pension Plan (Trust), the City of Albany Public Facilities Financing Authority, the Albany Community Reinvestment Agency, and the Albany Municipal Services Joint Powers Authority.

Business-type activities are activities that are primarily funded through user charges. The only business-type activity to be reported by the City of Albany is sewer services.

Governmental Funds Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Albany, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds used by the City are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

<u>Governmental funds</u>

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, which focus on the long-term, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and the balances of these resources that are available for spending. This information is useful in evaluating a government's short-term financing requirements.

To assist the user of these financial statements in understanding the differences and the relationship between the government-wide financial statements and the governmental funds financial statements, reconciliations between the two sets of statements have been included in this report.

The reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets highlights the inclusion of capital assets and long-term liabilities in the government-wide financial statements.

The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Assets highlights the exclusion of capital expenditures, depreciation of capital assets, amortization of intangible assets, and cash flows related to long-term debt from the governmental funds statements.

The City of Albany maintains numerous individual governmental funds, which for financial reporting, are grouped according to their type (general fund, special revenue, capital projects, and debt service). Funds whose expenditures exceed 10% of the total expenditures for all governmental funds, or that meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds, and are reported separately in the governmental funds statements. All other funds are grouped together for reporting purposes. Major funds for the City of Albany are:

- General Fund
- Pension Property Tax
- 1996-1 Assessment District Bond Fund
- General Obligation Bond 2003

Individual fund data for each non-major governmental fund is provided in combining statements included in the *Combining Financial Statements and Other Supplementary Information* section of this report.

<u>Proprietary funds</u>

Proprietary funds have as their focus the determination of operating income or cost recovery. There are two types of proprietary funds: enterprise funds and internal service funds.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments, and to record assets and liabilities related to self-insurance programs and compensated absences.

The City accounts for the construction and maintenance of City sewers in the Sewer Enterprise Fund. Revenues are obtained through special district assessments collected with property taxes. The assessment rate for fiscal year 2005-06 was $248.52 per year, per residential unit. Total assessment revenue for the year was $1,821,000; this was an increase of $47,000 from the prior year. Revenues less expenditures and transfers, including interest on bonds of $304,000, resulted in an increase of net assets for the year by $567,000.

The City uses an internal service fund to account for anticipated replacement costs of public works and park equipment. Because this reserve predominantly benefits governmental activities, it has been included within the governmental activities in the government-wide financial statements.

<u>Fiduciary funds</u>

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City utilizes two types of fiduciary funds:

- Trust funds are used to record the assets and liabilities held for the benefit of others, under a trust agreement that specifies the degree of management performed by the trustee organization. The City accounts for the activities of the City of Albany Police and Fire Relief and Pension Plan in the Police and Fire Pension Trust Fund. There are no current employee members of this plan, but the City will continue to hold its assets in trust and administer the plan as long as there are members receiving benefits.

- Agency funds are used to record assets of separate organizations for which the City serves as a custodian for the organization. All assets in agency funds are offset by a liability to the organization on whose behalf they are held. The City currently maintains four agency funds that are reported in the Statement of Fiduciary Net Assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

This section consists of schedules of funding progress for the City’s PERS (California Public Employee Retirement System) pension plans and the Albany Police and Fire Relief Pension Plan.

Combining Financial Statements and Other Supplementary Information

This section contains combining financial statements and budgetary comparison statements for the summary fund groups reported in the basic financial statements.

Statistical Section

Graphic presentations of financial information and non-financial information, and statistical tables are included in this section, as an aid to understanding and evaluating the overall operation and status of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

<u>Analysis of Net Assets</u>

Net assets are a measure of a government’s financial position and, over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Albany's net assets exceeded liabilities by $43,464,000 at June 30, 2006. A schedule of net assets is presented in the following table.

Net Assets
June 30, 2006 and 2005
(thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2006	2005	2006	2005	2006	2005	
Current and other assets	$ 26,506	$ 26,281	$ 7,439	$ 7,380	$ 33,945	$ 33,661	1%
Capital assets	22,571	21,683	11,650	11,401	34,221	33,084	3%
Total assets	49,077	47,964	19,089	18,781	68,166	66,745	2%
Current liabilities	6,099	5,915	479	433	6,578	6,348	4%
Noncurrent liabilities	10,265	11,639	7,859	8,164	18,124	19,803	-8%
Total liabilities	16,364	17,554	8,338	8,597	24,702	26,151	-6%
Net assets:							
Invested in capital assets, net of related debt	18,532	17,782	7,155	7,106	25,687	24,888	3%
Restricted	10,500	10,217			10,500	10,217	3%
Unrestricted	3,681	2,411	3,596	3,078	7,277	5,489	33%
Total net assets	$ 32,713	$ 30,410	$ 10,751	$ 10,184	$ 43,464	$ 40,594	7%

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of $25,687,000 represent the cost of these assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future expenditures. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of $10,500,000 represent resources that are subject to restrictions on how they may be used. The largest component of restricted net assets is $7,573,000 that is restricted for future capital projects. Special Revenue funds have combined restricted net assets of $2,161,000. The balance of restricted net assets of $766,000 is contained in bond debt service funds.

Unrestricted net assets of $7,277,000 may be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation, or other legal requirements. However, all net assets are not liquid, meaning that they are not cash or securities that could be converted to cash within a year. An analysis of liquid fund balance is provided in the funds financial statements.

Analysis of Changes in Net Assets

The City's net assets increased by $2,870,000 during the current fiscal year. This growth in the City's net assets is principally from the governmental activities. Information about changes in net assets is presented in the summary table below:

Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005
(thousands)

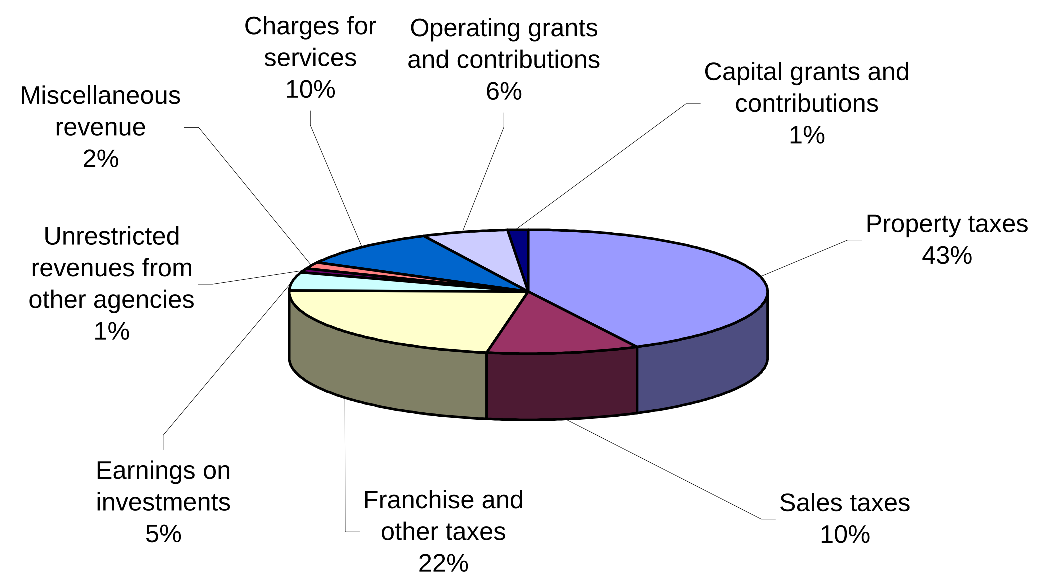
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program revenues:							
Charges for services	$ 1,976	$ 1,961	$ 1,821	$ 1,774	$ 3,797	$ 3,735	2%
Operating grants and contributions	1,155	960	-	-	1,155	960	20%
Capital grants and contributions	259	1,314	-	-	259	1,314	-80%
General revenues:							
Property taxes	8,422	7,423	-	-	8,422	7,423	13%
Sales taxes	2,043	1,599	-	-	2,043	1,599	28%
Franchise and other taxes	4,443	4,557	-	-	4,443	4,557	-3%
Earnings on investment	924	475	236	175	1,160	650	78%
Revenues from other agencies	227	410	-	-	227	410	-45%
Other revenue	364	386	-	2	364	388	-6%
Total revenues	19,813	19,085	2,057	1,951	21,870	21,036	4%
Program expenses:							
General government	2,184	3,471	-	-	2,184	3,471	-37%
Police	5,551	3,896	-	-	5,551	3,896	42%
Fire and emergency medical services	4,477	3,212	-	-	4,477	3,212	39%
Community development and environmental resources	3,647	4,288	-	-	3,647	4,288	-15%
Recreation and community services	2,080	1,970	-	-	2,080	1,970	6%
Interest on long-term debt	423	445	-	-	423	445	-5%
Sewer	-	-	638	619	638	619	3%
Total program expenses	18,362	17,282	638	619	19,000	17,901	6%
Increase/(decrease) in net assets before transfers and other sources	1,451	1,803	1,419	1,332	2,870	3,135	-8%
Transfers	852	836	(852)	(836)	-	-	
Change in net assets	2,303	2,639	567	496	2,870	3,135	-8%
Net assets - beginning of year	30,410	27,771	10,184	9,688	40,594	37,459	8%
Net assets - end of year	**$ 32,713**	**$ 30,410**	**$ 10,751**	**$ 10,184**	**$ 43,464**	**$ 40,594**	7%

Governmental Activities

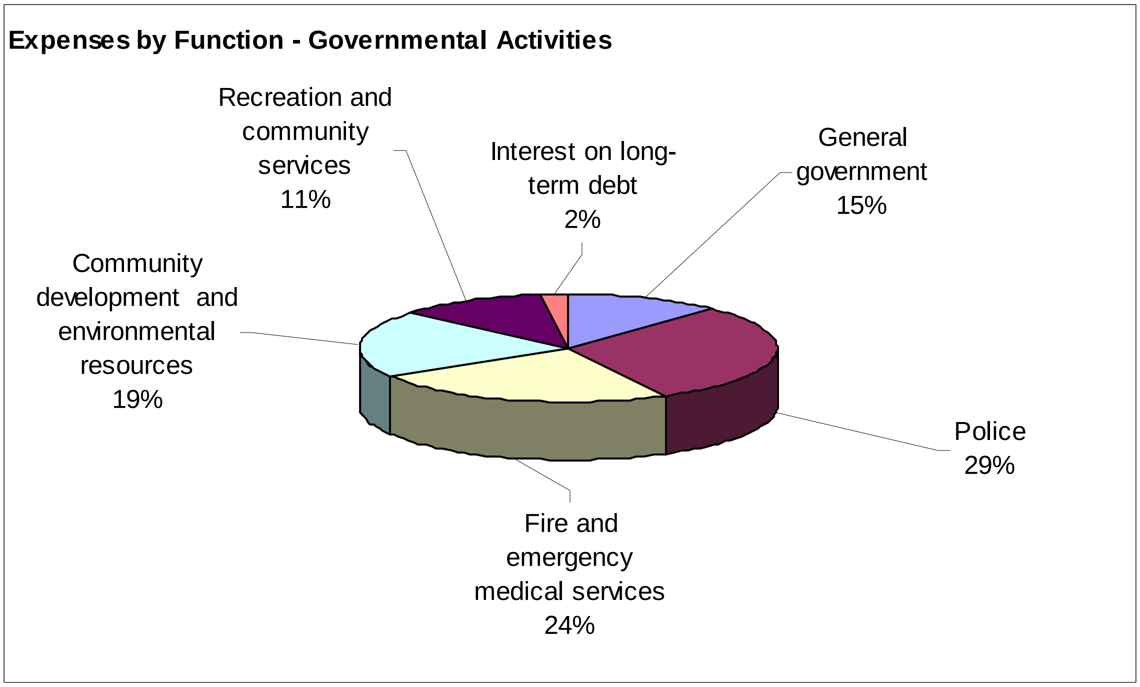
Net assets of governmental activities increased $2,303,000 in fiscal year 2005-06. An increase in net assets occurs when revenue exceeds expenditures or when capital assets are acquired utilizing revenues received in the current year, and the cost of the acquired asset is to be expensed over the useful life of the asset.

Capital grants and contributions were 1% of total governmental activities revenues, down from 7% in the prior year. This decrease is due to less expenditures incurred for restoration of Codornices Creek. This project is primarily funded by the California Department of Water Resources.

Revenues by Source - Governmental Activities



The chart of revenues by source above, illustrates that property taxes are the largest source of operating revenue for the City. It is also one of the most stable and consistent growth revenues. Property taxes, at 43% of revenue, include the .0993% pension override tax, special district assessments, and bonded indebtedness, as well as the City's 0.2% share of the 1.0% countywide tax. Franchise and other taxes are the second largest source of operating revenue, with property transfer taxes composing approximately 36% of this revenue. The major components of this revenue category are: business license, property transfer taxes, utility user taxes, race track taxes, garbage collection franchise fees and cable TV transmission franchise fees.



The chart of expenses graphically portrays the relative proportion of expenditures by function, as listed in the summary statement on page A9 and the Statement of Activities and Changes in Net Assets Statement on page B2.

