

RATINGS: Moody's: "Aa2"
S&P: "AA+"
Fitch: "AA+"
See "Ratings" herein.

NEW ISSUES – BOOK-ENTRY ONLY

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) evidenced by the 2010A Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest (and original issue discount) evidenced by the 2010A Certificates and 2010B Certificates is exempt from State of California personal income tax. See "TAX MATTERS" herein.



**CITY OF NEWPORT BEACH
CERTIFICATES OF PARTICIPATION**

\$20,085,000
2010A (TAX EXEMPT)
**(CIVIC CENTER PROJECT/CENTRAL
LIBRARY REFUNDING)**

\$106,575,000
**2010B (FEDERALLY TAXABLE DIRECT
PAY BUILD AMERICA BONDS)**
(CIVIC CENTER PROJECT)

Dated: Date of Delivery

Due: July 1, as shown below

The City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) in the aggregate principal amount of \$20,085,000 (the "2010A Certificates") and the City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project) in the aggregate principal amount of \$106,575,000 (the "2010B Certificates" and, together with the 2010A Certificates, the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2010, by and among the City of Newport Beach (the "City"), the Newport Beach Public Facilities Corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the "Trustee"). The 2010A Certificates evidence fractional and undivided interests in the right to receive certain lease payments (the "2010A Lease Payments") to be made by the City pursuant to a Lease/Purchase Agreement, dated as of November 1, 2010, by and between the City and the Corporation, pursuant to which the City will sublease from the Corporation certain real property and all the improvements thereon, as more particularly described herein. The 2010B Certificates evidence fractional and undivided interests in the right to receive certain other lease payments (the "2010B Lease Payments" and, together with the 2010A Lease Payments, the "Lease Payments") to be made by the City pursuant to the Lease. See "Security and Sources of Payment for the Certificates – Lease Payments" herein. The proceeds of the 2010A Certificates will be applied to prepay certain outstanding certificates of participation and finance a portion of the costs of the acquisition, improvement and equipping of a new Civic Center (the "Civic Center Project"), as described herein. The proceeds of the 2010B Certificates will be applied to provide additional financing for the Civic Center Project, as described herein. The proceeds of the Certificates will also be applied to pay certain costs of issuance incurred in connection with the Certificates. See "Plan of Financing" and "Estimated Sources and Uses of Funds" herein.

The City has designated the 2010B Certificates as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. The interest with respect to the 2010B Certificates is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive periodic payments from the United States Treasury equal to 35% of the interest payable on the 2010B Certificates. See "The Certificates – Designation of the 2010B Certificates as Build America Bonds" herein.

Interest represented by the Certificates is payable on January 1 and July 1 of each year, commencing on January 1, 2011. Principal installments due with respect to the Certificates are payable annually on July 1 of each year commencing July 1, 2011. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of \$5,000, or any integral multiple thereof. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the 2010A Certificates are payable directly to DTC by the Trustee from 2010A Lease Payments. Principal and interest payments represented by the 2010B Certificates are payable directly to DTC by the Trustee from 2010B Lease Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to direct participants of DTC, who will in turn disburse such payments to the beneficial owners of the Certificates. See Appendix D – "Book-Entry System" attached hereto.

The Certificates are subject to prepayment, as described herein. See "The Certificates – Optional Prepayment" and "The Certificates – Mandatory Prepayment" herein.

MATURITY SCHEDULE
(See inside cover)

THE CITY IS OBLIGATED TO PAY LEASE PAYMENTS FROM ANY SOURCE OF LEGALLY AVAILABLE FUNDS, AND THE CITY HAS COVENANTED IN THE LEASE TO MAKE THE NECESSARY ANNUAL APPROPRIATIONS THEREFOR. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE SHALL CONSTITUTE A CURRENT EXPENSE OF THE CITY AND SHALL NOT IN ANY WAY BE CONSTRUED TO BE A DEBT OF THE CITY, OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY APPLICABLE CONSTITUTIONAL OR STATUTORY LIMITATION OR REQUIREMENTS CONCERNING THE CREATION OF INDEBTEDNESS BY THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL ANYTHING CONTAINED IN THE LEASE CONSTITUTE A PLEDGE OF GENERAL REVENUES, FUNDS OR MONEYS OF THE CITY BEYOND THE FISCAL YEAR FOR WHICH THE CITY HAS APPROPRIATED FUNDS TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE OR AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

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

The Certificates will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City and the Corporation by David Hunt, City Attorney, and Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and for the Underwriters by their counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about November 30, 2010.

STONE & YOUNGBERG

De La Rosa & Co.

BofA Merrill Lynch

Raymond James

Dated: November 17, 2010.