Business-type Activities

The increase in business-type activities net assets of $567,000 represents activity in the Sewer Enterprise Fund. The principal source of revenue of $2,057,000 for this fund is charges for usage, and users are assessed on the basis of equivalent residential units (ERU). The assessment for this fiscal year was $248.52/ERU, an increase of 1.2% over the prior year rate. Earnings on investments increased from $175,000 to $236,000 as a result of the improved earnings rate of LAIF (Local Agency Investment Fund). Bond interest expense and major maintenance expenses are recorded in this fund. Routine sewer operating and maintenance expenses are recorded in the General Fund, and net transfers of $852,000 were made from the Sewer Fund to the General Fund to cover these expenditures.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure compliance with finance related legal requirements and restrictions. The fund basis financial statements presented in this report address the need of the City to demonstrate compliance with financial restrictions, and they allow the statements' users to separately analyze individual funds. The City maintains three types of funds: Governmental, Proprietary and Fiduciary.

Governmental Funds

Activity of the Governmental funds is summarized in the following table:

Governmental Funds
Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006
(thousands)

	General Fund	Other Major Funds	Other Governmental Funds	Total Governmental Funds
Revenues	$ 12,895	$ 2,137	$ 4,811	$ 19,843
Current expenditures	13,868	2,271	1,465	17,604
Capital outlay	-	620	794	1,414
Debt service	-	-	995	995
	13,868	2,891	3,254	20,013
Net transfers and other sources	(2,059)	(797)	88	(2,768)
Net change in fund balances	(3,032)	(1,551)	1,645	(2,938)
Fund balances, beginning of year	3,969	12,723	3,861	20,553
Prior period adjustment	3,251	-	-	3,251
Fund balances, end of year	**$ 4,188**	**$ 11,172**	**$ 5,506**	**$ 20,866**

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

As of the end of the current fiscal year, the City's combined governmental funds reported an ending fund balance of $20,866,000, an increase of $313,000 from the prior year. Of the $20,866,000 fund balance: $1,250,000 is reserved for long-term receivables, $13,959,000 is reserved to fund capital projects, $930,000 is reserved for debt service, $2,504,000 has been designated for specific purposes or is held in special revenue funds, and unreserved fund balances and fund deficits are a net $2,223,000.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the total fund balance was $4,188,000, of which $2,595,000 was unreserved and undesignated. The unreserved-undesignated fund balance serves as an operating reserve, and as such, it is important that it is maintained at an appropriate level in relationship to annual operating expenditures. The unreserved-undesignated fund balance increased by $281,000 over the prior years balance, and it was 19% of General Fund expenditures.

Proprietary Funds

At June 30, 2006, net assets of the Sewer Fund (an enterprise fund) were $10,751,000 and net assets of the internal service funds were $14,000. The Sewer Fund net assets increased $567,000 over their balance at June 30, 2006. Because the Sewer Fund is an enterprise fund, its fund balance largely represents capital assets, not assets that are available for future expenditures. The unrestricted fund balance is $3,596,000, and it is planned that these funds will be utilized in completion of a five-year plan for renovation of the sewer system.

Prior to fiscal year 2005-06, the only internal service fund maintained by the City was the Recreation and Community Services Fund, which is use to accumulate funds for major maintenance requirements in Recreation facilities. This year three additional internal service funds were created:

- Workers' Compensation Claims
- General Insurance Retention
- Compensated Absences Reserves

Utilization of these internal service funds facilitates the segregation of cash that has been set aside to fund the associated accrued liabilities.

The Recreation and Community Services Reserve is funded by a surcharge on facilities rentals and does not reflect an estimate of expenditures that will be required to maintain these facilities. The Workers Compensation and General Liability Funds are funded by transfers from the General Fund that are based upon actuarial estimates of future claims expenses, and are currently funded at an approximate 90% confidence level. The Compensated Absence Fund is funded by transfers from the General Fund, based an actual recorded vacation, compensatory time and sick leave. Not all of the recorded hours will be paid and management believes the approximate 60% current funding to be adequate.

Fiduciary Funds

The major fiduciary fund maintained by the City is the Police and Fire Relief or Pension Fund. The net assets of this fund totaled $14,548,000 at June 30, 2006, which is a decrease of $315,000 from the prior year. The assets of this fund will decrease, as the liability for future pension payments decreases. Based on the latest actuarial valuation of the Plan, the actuarial value of Plan assets exceed projected future expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Original Budget	Final Budget	Actual	Variance Final Budget
Beginning fund balances, July 1, 2005	**$ 3,705**	**$ 3,871**	**$ 3,969**	**$ 98**
Resources:				
Revenues	11,880	11,764	12,895	1,131
Transfers in	2,425	2,725	2,687	(38)
Other sources of funds	-	-	-	-
Total Resources	**14,305**	**14,489**	**15,582**	**1,093**
Appropriations:				
Expenditures	14,178	14,339	13,868	(471)
Transfers out	103	127	4,746	4,619
Total Appropriations	**14,281**	**14,466**	**18,614**	**4,148**
Resources over (under) appropriations	24	23	(3,032)	(3,055)
Prior period adjustment	-	-	3,251	3,251
Ending fund balances, June 30, 2006	**$ 3,729**	**$ 3,894**	**$ 4,188**	**$ 294**

Budget Modifications

The original Fiscal Year 2005-06 budget was adopted in June 2004 as the first year of a two-year budget. The final revised budget for the fiscal year was adopted June 20, 2005. The net change in the revised budget was an increase in the excess of resources over charges to appropriations of $23,000. The major changes in the final budget were revenue decreases in property transfer taxes, vehicle fines, and race track taxes totaling $418,000. The budget projection for sales tax revenue increased $237,000. The transfer of Pension Override Tax revenue to the General Fund, to partially fund increased Safety pension costs, was increased by $300,000. Budgeted expenses increased approximately a net $161,000, with the major item being PERS pension contributions.

Transfers

Transfers in to the General Fund are generally made to match restricted revenue with related costs that have been recorded in the General Fund. An example of this type of transfer is the special assessment revenue for EMS (Emergency Medical Services) that is used to pay wages of firefighters/paramedics. Transfers out of the General Fund are most frequently made to fund reserves or to provide for capital expenditures that have been recorded in capital project funds. In addition to the budgeted transfers to reserves, management determined a need to increase the General Equipment Reserve by $150,000, and to transfer $500,000 to the Capital Projects Fund, to provide supplemental funds for current or future projects. Also, as previously noted, $350,000 was transferred from the General Fund to provide initial funding of a waterfront planning study.

Operating Variances

The City experienced positive results for the year in a comparison of actual resources and appropriations to the final budget. The budget projected a net increase in fund balance of $23,000, but the actual results were a net increase of $219,000, a positive variance of $196,000.

Total revenues exceeded budget by $1,131,000. The major components of this budget variance were:

- Property taxes exceeded budget by $572,000 as a result of increase in assessed values.
- Earnings on investments which exceeded budget by $262,000 as the result of an improvement in the earnings rate of State Local Agency Investment Fund, and better than expected cash flows, providing additional funds for investment.
- Other revenue exceeded budget by $178,000 with the major items being passport fees, reimbursements for planning projects, and reimbursements for work performed by fire fighters for the Katrina Relief Program.

Total expenditures were under budget by $471,000, largely due to savings from salaries and benefits for vacant positions. Major individual account variances were:

- Salaries were $250,000 below budget and fringe benefits were $188,000 below budget as a result of vacant salaried positions that existed during the year.
- Professional services expense was $395,000 above budget due to the high level of fee based services and the use of outside professionals to cover vacant positions.
- Insurance premiums and claim expenses were below budget by $258,000 as a result of claims expenses being recorded in the Internal Service Funds rather than the General Fund. A transfer was made from the General Fund to the Internal Service Funds to cover these claim expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Detailed information regarding composition and activity in capital assets is provided in Note 5 to the financial statements. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounted to $34,220,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Major events affecting capital assets during the current fiscal year included the following:

- Sewer construction of $520,000 including the replacement of the sewer line on several streets.
- Construction in progress at June 30, 2006 totaled $781,000 and included resurfacing and other improvements on several streets, improvements for several parks, and $362,000 for the city hall retrofit.
- Construction costs for the Marin Avenue Reconfiguration and the Street Pavement Program totaled $493,000.

Capital Assets, Net of Accumulated Depreciation
June 30, 2006 and 2005
(thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land and construction in progress	$ 8,808	$ 8,282	$ -	$ -	$ 8,808	$ 8,282
Facilities, infrastructure, and equipment, net	13,763	13,401	11,649	11,401	25,412	24,802
Total	**$ 22,571**	**$ 21,683**	**$ 11,649**	**$ 11,401**	**$ 34,220**	**$ 33,084**

Additional information about the City's capital assets can be found in Note 5 to the financial statements.

Long-term Debt

At June 30, 2006, the City had total long-term debts and obligations as summarized below.

Outstanding Long-term Obligations
June 30, 2006 and 2005
(thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
1997 Refunding COPS	$ 2,325	$ 2,670	$ -	$ -	$ 2,325	$ 2,670
2003 general obligation bonds	7,715	7,875	-	-	7,715	7,875
Sewer revenue bonds	-	-	8,184	8,484	8,184	8,484
Capital leases	26	56	-	-	26	56
Workers' compensation	-	-	-	-	-	-
Other long-term obligations	750	1,573	-	-	750	1,573
Total	**$ 10,816**	**$ 12,174**	**$ 8,184**	**$ 8,484**	**$ 19,000**	**$ 20,658**

The City issued Sewer Revenue bonds in the amount of $8,675,000 in September 2004. The bond proceeds were used for defeasance of outstanding bonds of $2,750,000, and the balance will be used for major sewer rehabilitation and replacement projects over the next four years. Additional information about the City's long-term debt can be found in Notes 6, 7 and 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economic factors related to City revenues continue to be stable and positive. Property tax is the largest source of City revenue and we expect it to continue to grow at a rate of two to four percent per year, as property is sold and reassessed. The rate of increase in property sale prices has leveled, but the run-up in prices the last few years has been so great that virtually any property sold the next two years will be assessed at a higher value than the current assessed value.

Property transfer taxes remain an important factor in the City's budget. Unlike property taxes, transfer taxes fluctuate significantly from year to year. Should the number of house sales decline, the City's revenue will decline proportionately; however, the fiscal year 2006-07 budget for transfer tax revenue of $1,520,000 is $50,000 below the actual revenue for fiscal year 2005-06, and the first quarter transactions for fiscal year 2006-07 were 74, as compared to 54 for the first quarter 2005-06.

A significant sales tax generator for the City is Albany Ford, but auto sales are subject to wide swings from year to year. The addition of department store sales from Target significantly stabilizes this revenue source. Also, the City of Albany has benefited from the redistribution of sales tax revenue that has resulted from the "Triple Flip" that occurred in 2004 when the State preempted sales tax revenue due cities and provided property tax revenue in lieu of the preempted sales tax. As a result of these events, the outlook for sales tax revenue for the City remains positive.

The increase in Interest rates that has occurred over the last year have been beneficial to the City, as the City has not needed to borrow at the higher rates and the City's long term debt is locked in at the lower rates of previous years. Because the City's reserves and any temporary excess funds are invested in short term investments, earnings have risen significantly in the last year. These favorable conditions are likely to continue through fiscal year 2006-07.

The labor agreement with the City's Fire Fighters/Paramedics expires December 31, 2006. Assuming a new wage and benefit agreement is negotiated that is in line with recent agreements with other employee units, the City will be able to maintain the current level of service.

The costs of medical insurance is expected to continue to increase at near double digit rates and because the City is paying a greater percentage of the costs than in past years, there is the potential that actual costs may exceed budget. However, there is reason for optimism that workers compensation expenses will moderate as the State workers compensation reforms take effect. Also, Albany does not expect to have budget breaking increases in pension costs, because of previous actions to maintain benefit formulas that the City can support and the decisions to pay off unfunded liabilities (PERS Side Funds) rather than amortizing these liabilities through future increases in pension contributions.

Retrofitting of City Hall, Police Department and the Fire Station is scheduled to begin in the Spring of 2007 and will require temporary relocation of all employees from these facilities for up to two years. Operational inefficiencies that may be incurred during the relocation may adversely affect operating costs and revenues during the period of retrofit.

The resumption of State payment of some mandated cost reimbursements and allocation of gasoline taxes to the cities for transportation projects are positive events that will aid the City in maintaining the level of services provided and in meeting the needs for infrastructure maintenance and renovation.

The Albany Reinvestment Agency has reached a point where the incremental property tax revenues are generating positive cash flow for the Agency. This means that partial repayment of the $800,000 the Agency owes the City will be possible. This will free funds for capital projects or additional investment in the redevelopment area.

REQUESTS FOR INFORMATION

This financial report is designed to provide a comprehensive and understandable portrayal of the City's finances, and to fulfill the City's financial accountability to Albany citizens, governmental entities, and other interested parties. Questions about this report, requests for printed or computer disk copies of this report, and requests for separate financial statements for the Albany Community Reinvestment Agency, and the City of Albany Police and Fire Relief or Pension Fund may be addressed to:

Finance Department
City of Albany
1000 San Pablo Avenue
Albany, CA 94706

GOVERNMENT-WIDE

FINANCIAL

STATEMENTS

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CITY OF ALBANY

STATEMENT OF NET ASSETS

JUNE 30, 2006

(With Comparative Totals for June 30, 2005)

	Governmental Activities	Business-Type Activities	Totals 2006	Totals 2005
ASSETS				
Current assets:				
Operating cash and investments	$ 24,203,141	$ 7,247,039	$ 31,450,180	$ 31,092,166
Debt service reserves held with trustee	480,897	-	480,897	476,741
Receivables:				
Other taxes	817,420	-	817,420	744,123
Accounts	142,056	9,944	152,000	401,223
Interest	340,015	-	340,015	209,241
Current portion of note receivable	7,891	-	7,891	7,537
Total current assets	25,991,420	7,256,983	33,248,403	32,931,031
Noncurrent assets:				
Note receivable, net	360,965	-	360,965	369,157
Deferred charges, net	154,246	182,396	336,642	361,335
Capital assets:				
Nondepreciable assets	8,807,952	-	8,807,952	8,281,964
Depreciable assets, net	13,763,009	11,649,441	25,412,450	24,801,796
Total capital assets, net	22,570,961	11,649,441	34,220,402	33,083,760
Total noncurrent assets	23,086,172	11,831,837	34,918,009	33,814,252
Total assets	49,077,592	19,088,820	68,166,412	66,745,283
LIABILITIES				
Current liabilities:				
Accounts payable	909,506	53,100	962,606	350,595
Accrued salaries & benefits	343,441	-	343,441	472,194
Accrued liabilities	1,172,647	101,068	1,273,715	982,353
Claims liabilities	2,691,843	-	2,691,843	3,250,843
Unearned revenue	430,995	-	430,995	437,011
Current portion of long-term debt	551,064	325,000	876,064	854,540
	6,099,496	479,168	6,578,664	6,347,536
Noncurrent liabilities:				
Long-term debt, net	10,265,000	7,858,611	18,123,611	19,803,795
Total liabilities	16,364,496	8,337,779	24,702,275	26,151,331
NET ASSETS				
Invested in capital assets, net of related debt	18,532,193	7,155,248	25,687,441	24,888,220
Restricted for:				
Capital projects	7,572,749	-	7,572,749	6,354,916
Debt service	766,085	-	766,085	708,136
Specific purposes and programs	2,160,838	-	2,160,838	3,153,947
Unrestricted	3,681,231	3,595,793	7,277,024	5,488,733
Total net assets	$ 32,713,096	$ 10,751,041	$ 43,464,137	$ 40,593,952

See accompanying notes to basic financial statements.

CITY OF ALBANY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

		Program Revenues			Net (Expense) Revenue and Change in Net Assets			
					Primary Government			
			Operating	Capital			Total	
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	**Governmental Activities**	**Business-type Activities**	**2006**	**2005**
PRIMARY GOVERNMENT								
Governmental activities:								
General government	$ 2,184,226	$ 104,049	$ -	$ -	$ (2,080,177)	$ -	$ (2,080,177)	$ (3,360,675)
Police	5,551,034	186,682	96,252	-	(5,268,100)	-	(5,268,100)	(3,516,256)
Fire and emergency medical services	4,476,642	500,289	106,053	-	(3,870,300)	-	(3,870,300)	(2,713,771)
Community development and environmental resources	3,647,228	469,326	887,994	259,193	(2,030,715)	-	(2,030,715)	(1,706,775)
Recreation and community services	2,079,675	715,321	65,003	-	(1,299,351)	-	(1,299,351)	(1,304,005)
Interest on long-term debt	422,768	-	-	-	(422,768)	-	(422,768)	(445,989)
Total governmental activities	18,361,573	1,975,667	1,155,302	259,193	(14,971,411)	-	(14,971,411)	(13,047,471)
Business-type activities:								
Sewer	638,270	1,821,311	-	-	-	1,183,041	1,183,041	1,154,751
Total business-type activities	638,270	1,821,311	-	-	-	1,183,041	1,183,041	1,154,751
Change in net assets:								
Net (expense) revenue	$ 18,999,843	$ 3,796,978	$ 1,155,302	$ 259,193	(14,971,411)	1,183,041	(13,788,370)	(11,892,720)
General revenues:								
Taxes:								
Property taxes					8,422,013	-	8,422,013	7,422,406
Sales taxes					2,042,834	-	2,042,834	1,599,449
Franchise and other taxes					4,442,459	-	4,442,459	4,557,311
Earnings on investments					924,454	235,892	1,160,346	650,296
Unrestricted revenues from other agencies					226,494	-	226,494	409,822
Other revenue					364,409	-	364,409	388,382
Transfers					852,226	(852,226)	-	-
Total general revenues and transfers					17,274,889	(616,334)	16,658,555	15,027,666
Change in net assets					2,303,478	566,707	2,870,185	3,134,946
Net assets, beginning of year					30,409,618	10,184,334	40,593,952	37,459,006
Net assets, end of year					$ 32,713,096	$ 10,751,041	$ 43,464,137	$ 40,593,952

See accompanying notes to basic financial statements.

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FUND

FINANCIAL

STATEMENTS

CITY OF ALBANY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

(With Comparative Totals for June 30, 2005)

	Major Funds					**Total Governmental Funds**	
	General Fund	Pension Property Tax	1996-1 Assessment District Bond Fund	General Obligation Bond 2003	Other Governmental Funds *	**2006 ****	**2005**
ASSETS							
Operating cash and investments	$ 3,313,912	$ 511,993	$ 4,236,754	$ 6,506,585	$ 6,027,933	**$20,597,177**	**$ 23,656,582**
Debt service reserves held with trustee	-	-	-	-	480,897	**480,897**	**476,741**
Receivables:							
Other taxes	614,386	-	-	-	203,034	**817,420**	**744,123**
Accounts	50,875	-	-	-	91,181	**142,056**	**393,336**
Interest	292,937	-	47,078	-	-	**340,015**	**209,241**
Note	368,856	-	-	-	-	**368,856**	**376,694**
Due from other funds	89,989	-	-	-	-	**89,989**	**229,268**
Advances to other funds	881,398	-	-	-	-	**881,398**	**881,398**
Total assets	$ 5,612,353	$ 511,993	$ 4,283,832	$ 6,506,585	$ 6,803,045	**$23,717,808**	**$ 26,967,383**
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	$ 701,263	$ -	$ 11,090	$ 100,333	96,820	**$ 909,506**	**$ 344,974**
Accrued salaries & benefits	331,937	-	741	-	10,763	**343,441**	**472,194**
Accrued liabilities	16,118	-	-	13,455	71,512	**101,085**	**702,892**
Due to other funds	-	-	4,460	-	85,529	**89,989**	**229,268**
Claims liabilities	-	-	-	-	-	**-**	**3,250,843**
Unearned revenue	374,693	-	-	-	151,497	**526,190**	**532,206**
Advances from other funds	-	-	-	-	881,398	**881,398**	**881,398**
Total liabilities	1,424,011	-	16,291	113,788	1,297,519	**2,851,609**	**6,413,775**
Fund balances							
Reserved for long-term note receivable	368,856	-	-	-	-	**368,856**	**376,694**
Reserved for interfund receivable	881,398	-	-	-	-	**881,398**	**881,398**
Reserved for capital projects	-	-	4,267,541	6,392,797	3,298,296	**13,958,634**	**13,185,078**
Reserved for debt service	-	-	-	-	930,438	**930,438**	**880,331**
Unreserved:							
Designated - General Fund-equipment replacement	342,760		-	-	-	**342,760**	**396,260**
Designated - Special Revenue Funds	-	511,993	-	-	1,648,845	**2,160,838**	**3,153,947**
Undesignated - General Fund	2,595,328	-	-	-	-	**2,595,328**	**2,314,585**
Unreserved (deficit) - Capital Project Funds	-	-	-	-	-	**-**	**(234,453)**
Unreserved (deficit) - Debt Service Funds	-	-	-	-	(372,053)	**(372,053)**	**(400,232)**
Total fund balances	4,188,342	511,993	4,267,541	6,392,797	5,505,526	**20,866,199**	**20,553,608**
Total liabilities and fund balances	$ 5,612,353	$ 511,993	$ 4,283,832	$ 6,506,585	$ 6,803,045	**$23,717,808**	**$ 26,967,383**

	2006	2005
Total fund balances	**$20,866,199**	**$ 20,553,608**
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred charges for debt issuance expensed in government funds statement.	**154,246**	**168,806**
Net capital assets not reported in government funds statements.	**22,563,748**	**21,672,693**
Net assets and liabilities not requiring current resources; therefore not included in government funds statement.	**(69,158)**	**(77,000)**
Long-term liabilities not due within one year; therefore not included in government funds statement.	**(10,816,064)**	**(12,173,913)**
Net assets of internal service funds not included in government funds statement.	**14,125**	**265,424**
Net assets of governmental activities	**$32,713,096**	**$ 30,409,618**

* See page D3 for schedule of funds.
** See page D5 for details of the Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets.

See accompanying notes to basic financial statements.

CITY OF ALBANY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	Major Funds					**Total Governmental Funds**	
	General Fund	Pension Property Tax	1996-1 Assessment District Bond Fund	General Obligation Bond 2003	Other Governmental Funds	**2006**	**2005**
REVENUES	*	**	***	***	****		
Property taxes	$ 4,037,091	$ 1,583,289	$ -	$ -	$ 2,801,633	**$ 8,422,013**	**$ 7,422,406**
Sales taxes	2,042,834	-	-	-	-	**2,042,834**	**1,599,449**
Franchise and other taxes	4,387,293	-	-	-	55,166	**4,442,459**	**4,557,311**
Licenses and permits	195,709	-	-	-	2,319	**198,028**	**211,607**
Fines and forfeitures	153,619	-	-	-	-	**153,619**	**216,450**
Earnings on investments	287,254	71,604	162,631	295,714	137,442	**954,645**	**474,975**
Revenues from other agencies	214,023	23,492	-	-	1,298,126	**1,535,641**	**2,425,620**
Current services charges	1,170,042	-	-	-	453,188	**1,623,230**	**1,533,115**
Other revenue	407,408	-	-	-	63,139	**470,547**	**335,769**
Total revenues	12,895,273	1,678,385	162,631	295,714	4,811,013	**19,843,016**	**18,776,702**
EXPENDITURES							
Current:							
General government	2,420,027	5,227	-	-	13,838	**2,439,092**	**3,432,867**
Police	4,347,333	1,046,847	-	-	12,609	**5,406,789**	**3,952,335**
Fire and emergency medical services	3,439,147	953,153	-	-	10,265	**4,402,565**	**3,184,594**
Community development and environmental resources	2,235,061	-	-	179,939	938,064	**3,353,064**	**3,018,197**
Recreation and community services	1,426,572	-	86,013	-	490,620	**2,003,205**	**1,831,098**
Capital outlay	-	-	113,534	506,483	793,782	**1,413,799**	**1,912,220**
Debt service:							
Principal	-	-	-	-	534,540	**534,540**	**477,923**
Interest	-	-	-	-	460,800	**460,800**	**470,372**
Total expenditures	13,868,140	2,005,227	199,547	686,422	3,254,518	**20,013,854**	**18,279,606**
REVENUES OVER (UNDER) EXPENDITURES	(972,867)	(326,842)	(36,916)	(390,708)	1,556,495	**(170,838)**	**497,096**
OTHER FINANCING SOURCES (USES)							
Transfers in	2,687,606	-	-		1,908,732	**4,596,338**	**3,666,021**
Transfers out	(4,746,177)	(750,000)	-	(46,657)	(1,820,918)	**(7,363,752)**	**(2,829,643)**
Sale of receivable and insurance proceeds	-	-	-	-	-	**-**	**308,357**
Total other financing sources (uses)	(2,058,571)	(750,000)	-	(46,657)	87,814	**(2,767,414)**	**1,144,735**
Net change in fund balances	(3,031,438)	(1,076,842)	(36,916)	(437,365)	1,644,309	**(2,938,252)**	**1,641,831**
Fund balances, beginning of year	3,968,937	1,588,835	4,304,457	6,830,162	3,861,217	**20,553,608**	**18,911,777**
Prior period adjustment	3,250,843	-	-	-	-	**3,250,843**	**-**
Fund balances, end of year	$ 4,188,342	$ 511,993	$ 4,267,541	$ 6,392,797	$ 5,505,526	**$ 20,866,199**	**$ 20,553,608**

* See page B6 for budget comparisons.
** See page B7 for budget comparisons.
*** See page D40 for budget comparisons.
**** See page D4 for schedule of funds.

CITY OF ALBANY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	2006	2005
Net Changes in Fund Balances - Total Governmental Funds	$ (2,938,252)	$ 1,641,831
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capitalized expenditures	1,439,613	1,022,279
Depreciation expense	(548,558)	(531,023)
Losses on the disposal of capital assets are reported in the Statement of Activities and Changes in Net Assets, but do not require the use of current financial resources. Therefore, it is not reported as an expenditure in the Statement of Revenues, Expenditures and Changes in Fund Balances.	-	(3,834)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Assets.		
Principal repayments on long-term debt	534,540	477,923
Reduction in arbitrage liability	-	4,100
Some expenses reported in the Statement of Activities and Changes in Net Assets do not require the use of current financial resources and therefore are not reported as expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances.		
Amortization of bond issuance costs	(14,560)	(14,560)
Change in compensated absences	(83,900)	20,529
Change in accrued interest payable	7,842	6,851
Some interest revenues due from other funds reported in the governmental funds are not reported in the Statement of Activities and Changes in Net Assets.	(30,190)	-
Some interest expenses due to other funds reported in the governmental funds are not reported in the Statement of Activities and Changes in Net Assets.	30,190	17,532
Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported in the Statement of Activities and Changes in Net Assets but not in the Statement of Revenues, Expenditures and Changes in Fund Balances.	3,906,753	(3,091)
Total Changes in Net Assets of Governmental Activities	$ 2,303,478	$ 2,638,537

See accompanying notes to basic financial statements.

CITY OF ALBANY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive/ (Negative)
REVENUES				
Property taxes	$ 3,509,364	$ 3,464,675	$ 4,037,091	$ 572,416
Sales taxes	1,810,957	2,048,000	2,042,834	(5,166)
Franchise and other taxes	4,642,764	4,353,500	4,387,293	33,793
Licenses and permits	187,018	193,018	195,709	2,691
Fines and forfeitures	316,210	204,000	153,619	(50,381)
Earnings on investments	25,000	25,000	287,254	262,254
Revenues from other agencies	160,225	126,903	214,023	87,120
Current services charges	1,007,530	1,119,460	1,170,042	50,582
Other revenue	220,673	229,473	407,408	177,935
Total revenues	11,879,741	11,764,029	12,895,273	1,131,244
EXPENDITURES				
Current:				
General government	2,575,131	2,551,764	2,420,027	131,737
Police	4,535,262	4,707,860	4,347,333	360,527
Fire and emergency medical services	3,637,457	3,570,517	3,439,147	131,370
Community development and environmental resources	2,161,646	2,103,388	2,235,061	(131,673)
Recreation and community services	1,267,956	1,405,573	1,426,572	(20,999)
Total expenditures	14,177,452	14,339,102	13,868,140	470,962
REVENUES OVER (UNDER) EXPENDITURES	(2,297,711)	(2,575,073)	(972,867)	1,602,206
OTHER FINANCING SOURCES (USES)				
Transfers in	2,424,629	2,724,629	2,687,606	(37,023)
Transfers out	(102,537)	(126,537)	(4,746,177)	(4,619,640)
Total other financing sources (uses)	2,322,092	2,598,092	(2,058,571)	(4,656,663)
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	$ 24,381	$ 23,019	(3,031,438)	$ (3,054,457)
Fund balances, beginning of year			3,968,937	
Prior period adjustment			3,250,843	
Fund balances, end of year			$ 4,188,342	

See accompanying notes to basic financial statements.

CITY OF ALBANY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - PENSION PROPERTY TAX

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive/ (Negative)
REVENUES				
Property taxes	$ 1,289,900	$ 1,289,900	$ 1,583,289	$ 293,389
Earnings on investments	-	-	71,604	71,604
Revenues from other agencies	22,000	22,000	23,492	1,492
Total revenues	1,311,900	1,311,900	1,678,385	366,485
EXPENDITURES				
Current:				
General government	5,500	5,500	5,227	273
Police	-	-	1,046,847	(1,046,847)
Fire and emergency medical services	-	-	953,153	(953,153)
Total expenditures	5,500	5,500	2,005,227	(1,999,727)
REVENUES OVER (UNDER) EXPENDITURES	1,306,400	1,306,400	(326,842)	(1,633,242)
OTHER FINANCING SOURCES (USES)				
Transfers out	(750,000)	(750,000)	(750,000)	-
Total other financing sources (uses)	(750,000)	(750,000)	(750,000)	-
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	$ 556,400	$ 556,400	(1,076,842)	$ (1,633,242)
Fund balances, beginning of year			1,588,835	
Fund balances, end of year			$ 511,993	

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PROPRIETARY FUNDS

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CITY OF ALBANY

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

(With Comparative Totals for June 30, 2005)

	2006		2005	
	Business-Type Activities-Enterprise Fund Sewer Fund	Governmental Activities-Internal Service Funds	Business-Type Activities-Enterprise Fund Sewer Fund	Governmental Activities-Internal Service Funds
ASSETS				
Current assets:				
Operating cash and investments	$ 7,247,039	$ 3,605,964	$ 7,180,463	$ 255,121
Receivables	9,944	-	7,887	-
Total current assets	7,256,983	3,605,964	7,188,350	255,121
Noncurrent assets:				
Deferred charges, net	182,396	-	192,529	-
Capital assets, net	11,649,441	7,213	11,400,764	10,303
Total noncurrent assets	11,831,837	7,213	11,593,293	10,303
Total assets	19,088,820	3,613,177	18,781,643	265,424
LIABILITIES				
Current liabilities:				
Accounts payable	53,100	-	5,621	-
Accrued liabilities	101,068	-	107,266	-
Compensated absences	-	907,209	-	-
Claims liabilities	-	2,691,843	-	-
Current portion of long-term debt	325,000	-	320,000	-
Total current liabilities	479,168	3,599,052	432,887	-
Noncurrent liabilities:				
Long-term debt	7,858,611	-	8,164,422	-
Total liabilities	8,337,779	3,599,052	8,597,309	-
NET ASSETS				
Invested in capital assets, net of related debt	7,155,248	7,213	7,106,252	10,303
Unrestricted	3,595,793	6,912	3,078,082	255,121
Total net assets	$ 10,751,041	$ 14,125	$ 10,184,334	$ 265,424

See accompanying notes to basic financial statements.

CITY OF ALBANY

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	2006		2005	
	Business-Type Activities- Enterprise Fund Sewer Fund	Governmental Activities- Internal Service Funds	Business-Type Activities- Enterprise Fund Sewer Fund	Governmental Activities- Internal Service Funds
OPERATING REVENUES				
Services charges	$ 1,821,311	$ -	$ 1,773,877	$ -
Total operating revenue	1,821,311	-	1,773,877	-
OPERATING EXPENSES				
Materials, supplies and other	23,109	-	37,202	-
Claims expenses	-	368,797	-	-
Claims expenses for change of estimate	-	(659,000)	-	-
Amortization	29,323	-	29,323	-
Depreciation	281,569	3,090	250,728	3,091
Total operating expenses	334,001	(287,113)	317,253	3,091
Operating income (loss)	1,487,310	287,113	1,456,624	(3,091)
NONOPERATING REVENUES (EXPENSES)				
Interest income	235,892	-	175,321	-
Miscellaneous	-	-	2,715	-
Interest expense	(304,269)	-	(301,873)	-
Net nonoperating revenues (expenses)	(68,377)	-	(123,837)	-
Income (loss) before transfers	1,418,933	287,113	1,332,787	(3,091)
Transfers in	-	3,619,640	-	-
Transfers out	(852,226)	-	(836,378)	-
Net transfers	(852,226)	3,619,640	(836,378)	-
Changes in net assets	566,707	3,906,753	496,409	(3,091)
Net assets, beginning of year	10,184,334	265,424	9,687,925	268,515
Prior period adjustment	-	(4,158,052)	-	-
Net assets, end of year	$ 10,751,041	$ 14,125	$ 10,184,334	$ 265,424

CITY OF ALBANY

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	2006		2005	
	Business-Type Activities- Enterprise Fund Sewer Fund	Governmental Activities- Internal Service Funds	Business-Type Activities- Enterprise Fund Sewer Fund	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$ 1,819,254	$ -	$ 1,765,990	$ -
Cash paid to suppliers	-	-	(7,296)	-
Cash received (payments to) from others	18,171	(268,797)	-	-
Net cash provided by (used by) operating activities	1,837,425	(268,797)	1,758,694	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in from other funds	-	3,619,640	-	-
Transfers out to other funds	(852,226)	-	(836,378)	-
Net cash provided by (used by) noncapital financing activities	(852,226)	3,619,640	(836,378)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	-	8,407,661	-
Acquisition and construction of capital assets	(530,246)	-	(1,544,512)	-
Principal payments - bonds	(320,000)	-	(2,990,000)	-
Interest paid	(304,269)	-	(301,873)	-
Net cash provided by (used by) capital and related financing activities	(1,154,515)	-	3,571,276	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	235,892	-	175,321	-
Decrease in restricted investments	-	-	388,442	-
Net cash provided by investing activities	235,892	-	563,763	-
Net change in cash and cash equivalents	66,576	3,350,843	5,057,355	-
Cash and cash equivalents at beginning of year	7,180,463	255,121	2,123,108	255,121
Cash and cash equivalents at end of year	$ 7,247,039	$ 3,605,964	$ 7,180,463	$ 255,121
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 1,487,310	$ 287,113	$ 1,456,624	$ (3,091)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Change in estimates	-	(659,000)	-	-
Increase in claims expense reserve		100,000		
Depreciation and amortization expense	310,892	3,090	280,051	3,091
Miscellaneous non-operating revenue (expense)	-	-	-	-
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	(2,057)	-	(7,887)	-
Increase (decrease) in accounts payable and accrued liabilities	41,280	-	29,906	-
Net cash provided by (used by) operating activities	$ 1,837,425	$ (268,797)	$ 1,758,694	$ -

See accompanying notes to basic financial statements.

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FIDUCIARY FUNDS

FINANCIAL

STATEMENTS

CITY OF ALBANY

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

(With Comparative Totals for June 30, 2005)

	2006		2005	
	Pension Trust Fund (Police and Fire Pension)	Agency Funds *	Pension Trust Fund (Police and Fire Pension)	Agency Funds
ASSETS				
Operating cash and investments	$ -	$ 705,015	$ -	$ 693,350
Debt service reserves held with trustee	-	485,938	-	483,332
Receivables:				
Contributions and other	851	-	-	-
Interest	100,926	-	87,240	-
Investments, at fair value:				
U.S. government securities	5,018,908	-	4,783,058	-
Corporate bonds and debentures	2,511,300	-	2,415,670	-
Common stock	6,186,446	-	6,149,478	-
Investment pools	163,428	-	167,058	-
Money market fund	582,117	-	1,276,386	-
Total investments, fair value	14,462,199	-	14,791,650	-
Total assets	14,563,976	1,190,953	14,878,890	1,176,682
LIABILITIES				
Accounts payable	15,633	8,002	15,505	10,762
Due to bondholders	-	863,745	-	882,537
Refundable deposits	-	319,206	-	283,383
Total liabilities	15,633	1,190,953	15,505	1,176,682
NET ASSETS				
Assets held in trust for pension benefits	14,548,343	-	14,863,385	-
Total net assets	$ 14,548,343	$ -	$ 14,863,385	$ -

* See page D49 for schedule of funds.

CITY OF ALBANY

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for the Fiscal Year Ended June 30, 2005)

	2006 Pension Trust Fund (Police and Fire Pension)	2005 Pension Trust Fund (Police and Fire Pension)
ADDITIONS		
Contributions:		
Employer	$ -	$ -
Plan members	-	-
Total contributions	-	-
Investment income:		
Net appreciation in fair value of investments	534,932	771,013
Interest	435,738	428,278
Dividends	107,929	116,920
Total investment income	1,078,599	1,316,211
Less investment expense	135,534	130,727
Net investment income	943,065	1,185,484
Other:		
Property tax override	-	-
Total additions to net assets	943,065	1,185,484
DEDUCTIONS		
Benefits paid	1,233,644	1,289,017
Administrative expenses	19,979	19,760
Other expenses	4,484	4,238
Total deductions from net assets	1,258,107	1,313,015
Changes in net assets	(315,042)	(127,531)
Net assets, beginning of year	14,863,385	14,990,916
Net assets, end of year	$ 14,548,343	$ 14,863,385

NOTES TO

BASIC FINANCIAL

STATEMENTS

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NOTE 1 – Background

The City of Albany is a largely residential community located on San Francisco Bay in Alameda County, California. The City was incorporated in 1908. The population as of June 30, 2006, as estimated by the California Department of Finance was 16,680.

The City operates under the Council-Administrator form of government, with a full-time City Administrator. The governing body is a five-member council, with one council member serving as mayor. Other elected officials are the City Treasurer and the City Attorney.

In addition to finance and administrative functions, the City Administrator oversees approximately 104 fulltime-equivalent employees in the functions of:

- *Police services* - the Police Department is composed of a Chief, 27 sworn officers and 10 unsworn personnel. A force of 12 reserve officers augments the fulltime police force. In addition to enforcement of laws and protection of life and property, the department supports the Albany Police Activities League (APAL) and numerous other community service programs.

- *Fire and Emergency Medical Services* - the Fire and Emergency Medical Services Department is composed of a Chief, a Battalion Chief, and 18 fire fighters and paramedic personnel. The Fire Department is responsible for operation of the City's Emergency Operations Center. Department personnel perform numerous services to benefit the community, such as Christmas toy drives, sale of low cost bicycle helmets and conducting CPR courses.

- *Recreation and Community Services* - the City provides many recreational activities for its citizens, with emphasis on services to youth and seniors. City owned recreational facilities operated by the department are:

    - Community Center,
    - Senior Center,
    - Memorial Park Child Care Center, and
    - Albany Teen Center.

- *Community Development* - the functions of City infrastructure maintenance and administration of licensing, permit and zoning activities are assigned to this department. The department is composed of the following three divisions:

    - Planning and Building,
    - Public Works, and
    - Environmental Resources.

NOTE 2 – Summary of Significant Accounting Policies

The following is a summary of the accounting policies of the City, which conform with accounting principles generally accepted in the United States of America as applicable to governments.

A. Reporting Entity

The financial statements of the City include the financial activities of the City as well as separate legal entities, called component units, which are controlled by or dependent on the City. While these are separate legal entities, the City Council may serve, in separate session, as their governing body and their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed “blending”) with those of the City, in the accompanying financial statements.

- *The City of Albany Police and Fire Relief and Pension Plan (Trust)* is a separate legal trust whose purpose is to provide pension benefits for certain City employees. The Trust’s governing board is composed of the Mayor, City Treasurer, City Clerk, and two members of the Trust. All accounting and administrative functions are performed by the City. The activities of the Trust have been included in the Police and Fire Relief and Pension Trust Fund. Separate financial statements for the Pension Trust may be obtained from the City of Albany administrative offices located at 1000 San Pablo Avenue, Albany, CA 94706.

- *The City of Albany Public Facilities Financing Authority* is a financing authority whose purpose is to provide financing assistance to the City for acquiring real property and improvements for the benefit of the City and surrounding areas. The Authority’s board is composed of the City Council, and all accounting and administrative functions are performed by City staff. The Authority is dependent upon the City for its cash flows, and the activities of the Authority have been recorded in the Public Facilities Financing Authority Debt Service Fund of the City.

- *The City of Albany Reinvestment Agency* (Agency) was activated in the 1998-99 fiscal year pursuant to the State of California Health and Safety Code Section 33000, entitled “Community Redevelopment Law.” Its purpose is to prepare and carry out plans for improvements, rehabilitation, and redevelopment of blighted areas with the territorial limits of the City of Albany. The Agency meets the definition of a “component unit”, and is presented on a “blended” basis, as if part of the primary government. Although it is a legally separate entity, the governing board of the Agency is comprised of the same membership as the City Council. The City may impose its will on the Agency, including the ability to appoint, hire, reassign, or dismiss management. There is also a financial benefit/burden relationship between the City and the Agency. Separate financial statements for the Agency can be obtained from the City of Albany administrative offices located at 1000 San Pablo Avenue, Albany, CA 94706.

- *Albany Municipal Services Joint Powers Authority* (Authority) was established by the City of Albany and the Albany Reinvestment Agency to employ management employees of the City that are not members of an organized bargaining unit. Members of the City Council serve on the governing board, and the City reimburses the Authority for all expenses. Because the Authority’s financial activities are related solely to those of the City, they are included in the City’s financial statements.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - wide Financial Statements

The City Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City, accompanied by a total column. Internal Service Funds activities are excluded to avoid “doubling up” revenues and expenses. Fiduciary activities of the City are not included in the government-wide statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents revenues, expenditure and fund transfers that produce changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, transactions between governmental and business-type activities have not been eliminated.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

Revenues subject to accrual are property taxes, franchise taxes, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenue. Licenses and permits are not subject to accrual because, generally, they are not measurable until received in cash.

Expenditures are generally recognized when a liability is incurred, under the modified accrual basis of accounting. Principal and interest on general long-term debt are recognized when due. Financial resources are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Thus, amounts are not current liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as subject to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

- *General Fund* – This is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

- *Pension Property Tax* – This fund is used to account for the property tax override passed by the voters to fund City retirement plans contributions.

- *1996-1 Assessment District Bond Fund* – This fund is used to pay for the acquisition, development and maintenance of open space on Albany Hill; the acquisition, development and maintenance of recreational playfields; and the activities relating to creek restoration, as part of the Open Space, Recreational Playfields and Creek Restoration Assessment District No.1996-1.

- *General Obligation Bond 2003* - This fund is used to account for the General Obligation Bond, Series 2003, issued to finance the repair and improvement of recreational facilities; structural improvements to the fire department, police department and city hall buildings; residential street improvements; bike path improvements, construction and safety lighting; create and improve new and existing parks; and resurface city streets.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

The City of Albany reports the Sewer Enterprise Fund as a major proprietary fund type. The Sewer Enterprise Fund accounts for sewage transmission provided to City residents. The cost of this service, including depreciation, is recovered through user charges.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

The City's internal service funds at June 30, 2006 are the Community Development Equipment Reserve Fund, Worker's Compensation Fund, General Liability Fund, and the Compensated Absences Fund. The Community Development Equipment Reserve Fund is used to accumulate resources to be used for replacement of public works and park equipment. The Worker's Compensation Fund is used to cover known and unknown claims that may occur relating to worker injuries. The General Liability Fund is used to cover future general liability claims against the City. The Compensated Absences Fund is used to reserve funds required to pay off accrued liabilities for vacations, compensatory time and sick leave upon employees' retirement or other termination of employment.

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund, all other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund, and all other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a statement of net assets and a statement of changes in net assets. The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City includes in its Comprehensive Annual Financial Report (CAFR) the Police and Fire Pension Trust Fund, which accounts for the activities of the City of Albany Police and Fire Relief or Pension Plan.

Agency funds are custodial in nature and do not require reporting of the results of operations and no measurement focus is applied to these funds. The accrual basis of accounting is utilized for reporting revenues and expenditures in agency funds.

C. Budgetary Policies

Procedures followed in establishing the budgetary data reflected in the financial statements are presented below:

1. By June 1, of even-numbered years, the City Administrator submits to the City Council an operating budget and capital improvement budget for the two fiscal years commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.

2. Public hearings and work sessions are conducted to obtain comments from interested individuals and organizations.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

3. The budget is formalized and legally enacted through City Council resolution.

4. All intrafund transfers above $5,000 require the approval of the City Administrator (or designee). All intrafund transfers below $5,000 require the approval of the Finance and Administrative Services Director (or designee). Interfund transfer approval must be obtained from both the City Administrator and Finance and Administrative Services Director. Such approval shall only be given provided the interfund transfer does not change the total initial appropriation for all funds requiring budgets. Changes in appropriations at the fund level must be approved by the City Council.

5. Formal budgetary integration, in the form of the annual budgets, is employed as a management control device during the year for the General Fund, Special Revenue Funds and all Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is achieved through general obligation bond indenture provisions and other debt agreements.

6. Budgets for General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations lapse at the end of the fiscal year.

7. As needed, budgeted amounts are subjected to amendments presented to City Council for approval. Budgeted amounts appearing in these statements are as amended by the City Council through June 30, 2006.

D. Revenue Recognition for the Sewer Enterprise Fund

Sewer service charges are billed and collected by the County Auditor-Controller's Office. Semi-annual payments are due November 1 and February 1 of the fiscal year in which the service is provided. Any charges billed but not received, as of the end of the fiscal year, are accrued.

E. Compensated Absences

City employees have a vested interest in accrued vacation time and twenty-five percent of accrued sick leave time. This accrued leave time will eventually be used by employees or paid-off by the City. The City has obligations for accrued vacation and sick leave in the amount of $907,209, which is recorded in the Compensated Absences Internal Service Fund.

F. Property Tax

Alameda County officials assess property, issue assessments and collect the tax proceeds. The County distributes taxes, plus any related interest and penalties, to the City.

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

NOTE 2 – Summary of Significant Accounting Policies (Continued)

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings, which 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. Cash and Cash Equivalents, and Cash Flows

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Proprietary fund types operating cash and investments have been used to prepare the statements of cash flows. Debt service reserves with trustees have original maturity terms of more than three months, and are not included as cash equivalent in the statement of cash flows.

H. Capital Assets

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

Business-type activity capital assets are recorded at cost and depreciated over their estimated useful lives. The purpose of depreciation is to spread the costs of business-type capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of business-type activities capital assets.

The capitalization threshold for capital assets is $5,000 with a useful life of at least two years. Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

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

Furniture and Equipment	5-10 years
Sewer transmission lines	50 years
Vehicles	5 years
Buildings	20-50 years
Infrastructure	20-70 years

NOTE 2 – Summary of Significant Accounting Policies (Continued)

I. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination of employment, retirement, death, or in an emergency as defined by the plan.

J. New Accounting Pronouncements

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section.* GASB Statement 44 provides guidance on the tables and narrative explanations in the statistical section of the CAFR. The purpose of the statistical section information is to provide financial statement users with additional historical perspective, context, and detail to assist them in using the information in the financial statements, notes to financial statements, and required supplementary information so as to understand and assess a government's economic condition. The provisions of GASB Statement No. 44 have been applied to this CAFR.

In June 2004, the GASB issue Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement 45 requires employers to apply accrual-basis accounting for expenses and measurement of the funding status of OPEB plans sponsored by the employer. Implementation of GASB Statement 45 will be required for the City of Albany not later than the fiscal year beginning July 1, 2009.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34.* GASB Statement 46 requires disclosure of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation. Net assets are considered restricted by enabling legislation when the resources can only be used for purposes specified by the legislation. The provisions of GASB Statement No. 46 are effective for financial statements for periods beginning after June 15, 2005; however, the City elected to implement the provisions of the Statement for the fiscal year ended June 30, 2005 (see Note 10).

K. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

L. Reclassifications/Comparative Data

Certain prior period amounts have been reclassified in order to conform to the fiscal 2006 financial statement presentation. Prior year total columns on the accompanying financial statements are not necessary for a fair presentation of the financial statements, but are presented to facilitate financial analysis.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

M. Prior Period Adjustment

Internal service funds for workers compensation self-insurance liabilities, general insurance retention liabilities and accrued compensated absences liabilities were established in the current fiscal year to accommodate the City's policy of funding these liabilities, while complying with GASB 34 accounting principals that preclude the inclusion of these liabilities in the General Fund. Implementation of this change in reporting practice required a prior period adjustment to the General Fund of $3,250,843, which represents workers' compensation claims liability as of June 30, 2005 of $2,979,000 and general insurance liability of $271,843 as of June 30, 2005. Additionally, the internal service fund includes a prior period adjustment of $907,209 for compensated absences.

NOTE 3 – Cash and Investments

The City's dependence on property tax receipts and seasonal revenue sources requires it to maintain significant cash reserves to finance operations. Except debt service reserves with trustees, bond proceeds from special assessment districts, and bond proceeds from sewer revenue bonds, the City pools cash from all sources and funds, so that these funds may be invested at the maximum yield, consistent with safety and liquidity, while allowing expenditures from individual funds at any time. Disclosure for the Albany Police and Fire Relief or Pension Plan investments can be found in Note 12.

A. Summary of Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	31,450,180
Debt service reserves held with trustee		480,897
Fiduciary funds:		
Cash and investments		15,167,214
Debt service reserves held with trustee		485,938
Total cash and investments	$	47,584,229

NOTE 3 – Cash and Investments (Continued)

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

Cash on hand	$	3,300
Deposits with financial institutions		1,230,478
Investments		46,350,451
Total cash and investments	$	47,584,229

C. Authorized Investments

The table below identifies the investment types that are authorized by the City's Investment Policy. The table also identifies certain provisions of the City's Investment Policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	N/A	N/A
U.S. Agency Securities	N/A	N/A	N/A
Banker's Acceptance	180 days	40%	10%
Commercial Paper	270 days	15%	10%
Medium-Term Notes	One year	15%	5%
Money Market Mutual Funds	N/A	N/A	N/A
Repurchase Agreements	7 days	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A
Negotiable Certificates of Deposits	One year	15%	N/A

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Debt Service Reserves with trustee are invested in accordance with indentures governing the related debt. The trustee may invest in U.S. treasury notes and bonds, and in pooled investments that invest in those securities.

NOTE 3 – Cash and Investments (Continued)

D. Risk Disclosures

Interest Rate Risk. This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. In accordance with the City's investment policy, the City is not allowed to invest more than 25% of its investment portfolio in maturities greater than one year. Investments which exceed five years in maturity require City Council's approval. Further, each individual security is limited to one million dollars.

		Remaining Maturity (in Months)			
Investment Type	Fair Value	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	$ 1,088,697	$ 1,088,697	-	-	-
Federal agency securities	966,565	490,000	$ -	$ 476,565	-
State investment pool	28,858,598	28,858,598	-	-	-
Money market funds	7,474	7,474	-	-	-
Held by bond trustee:					
U.S. Treasury notes	966,898	966,898	-	-	-
Total	$ 31,888,232	$ 31,411,667	$ -	$ 476,565	$ -

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized credit rating organization. Presented below is the actual rating as of year end for each investment type.

			Rating as of Year End	
Investment Type	Fair Value	Exempt From Disclosure	AAA	Not Rated
U.S. Treasury notes	$ 1,088,697	$ 1,088,697		
Federal agency securities	966,565		$ 966,565	
State investment pool	28,858,598			$ 28,858,598
Money market funds	7,474			7,474
Held by bond trustee:				
U.S. Treasury notes	966,898	966,898		
Total	$ 31,888,232	$ 2,055,595	$ 966,565	$ 28,866,072

NOTE 3 – Cash and Investments (Continued)

The City's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of June 30, 2006, there are no investments in any one issuer that represent 5% or more of total City investments.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2006, City deposits of $100,000 were held in accounts covered by depository insurance, and deposits of $1,533,233 were held in accounts collateralized with securities held by the financial institution. As of June 30, 2006, there were no investments held by the same broker-dealer that was used by the City to buy the securities. Securities purchased through Wells Fargo Institutional Securities, LLC are held in the custody of Wells Fargo Bank National Association, in the name of the City.

E. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of $28,858,598 whose pro-rata share of fair value was estimated by the state Treasurer to be $28,806,243. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

NOTE 3 – Cash and Investments (Continued)

F. Fair Value of Investments

Accounting pronouncement GASB Statement 31 generally applies to investments in external investment pools, investments purchased with maturities greater than one year, mutual funds, and certain investment pools/agreements. Generally, governmental entities need to report the "fair value" changes for these investments at year-end and records these gains or losses on their income statement.

Methods and assumptions used to estimate fair value: The City maintains investment accounting records on amortized cost, and adjusts those records to "fair value" for external reporting purpose. The Funds investment custodians provide market values on each investment instrument on a monthly basis. The investments held by the Funds are widely traded in the financial markets, and trading values are readily available from numerous published sources. The Funds have elected to report their money market investments (those investments with maturities of less than one year) at amortized cost adjusted to fair value. Unrealized gains and losses are recorded and the carrying value of their investments is considered "fair value".

NOTE 4 – Receivables

Note Receivable

Per the employment agreement between the City and the City Administrator, the City, in September 2001, loaned the City Administrator $400,000 to be used toward the purchase of her principal residence. The loan includes interest at one-eighth of a percentage point above the interest that the City earned from LAIF (Local Agency Investment Fund Account) as of the date of the loan. The outstanding principal balance of the loan at June 30, 2006, was $368,856, and is recorded in the General Fund as a note receivable.

NOTE 5 – Capital Assets

The following is a summary of capital assets as of June 30, 2006:

	Governmental Activities	Business-Type Activities	Total
Capital assets not being depreciated:			
Land and improvements	$ 8,027,131	$ -	$ 8,027,131
Construction in progress	780,821	-	780,821
	8,807,952	-	8,807,952
Depreciable capital assets:			
Buildings	8,254,565	-	8,254,565
Furniture and fixtures	114,262	-	114,262
Machinery and equipment	724,950	10,565	735,515
Vehicles	1,871,219	-	1,871,219
Sewer lines	-	14,471,868	14,471,868
Infrastructure	8,236,628	-	8,236,628
Total	19,201,624	14,482,433	33,684,057
Less: accumulated depreciation	5,438,615	2,832,992	8,271,607
Depreciable capital assets, net	13,763,009	11,649,441	25,412,450
Total capital assets, net	$ 22,570,961	$ 11,649,441	$ 34,220,402

NOTE 5 – Capital Assets (Continued)

Transactions and balances of capital assets were as follows:

	Balances June 30, 2005	Additions	Transfers/ Retirements	Balances June 30, 2006
Governmental activities:				
Nondepreciable assets:				
Land and improvements	$ 7,966,023	$ 61,108	$ -	$ 8,027,131
Construction in progress	315,941	780,821	315,941	780,821
Total nondepreciable assets	8,281,964	841,929	315,941	8,807,952
Depreciable assets:				
Buildings	8,254,565	-	-	8,254,565
Furniture and fixtures	114,262	-	-	114,262
Machinery and equipment	678,463	52,326	5,839	724,950
Vehicles	1,417,467	108,338	85,629	1,440,176
Infrastructure	7,483,667	752,961	-	8,236,628
Total depreciable assets	17,948,424	913,625	91,468	18,770,581
Less accumulated depreciation for:				
Buildings	2,289,259	164,380	-	2,453,639
Furniture and fixtures	82,082	5,809	-	87,891
Machinery and equipment	421,050	55,773	5,839	470,984
Vehicles	1,129,060	111,885	85,629	1,155,316
Infrastructure	636,244	210,711	-	846,955
Total accumulated depreciation	4,557,695	548,558	91,468	5,014,785
Total depreciable assets, net	13,390,729	365,067	-	13,755,796
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	431,043	-	-	431,043
Total depreciable assets	431,043		-	431,043
Less: accumulated depreciation	420,740	3,090	-	423,830
Total depreciable assets, net	10,303	(3,090)	-	7,213
Total governmental activities	$ 21,682,996	$ 1,203,906	$ 315,941	$ 22,570,961

Depreciation was charged to function as follows:

Governmental activities:	
General government	$ 31,794
Police	85,785
Fire and emergency medical services	33,825
Community development and environmental resources	231,994
Recreation and community services	168,250
Total governmental activities depreciation expense	$ 551,648

NOTE 5 – Capital Assets (Continued)

	Balances June 30, 2005	Additions	Retirements	Balances June 30, 2006
Business-type activities:				
Sewer Enterprise Fund fixed assets:				
Depreciable Assets:				
Sewer lines	$ 13,952,188	$ 519,680	$ -	$ 14,471,868
Machinery and equipment	-	10,565		10,565
Total depreciable assets	13,952,188	530,245	-	14,482,433
Less accumulated depreciation for:				
Sewer lines	2,551,424	279,455	-	2,830,879
Machinery and equipment	-	2,113		2,113
Total accumulated depreciation	2,551,424	281,568	-	2,832,992
Total depreciable assets, net	$ 11,400,764	$ 248,677	$ -	$ 11,649,441

NOTE 6 – Governmental Activities Debt

The City generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to governmental activities are summarized below and discussed in detail subsequently.

Debt-Governmental Activities	Balances June 30, 2005	Additions	Retirements	Balances June 30, 2006	Due within one year
Long-term debt:					
1997 Refunding COPS 4.25-4.8%, 9/1/12	$ 2,670,000	$ -	$ 345,000	$ 2,325,000	$ 360,000
2003 general obligation bonds 3.00-4.00%, 8/1/33	7,875,000	-	160,000	7,715,000	165,000
Capital leases					
1997 Fire truck 6.1%, 2/15/2007	50,734	-	24,670	26,064	26,064
2001 vehicle lease	4,870	-	4,870	-	-
	10,600,604	-	534,540	10,066,064	551,064
Landfill postclosure costs	750,000	-	-	750,000	-
Total long-term debt	$ 11,350,604	$ -	$ 534,540	$ 10,816,064	$ 551,064

NOTE 6 – Governmental Activities Debt (Continued)

The liability for landfill postclosure costs relates to a construction landfill known as the Albany Bulb. It is anticipated that this land will be transferred to Eastshore State Park without additional costs to the City.

A. 1997 Refunding Certificates of Participation

On December 1, 1997 the City issued $4,760,000 in Refunding Certificates of Participation (COPS) with interest rates ranging from 4.25 percent to 4.80 percent, to advance refund the $1,465,000 1989 Refunding COPS with interest rates ranging from 6.6 percent to 7.85 percent, and the $2,980,000 1992 Refunding COPS with interest rates ranging from 4.75 percent to 6.9 percent. The Net proceeds of $ 4,579,934 (after payment of $180,466 in underwriting fees, insurance, and other issuance costs) plus an additional $500,516 of 1989 and 1992 reserve funds, were deposited into trust to defease the 1989 and 1992 bonds. The 1989 and 1992 lease revenue bonds that have been advanced refunded financed improvements to the maintenance center, and the acquisition of the Library/Community Center complex site and construction of the Center. The 1997 COPS are collateralized by the City's non-cancelable lease covering the Library/Community Center Complex, which terminates September 1, 2012.

B. 2003 General Obligation Bonds

In November 2002, voters passed a ballot measure authorizing the issuance of general obligation bonds in the amount of $14,500,000, the proceeds to be used for various capital improvements over a period of several years. In June 2003, the City issued $8,000,000 of the bonds. Interest payments are due February 1st and August 1st and principal payments are due August 1st of each year, with the final payment due August 1, 2033.

C. Capital Leases

On February 15, 1997, the City leased a fire truck in the amount of $206,070. The lease requires annual principal and interest payments each February 15th. The City is using General Fund resources to make lease payments. The final lease payment of $26,064 principal and $1,473 interest is due February 15, 2007.

The City entered into a lease agreement during the 2000-01 fiscal year to acquire a vehicle. Final payment of this lease was made during this fiscal year.

D. Arbitrage

The City annually performs arbitrage calculations for the governmental activities long-term debt, and the City has no arbitrage liability as of June 30, 2006.

E. Landfill Postclosure Costs

See Note 15 for a complete discussion of the landfill postclosure costs.

NOTE 6 – Governmental Activities Debt (Continued)

F. Future Governmental Activities Debt Service

Debt service schedules for the COPS, general obligation bonds and lease purchases are as follows:

	Principal			Interest		
	1997 COPS	2003 GO Bonds	Total	1997 COPS	2003 GO Bonds	Total
2007	$ 360,000	$ 165,000	$ 525,000	$ 101,900	$ 303,076	$ 404,976
2008	375,000	165,000	540,000	85,085	296,476	381,561
2009	395,000	170,000	565,000	67,178	289,776	356,954
2010	415,000	175,000	590,000	47,936	282,876	330,812
2011	245,000	180,000	425,000	32,096	275,776	307,872
2012-2016	535,000	995,000	1,530,000	26,584	1,272,952	1,299,536
2017-2021		1,205,000	1,205,000		1,087,611	1,087,611
2022-2026		1,485,000	1,485,000		833,532	833,532
2027-2031		1,855,000	1,855,000		485,209	485,209
2032-2034		1,320,000	1,320,000		85,850	85,850
Totals	$ 2,325,000	$ 7,715,000	$ 10,040,000	$ 360,779	$ 5,213,134	$ 5,573,913

Equipment Lease - 1997

	Principal	Interest
2007	$ 26,064	$ 1,473
Totals	$ 26,064	$ 1,473

General Fund, Sewer Fund, and Landscape and Lighting Special Revenue Fund revenues are used to service the COPS.

The City is required to maintain amounts of cash and investments with trustees or fiscal agents under the terms of the above debt issues. These funds are pledged as reserves to be used if the City fails to meet its obligations under debt issues. These reserves totaled $480,897 and $476,741, respectively at June 30, 2006 and 2005.

The California Government Code requires these funds to be invested in accordance with the City ordinance, bond indentures or State statute. All funds have been invested as permitted under the Code.

NOTE 7 – Special Assessment District Debt

On February 10, 1999 the City issued Limited Obligation Improvement Bonds in the amount of $6,230,000, pursuant to the provisions of the Improvement Bond Act of 1915 and the 1972 LLMD Act. The bonds were issued to finance certain improvements and acquisitions in the City's Open Space, Recreational Playfield, and Creek Restoration Assessment District No. 1996-1 (the District). Assessments sufficient to meet annual debt service on the bonds are billed by the County of Alameda to owners of assessment parcels located within the District.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the bonds. Therefore, the debt is not recorded in the City's Government-wide Financial Statements.

The outstanding balance of the bonds as of June 30, 2006 is $4,860,000.

NOTE 8 – Business-Type Activities Debt

On September 1, 2004, the City issued $8,675,000 in Sewer Revenue Bonds, in which a portion of the proceeds was used to defease the City's 1993 Sewer Revenue Bonds in the amount of $2,750,000 as of the issue date. The reacquisition price exceeded the net carrying amount of the old debt by $142,377. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The remaining proceeds will be used to finance certain improvements to the City's sewer system. The bonds mature serially, each September 1, and semi-annual interest payments are due each September 1 and March 1.

The Bonds are special obligations of the City and are secured by and payable solely from operating revenue of the Sewer Enterprise Fund. The bonds maturing on or before September 1, 2014, are not subject to optional redemption prior to maturity. The bonds maturing on or after September 1, 2015, are subject to redemption prior to their respective maturity dates, at the option of the City, from any source of available funds, as a whole on any date on or after September 1, 2014, at a redemption price equal to the principal amount of the bonds together with a premium. These mandatory redemptions are to be made from sinking fund payments made by the City in the year of redemption. Bonds maturing on or after September 1, 2014 may be redeemed at par plus a 2 percent premium, which decreases until September 1, 2016, at which time they may be redeemed at par. The interest rates range from 2.00% to 4.40%.

The following is a summary of changes in long-term debt.

	Balances June 30, 2005	Additions	Retirements	Balances June 30, 2006	Due within one year
Sewer revenue bonds	$ 8,675,000	$ -	$ 320,000	$ 8,355,000	$ 325,000
Deferred amortization on refunding	(126,557)	-	(15,820)	(110,737)	-
Original issue discount	(64,021)	-	(3,369)	(60,652)	-
	$ 8,484,422	$ -	$ 300,811	$ 8,183,611	$ 325,000

NOTE 8 – Business-Type Activities Debt (Continued)

Annual debt service repayment requirements to repay the Sewer Revenue Bonds, and amortization of bond issuance costs and refunding discount at June 30, 2006 are:

	Bond Service Payments			Amortization		
Year ending June 30,	Principal	Interest	Total	Issuance Cost	Refunding Discount	Total
2007	$ 325,000	$ 299,952	$ 624,952	$ 10,133	$ 19,189	$ 29,322
2008	330,000	293,402	623,402	10,133	19,189	29,322
2009	340,000	286,362	626,362	10,133	19,189	29,322
2010	350,000	278,160	628,160	10,133	19,189	29,322
2011	355,000	268,550	623,550	10,133	19,189	29,322
2012-2016	1,980,000	1,155,445	3,135,445	50,665	48,485	99,150
2017-2021	2,380,000	747,433	3,127,433	50,665	16,845	67,510
2022-2025	2,295,000	205,155	2,500,155	30,401	10,114	40,515
Totals	$ 8,355,000	$ 3,534,459	$11,889,459	$ 182,396	$ 171,389	$ 353,785

Internal Service Fund Debt

The liability related to compensated absences at June 30, 2006 is summarized below:

Debt	Balances June 30, 2005	Additions	Retirements	Balances June 30, 2006
Compensated absences	$ 923,309	$ 83,900	$ 100,000	$ 907,209

NOTE 9 – Fund Equity

The following fund has a deficit in fund balances at June 30, 2006:

Other governmental funds

Debt Service - Reinvestment $372,053

Debt Service – Reinvestment
The Reinvestment Agency incurred a debt to the City of Albany General Fund of $400,000, so as to pay the local share match of the cost of the construction of the Buchanan-Eastshore Highway interchange construction. The loan will be repaid from property tax increment revenue. Repayment of the loan will result in elimination of the negative fund balance in the Debt Service Fund.

Budget Variances – Major Funds:

- General Fund expenditures in the Community Development and Environmental Resources Department were $2,235,061, which exceeded the budgeted amount by $131,673. The excess expenditures resulted from professional services contracted to respond to requests from developers and property owners seeking permits for major construction projects. These costs were reimbursed to the City and partially accounted for the excess of "Other Revenue" of $177,935 over budget. Recreation and Community Services expenditures of $1,426,573 exceeded budget by $29,999. The primary excess expenditure occurred in professional services, due to higher than budgeted participation in classes and activities conducted by contract instructors. Because instructors are paid a percentage of participant fees, all of the excess expenditures were recovered through participant fees.

NOTE 9 – Fund Equity (Continued)

- General Fund transfers out to other funds of $4,746,177 exceeded the budgeted amount by $4,619,640. The excess transfers were made in conjunction with the establishment of internal service funds to record accrued liabilities for workers' compensation claims and reserves for general liability self insurance. Transfers were also made to capital projects funds to cover capital expenditures not funded by other specific funding sources. All transfers are detailed in the schedule at Note 11, and all transfers were approved by the City Council.

- Pension Fund expenditures of $2,005,227 exceeded the budgeted amount by $1,999,727. The excess expenditures were made to pay down PERS Safety Retirement Plans "Side Funds" as discussed in Section E of Note 13.

NOTE 10 – Net Assets

Accounting pronouncement GASB Statement 46 requires state and local government to disclose the amount of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation. As of June 30, 2006, the government-wide statement of net assets reports $10,499,672 of restricted net assets, of which $2,160,838 is restricted by enabling legislation. Restricted net assets will be used for the purposes specified by the legislation. The City's restricted net assets represent unspent resources received from granting agencies and fees and taxes levied for specific programs.

NOTE 11 – Interfund Transactions

<u>Interfund Transfers</u>

The principal purpose of interfund transfers is to match revenue, which is recorded in funds designated for specific purposes, with the expenditures funded by these revenues. Examples are the Emergency Medical Services fees that are used to pay paramedic service expenses recorded in the General Fund, and Lighting and Landscape Assessment fees that are used to pay expenditures in the debt service funds. Interfund transfers are also used to fund insurance reserves and equipment replacement funds.

NOTE 11 – Interfund Transactions (Continued)

Fund	Transfers in	Transfers out
MAJOR GOVERNMENTAL FUNDS		
General	$ 2,687,606	$ 4,746,177
Pension Property Tax	-	750,000
General Obligation Bond 2003	-	46,657
Total major funds	2,687,606	5,542,834
NON-MAJOR GOVERNMENTAL FUNDS		
Special revenue funds:		
Gas Tax	-	245,752
Transportation for Clean Air	-	120,000
Community Development Block Grant	-	1,081
Streets	35,278	-
Lighting and Landscape Assessment District	-	484,235
Emergency Medical Services	-	962,122
	35,278	1,813,190
Debt service funds:		
Debt Service APFFA	462,853	-
	462,853	-
Capital projects funds:		
Fire Equipment	59,265	-
Police Equipment	51,000	-
Emergency Medical Service Equipment	22,500	-
Fire Operations Equipment	24,000	7,728
Capital Projects	753,836	-
Albany Bulb	350,000	-
Equipment Replacement Reserve Fund	150,000	-
	1,410,601	7,728
Total non-major governmental funds	1,908,732	1,820,918
PROPRIETARY FUNDS		
Internal Service Funds:		
Worker's Compensation	2,559,101	-
General Liability	401,539	-
Compensated Absences	659,000	-
	3,619,640	-
Enterprise Fund		
Sewer Fund	-	852,226
	-	852,226
Total proprietary funds	3,619,640	852,226
Total Interfund Transfers	$ 8,215,978	$ 8,215,978

NOTE 11 – Interfund Transactions (Continued)

Interfund Balances

The following is a summary of interfund balances as of June 30, 2006:

MAJOR GOVERNMENTAL FUNDS		
General fund	$ 89,989	$ -
1996-1 Assessment District Bond Fund	-	4,460
Total major funds	89,989	4,460
NON-MAJOR GOVERNMENTAL FUNDS		
Special revenue funds:		
Community Development Block Grant	-	12,480
Alameda County Measure B	-	4,153
M.T.C. Taxi Scrip	-	1,608
Emergency Medical Services	-	37,098
	-	55,339
Capital projects funds:		
Reinvestment	-	15,360
	-	15,360
Debt service funds:		
Reinvestment Debt Service	-	14,830
	-	14,830
Total non-major governmental funds	-	85,529
Total	$ 89,989	$ 89,989

Funds are primarily borrowed from the General Fund to cover current cash flow requirements. The amounts shown above are expected to be repaid in the following fiscal year.

Advances to and from other funds at June 30, 2006 were as follows:

Fund	Advances to Other Funds	Advances from Other Funds
MAJOR GOVERNMENTAL FUNDS		
General	$ 881,398	$ -
Total major governmental funds	881,398	-
NON-MAJOR GOVERNMENTAL FUNDS		
Capital - Reinvestment	-	415,040
Debt Service - Reinvestment	-	466,358
Total non-major governmental funds	-	881,398
Total	$ 881,398	$ 881,398

NOTE 11 – Interfund Transactions (Continued)

The General Fund advanced certain monies on behalf of the Debt Service – Reinvestment Fund to finance certain costs and expenses, as set forth in the Cooperation Agreement between the City and the Albany Community Reinvestment Agency. Under the terms of the agreement, interest is accrued at rates based on the current Local Agency Investment Fund rate. Any unpaid accrued interest is added to the total obligation on an annual basis. At June 30, 2006, the balance of principal and interest was $466,358. The total obligation is subordinate to any external debt of the Agency as well as the $415,040 advance discussed below. The Agency expects to repay the obligation using future incremental tax revenues. There is no fixed due date for repayment.

A $400,000 advance from the General Fund to the Capital Projects – Reinvestment Fund was made for the specific purpose of providing funds for the development of the Buchanan-Eastshore Highway Interchange project located in the Cleveland Avenue/Eastshore Highway Project Area. This advance is expected to be repaid from property tax increment revenues, in installments of principal plus interest at rates based on the current Local Agency Investment Fund rate. At June 30, 2006, the balance of principal and interest was $415,040.

NOTE 12 – Albany Police and Fire Relief and Pension Plan

A. Plan Description

The Albany Police and Fire Relief and Pension Plan (Plan) is a sole employer defined benefit pension plan for the City of Albany's police and fire employees hired before July 1, 1971. The Plan is closed to new participants. Participants in the plan are as follows:

Terminated vested participants:	
Retired	15
Disabled	9
Survivor	5
	29

Employees who retire, regardless of age, with 30 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to two-thirds of the amount of the average yearly compensation attached to the rank he or she held during three years preceding retirement. A member may retire with an early allowance (computed in the same manner as above, but reduced by one-thirtieth for each year of service less than thirty) after attaining age 50 and with 25 years credited service. The Plan also provides death, disability, and survivor benefits. These benefit provisions and all other requirement are established by City Charter.

B. Cash and Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange, are valued at the last reported sales price. Investments that do not have an established market value are reported at estimated fair value. Net gains and losses, includes gains and losses from the sale of investments and unrealized net increases or decreases in market value.

NOTE 12 – Albany Police and Fire Relief and Pension Plan (Continued)

The Plan's Investment Policy and the California Government Code allow the Plan to invest in the following type of investments:

- Fixed Income Securities – Fixed income securities include U.S. Government Obligations, federally sponsored credit agency securities, corporate bonds, Canadian government bonds, Yankee bonds, non-governmental asset-backed securities, collateralized mortgage obligations rated investment grade, money market funds, STIF accounts, certificates of deposit, bankers acceptances, commercial paper, or any other short-term securities rated investment grade Guaranteed Investment Contracts rated A+ by A. M. Best Company.

- Equity Securities – Equity securities are comprised of common stocks, convertible and non-convertible preferred stocks, convertible debt securities, and American Depository Receipts (ADRs) of foreign securities.

- Each type of investment is subject to a target allocation and includes maximum and minimum general guidelines as a percentage of the overall portfolio as set forth in the investment policy. No more than 5 percent of any single equity portfolio may be invested in one equity security at cost. Except for securities issued by the U.S. Government and its agencies, no more than 5 percent of any single fixed income portfolio based on market value shall be invested in securities of any one issuing corporation at the time of purchase.

- Common and convertible preferred stocks should be of investment grade quality and listed on the New York Stock Exchange, American Stock Exchange, NASDAQ system, or national market exchange. Fixed income securities must have a rating of BBB or higher by Standard & Poor's or Baa or higher by Moody's.

In accordance with the Plan's investment policy, the Plan can invest no more than 10% of the total investments in cash and cash equivalents, 45% in equities, and 75% in fixed income securities. As of June 30, 2006, the rating on the Plan's fixed income securities met the rating requirements set by the Plan's policy as described above.

NOTE 12 – Albany Police and Fire Relief and Pension Plan (Continued)

The Plan's assets (except for LAIF) are in the bank's name, but are held by its Trust Department in a separate account in the Plan's name. As of June 30, 2006, the Plan held the following securities:

		Remaining Maturity (in Months)			
Investment Type	Fair Value	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	$ 1,526,143	$ 1,089,309	$ 316,560	$ 120,274	-
Government-related securities	258,971	-	-	35,100	$ 223,871
Mortgage-related debt instruments	3,233,794	-	-	372,993	2,860,801
Finance-related debt instruments	537,330	-	-	94,681	442,649
Industrial-related debt instruments	1,469,475	-	89,279	205,282	1,174,914
Transportation-related debt instruments	504,495	-	-	-	504,495
Common stocks	6,186,446	6,186,446	-	-	-
Local Agency Investment Fund (LAIF)	163,428	163,428	-	-	-
Money market funds	582,117	582,117	-	-	-
Total	$ 14,462,199	$ 8,021,300	$ 405,839	$ 828,330	$ 5,206,730

C. Funding Status and Progress

The actuarial accrued liability presented below was determined as part of an actuarial valuation at June 30, 2003. The projected unit cost method and significant actuarial assumptions were used in determining the actuarial accrued liability and included: (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, and (b) projected inflation rate of 4.5 percent per year. The Plan's unfunded actuarial accrued liability was projected to be fully funded by June 30, 2004.

In valuing Plan assets used in determining funding status, the actuary spreads realized and unrealized gains and losses over five years. That is, only 20 percent of realized and unrealized gains and losses are recognized in any one-year. These modified asset values are called the Actuarial Book Value.

An actuarial valuation of the Plan as of June 30, 2006 is scheduled to be completed by December 15, 2006. The unfunded actuarial accrued liability for participants at June 30, 2003 (most recent available) is as follows:

Actuarial accrued liability	
Retirees and beneficiaries currently receiving benefits	$ 14,950,360
Current employees vested	-
Total actuarial accrued liability	14,950,360
Actuarial book value of assets available for benefits	14,415,847
Unfunded actuarial accrued liability	$ 534,513

NOTE 12 – Albany Police and Fire Relief and Pension Plan (Continued)

D. Contribution Requirements and Contribution Made

There are no active Plan participants and the plan is closed to new participants. Because the Plan carried an unfunded actuarial liability through June 30, 2003, an employer contribution was made each year, utilizing revenue from the property override tax initiated in 1982 to partially fund pension cost. Following the contribution of $534,513 made in the fiscal year ended June 30, 2004, the Plan is fully funded and no additional contributions have been required. Actuarial valuation of the Plan continues on a three-year cycle, and any newly determined unfunded liability will be disposed by employer contributions.

The following is the three-year trend information for the Plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ 534,513	100%	$ -
6/30/05	-	0%	-
6/30/06	-	0%	-

E. Contributions

Annual contributions received by the Plan were as follows:

Year	Employee	Employer	Override	Total
1994-1995	$ 20,704	$ 20,704	$ 783,008	$ 824,416
1995-1996	23,738	23,738	815,722	863,198
1996-1997	19,110	19,110	853,184	891,404
1997-1998	17,396	17,396	859,910	894,702
1998-1999	18,451	18,451	943,373	980,275
1999-2000	14,798	14,798	1,046,235	1,075,831
2000-2001	11,175	11,175	1,006,065	1,028,415
2001-2002	7,199	7,199	1,164,678	1,179,076
2002-2003	2,885	2,885	1,251,176	1,256,946
2003-2004	-	-	534,513	534,513

F. The City implemented Governmental Accounting Standards Board Statement No. 25, “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans” during the 1996-97 fiscal year.

G. Separate stand-alone financial statements for the Police and Fire Relief and Pension Plan can be obtained from the City of Albany administrative offices located at 1000 San Pablo Avenue, Albany, CA 94706.

NOTE 13 – PERS Pension Plan

A. Plan Description

The City of Albany contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office – 400 P Street – Sacramento, California 95814.

B. Funding Policy

Participants are required to contribute 7 percent (9 percent for safety employees) of their annual covered salary. The City's actuarially determined contribution rates for fiscal year 2005-06 were:

City Miscellaneous	11.446%
Safety Police	26.619%
Safety Fire 7/1/05 - 3/31/06	17.699%
Safety Fire 4/1/06 - 6/30/06	24.700%
Albany JPA Miscellaneous	11.322%

As discussed in paragraph E of this note, the City's CalPERS plans have been placed in risk pools, and beginning in fiscal year 2005-06 the employer contribution to each of the plans will be based on a combination of a declining percentage of the normal cost of the plan as a stand-alone plan and an increasing percentage of the pools normal cost until fiscal year 2010-11 when the plans will be subject to 100% of the pool's normal cost.

C. Annual Pension

For fiscal 2005-06, the City's annual pension cost of $1,874,797 for PERS plans was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service age, and type of employment, and (c) 3.25 percent per year payroll growth. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments such that the actuarial value of assets is 90% and 110% of the actual market value. Unfunded actuarial accrued liabilities are being amortized as a level percentage of assumed future payrolls. All changes in liability due to plan amendments are amortized separately over a closed 20-year period. Gains and losses are tracked and 10% of the net unamortized gain or loss is amortized each year.

NOTE 13 – PERS Pension Plan (Continued)

D. Three Year Trend Information – Combined Contributions Made

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$ 980,850	100%	$ -
6/30/2005	1,421,461	100%	-
6/30/2006	1,874,797	100%	-

E. Risk Pool & Side Funds

As part of a program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term experience factors, PERS placed plans of 100 or fewer members into “risk pools.” Formation of the risk pools required the establishment of “side funds,” that represent unfunded liabilities to be amortized over periods of 9 to 18 years for the City’s four plans. As of June 30, 2004 valuations, the balances of the side funds totaled $4,360,431. In this fiscal year, lump sum payments totaling $664,786 were made to pay off the side fund liability for both City Miscellaneous plans. Lump sum payments totaling $2,000,000 were made in June 2006 to reduce the side funds liabilities of the Safety Police and Fire plans. Reduction of side fund balances has the effect of reducing future required employer contributions.

F. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer’s existing systems as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City’s Local 790 union members and part-time employees are covered under Social Security, which requires these employees and the City to each contribute 6.2 percent of the employee’s pay to the Social Security Fund. Total contributions to Social Security during the year ended June 30, 2006 were $178,867, of which the City paid one-half.

The City’s seasonal and temporary employees are covered under an ICMA alternative plan that requires these employees to contribute 7.5 percent of the pay to the plan. Total contributions to the plan during the year ended June 30, 2006 were $20,025. There is no matching contribution requirement for the City.

NOTE 14 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

NOTE 14 – Risk Management (Continued)

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

A. Risk Pools

Bay Cities Joint Powers (BCJPIA) Insurance Authority covers general liability claims in an amount up to $14,000,000. The City has a deductible or uninsured liability of up to $50,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to the limit. The City contributed $259,438 for coverage during the fiscal year ended June 30, 2006.

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2006 is as follows:

Total assets	$14,681,898
Total liabilities	10,967,628
Net assets	$3,714,270
Total revenues	$8,910,573
Total expenses	8,471,833
Net revenue	$438,740

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the $1 million coverage provided by its pool. The City has a self-insured retention of $150,000 for claims, and the BCJPIA pool covers claims from $150,000 to $500,000. Claims from $500,000 to $50 million are covered by LAWCX.

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2006, the City incurred costs of $201,450 for coverage premiums and administration of the risk pools.

During the past four fiscal (claims) years, none of the above programs have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Financial statements for BCJPIA and LAWCX may be obtained from Bickmore Risk Services, 1831 K Street, Sacramento, CA 95814.

NOTE 14 – Risk Management (Continued)

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported, based on claims experience. Claims activity for the years ended June 30, 2006 and June 30, 2005 were as follows:

	2006			Fiscal 2005
	Workers' Compensation	General Liability	Total	Total
Claims liabilities, beginning of year	$ 2,979,000	$ 271,843	$ 3,250,843	$ 2,919,843
Provision for claims losses	239,101	129,696	368,797	765,166
Claim payments	(189,101)	(79,696)	(268,797)	(434,166)
Change of estimates	(659,000)	-	(659,000)	-
Claims liabilities, end of year	$ 2,370,000	$ 321,843	$ 2,691,843	$ 3,250,843

NOTE 15 – Landfill Postclosure Costs

The City of Albany operated a Class III landfill (construction debris only) in a 36-acre site known as the Albany Bulb, until 1974. In 1999 the California Regional Water Control Board (Board) issued a closure order for this site. On May 16, 2005, the Board issued a finding that the City was in compliance with the closure order and that no further action is required for the site. The City anticipates transferring this site to another governmental entity to be developed for public use. The City has accrued an unfunded liability of $750,000 for potential costs related to the transfer of the site.

NOTE 16 – Related Party Transaction

In September 2001, per the employment agreement between the City and the City Administrator, the City loaned the City Administrator $400,000 to be used toward the purchase of her principal residence. The outstanding principal balance of the loan at June 30, 2006 was $368,856 (see Note 4).

NOTE 17 – Commitments and Contingent Liabilities

The City participates in several Federal and State grant programs. These programs have been audited by the City's independent accountants when required, in accordance with the provisions of the Federal Single Audit Act 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.

NOTE 17 – Commitments and Contingent Liabilities (Continued)

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the City.

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APPENDIX D

FORM OF LEGAL OPINION

August 14, 2007

City Council
City of Albany
1000 San Pablo Avenue
Albany, California 94706

OPINION: $6,500,000 City of Albany General Obligation Bonds, Election of 2002, Series 2007

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Albany (the "City") of its $6,500,000 aggregate principal amount of City of Albany General Obligation Bonds, Election of 2002, Series 2007, dated August 14, 2007 (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on July 16, 2007 (the "Resolution") and a Paying Agent Agreement dated as of August 1, 2007 (the "Paying Agent Agreement") between the City and The Bank of New York Trust Company, N.A., as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Paying Agent Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly organized and validly existing as a charter city under the Constitution and laws of the State of California, with the power to adopt the Resolution, to execute and deliver the Paying Agent Agreement and to perform the agreements on its part contained therein, and to issue the Bonds.

2. The Bonds are valid and binding general obligations of the City.

3. The City has the power, is obligated, and in the Paying Agent Agreement has covenanted, to levy ad valorem taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon.

4. The 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 tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

August 14, 2007

City Council
City of Albany
1000 San Pablo Avenue
Albany, California 94706

OPINION: $5,000,000 City of Albany General Obligation Bonds, Election of 2006, Series 2007

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Albany (the “City”) of its $5,000,000 aggregate principal amount of City of Albany General Obligation Bonds, Election of 2006, Series 2007, dated August 14, 2007 (the “Bonds”). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California, a resolution adopted by the City Council of the City on July 16, 2007 (the “Resolution”) and a Paying Agent Agreement dated as of August 1, 2007 (the “Paying Agent Agreement”) between the City and The Bank of New York Trust Company, N.A., as paying agent. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Paying Agent Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly organized and validly existing as a charter city under the Constitution and laws of the State of California, with the power to adopt the Resolution, to execute and deliver the Paying Agent Agreement and to perform the agreements on its part contained therein, and to issue the Bonds.

2. The Bonds are valid and binding general obligations of the City.

3. The City has the power, is obligated, and in the Paying Agent Agreement has covenanted, to levy ad valorem taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon.

4. The 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 tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Albany (the "Issuer") in connection with the issuance of $6,500,000 City of Albany General Obligation Bonds, Election of 2002, Series 2007 and $5,000,000 City of Albany General Obligation Bonds, Election of 2006, Series 2007 (collectively, the "Bonds"). The Bonds are being issued pursuant to a Paying Agent Agreement dated as of August 1, 2007 (the "Agreement") between the Issuer and The Bank of New York Trust Company, N.A., as paying agent. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Central Post Office*" means DisclosureUSA (information regarding which is currently located at www.DisclosureUSA.org), the Internet-based filing system approved by the Securities and Exchange Commission to receive and submit filings to the National Repositories, or any similar filing system approved by the Securities and Exchange Commission.

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Issuer's fiscal year (which date would be the April 1 following the current end of the City's fiscal year on June 30), commencing with the report for the 2006-07 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In lieu of filing the Annual Report with each Repository, the Issuer or the Dissemination Agent may file the Annual Report with the Central Post Office, with a copy to the Participating Underwriter. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the Issuer or the Dissemination Agent may file the notice with the Central Post Office, with a copy to the Paying Agent (if different than the Dissemination Agent) and the Participating Underwriter.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Issuer), file a report with the Issuer 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 Issuer's Annual Report shall contain or include by reference the following:

(a) Audited Financial Statements for the most recently completed fiscal year prepared in accordance with GAAP, as in effect from time to time, as such principles are modified by GASB (or, if Audited Financial Statements are not available, unaudited Financial

Statements will be provided, if available, and Audited Financial Statements will be provided as soon as available);

(b) The approved budget of the Issuer for the current fiscal year;

(c) Changes, if any, in the operation of the County of Alameda's Teeter Plan affecting the Issuer;

(d) Any change the County of Alameda's investment pool which would affect the Issuer's access to property tax collections used to pay debt service on the Bonds;

(e) Assessed value of taxable property within the jurisdiction of the Issuer;

(f) Property tax collection delinquencies for the Issuer if the Issuer is no longer a participant in the County of Alameda's Teeter Plan;

(g) Amount of all general obligation debt of the Issuer outstanding, and total scheduled debt service on such general obligation debt; and

(h) top ten property tax assessees for current fiscal year, as measured by secured assessed valuation and percentage of total secured assessed value.

Any or all of the items listed above may be modified as appropriate to reflect new industry standards as they evolve and are endorsed by the California Public Securities Association, and may be included by specific references to other documents including official statements to debt issues of Issuer 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 Issuer shall clearly identify each such other document so included by reference.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the annual financial information 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 type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principals 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 principals and those prepared on the basis of the former accounting principals. The comparison shall include a qualitative discussion of the differences in the accounting principals and the impact of the change in the accounting principals on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principals shall be sent to the Repositories.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies
2. non-payment related defaults
3. modifications to rights of Bondholders
4. optional, contingent or unscheduled bond calls
5. defeasances
6. rating changes
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties
9. unscheduled draws on credit enhancements reflecting financial difficulties
10. substitution of credit or liquidity providers, or their failure to perform
11. release, substitution, or sale of property securing repayment of the bonds

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Agreement.

(d) In lieu of filing the notice of the occurrence of a Listed Event with each Repository, the Issuer or the Dissemination Agent may file the notice of the occurrence of a Listed Event with the Central Post Office, with a copy to the Paying Agent (if different than the Dissemination Agent) and the Participating Underwriter.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The Issuer 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 Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Issuer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer 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 the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Agreement for amendments to the Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the Paying Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Owner 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 Issuer 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 Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer 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 shall have only such duties as are specifically set forth in this Disclosure

Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August 14, 2007

CITY OF ALBANY

By:______________________________

Its:______________________________

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Albany
Name of Bond Issue:	$6,500,000 City of Albany General Obligation Bonds, Election of 2002, Series 2007
	$5,000,000 City of Albany General Obligation Bonds, Election of 2006, Series 2007
Date of Issuance:	August 14, 2007

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.06 of the Paying Agent Agreement dated August 1, 2007 between the Issuer and the Paying Agent. The Issuer anticipates that the Annual Report will be filed by _______________.

Dated: _______________

CITY OF ALBANY

By: ________________________________
Title: ______________________________

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APPENDIX F

FORMS OF MUNICIPAL BOND INSURANCE POLICIES

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ] **Policy No:** [ ]

BONDS: [ ] **Effective Date:** [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California, the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN	**SPECIMEN**
Name:	Name:
Title:	Title:

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

STD-R-CA-7
01/05

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for its accuracy. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal, or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered initially 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 certificate for each maturity will be issued for the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive

Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 City on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent (as defined in this Official Statement), the City, or the County, 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 City or the Paying Agent, 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 reasonable notice to the City, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, fully registered physical certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, payments of principal of and interest on the Bonds shall be payable as described under the caption "THE BONDS - Payment", and transfers will be governed as described under the caption "Registration, Transfer and Exchange of Bonds."