MATURITY SCHEDULE

\$20,085,000
CITY OF NEWPORT BEACH
CERTIFICATES OF PARTICIPATION 2010A (TAX EXEMPT)
(CIVIC CENTER PROJECT/CENTRAL LIBRARY REFUNDING)

<u>Maturity Date (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>	<u>Maturity Date (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
2011	\$1,740,000	2.00%	0.65%	651779BH2	2016	\$3,060,000	4.00%	2.35%	651779BN9
2012	2,690,000	3.00	0.95	651779BJ8	2017	3,185,000	4.00	2.74	651779BP4
2013	2,775,000	3.00	1.27	651779BK5	2018	410,000	4.00	3.11	651779BQ2
2014	2,860,000	3.00	1.67	651779BL3	2019	425,000	4.00	3.44	651779BR0
2015	2,940,000	4.00	2.00	651779BM1					

\$106,575,000
CITY OF NEWPORT BEACH
CERTIFICATES OF PARTICIPATION 2010B
(FEDERALLY TAXABLE DIRECT PAY BUILD AMERICA BONDS)
(CIVIC CENTER PROJECT)

<u>Maturity Date (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP[†]</u>	<u>Maturity Date (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP[†]</u>
2018	\$2,900,000	4.451%	100.00%	651779CA6	2021	\$3,165,000	5.351%	100.00%	651779BT6
2019	2,980,000	4.751	100.00	651779CB4	2022	3,275,000	5.601	100.00	651779BU3
2020	3,065,000	5.051	100.00	651779BS8	2023	3,390,000	5.851	100.00	651779BV1

\$17,800,000 7.018% 2010B Term Certificates due July 1, 2030 – Price: 100.00% – CUSIP[†]: 651779BY5
 \$70,000,000 7.168% 2010B Term Certificates due July 1, 2040 – Price: 100.00% – CUSIP[†]: 651779BZ2

[†] Copyright, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc., and is set forth herein for convenience of reference only. The City, the Corporation and the Underwriter do not assume responsibility for the accuracy of such data.

**CITY OF NEWPORT BEACH
ORANGE COUNTY, CALIFORNIA**

MAYOR AND CITY COUNCIL

Keith D. Curry, *Mayor, District 7*
Michael F. Henn, *Mayor Pro Tem, District 1*
Steven Rosansky, *Council Member, District 2*
Rush Hill, *Council Member, District 3*
Leslie J. Daigle, *Council Member, District 4*
Edward D. Selich, *Council Member, District 5*
Nancy Gardner, *Council Member, District 6*

CITY STAFF

David Kiff, *City Manager*
David R. Hunt, *City Attorney*
Leilani I. Brown, *City Clerk*
Tracy McCraner, *Director of Administrative Services/Treasurer*
Dan Matusiewicz, *Deputy Director of Administrative Services/Treasurer*
Stephen Badum, *Public Works Director*
David Webb, *City Engineer*

NEWPORT BEACH PUBLIC FACILITIES CORPORATION

Board of Directors

Keith D. Curry, *Chairman*
Michael F. Henn, *Vice Chairman*
Leslie Daigle
Nancy Gardner
Steven Rosansky
Edward D. Selich
Don Webb

David Kiff, *Secretary*
Tracy McCraner, *Chief Financial Officer*

Special Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Disclosure Counsel

Hawkins Delafield & Wood LLP
Los Angeles, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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

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

The information set forth herein has been furnished by the City and by other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the 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, the Corporation or any other parties described herein since the date hereof. All summaries of the Certificates, the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement (each as described herein) and other documents summarized herein, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

The City maintains a website at <http://www.newportbeachca.gov>. However, the information presented on such website is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Certificates.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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**CITY OF NEWPORT BEACH
CERTIFICATES OF PARTICIPATION**

\$20,085,000
2010A (TAX EXEMPT)
(CIVIC CENTER PROJECT/CENTRAL
LIBRARY REFUNDING)

\$106,575,000
2010B (FEDERALLY TAXABLE DIRECT PAY
BUILD AMERICA BONDS)
(CIVIC CENTER PROJECT)

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Lease (herein defined). See Appendix C – “Summary of Principal Legal Documents – Definitions” attached hereto.

General

This Official Statement, including the cover page, the inside cover page and the Appendices attached hereto (the “Official Statement”), provides certain information concerning the sale and delivery of the City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) in the aggregate principal amount of \$20,085,000 (the “2010A Certificates”) and the City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project) in the aggregate principal amount of \$106,575,000 (the “2010B Certificates” and, together with the 2010A Certificates, the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2010, by and among the City of Newport Beach (the “City”), the Newport Beach Public Facilities Corporation (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the “Trustee”). The proceeds of the 2010A Certificates will be applied to prepay the outstanding City of Newport Beach Refunding Certificates of Participation, Series 1998 (Central Library Building Project) (the “1998 Certificates”), and finance a portion of the costs of the acquisition, improvement and equipping of a new Civic Center (the “Civic Center Project”), as described herein. The proceeds of the 2010B Certificates will be applied to provide additional financing for the Civic Center Project, as described herein. The proceeds of the Certificates will also be applied to pay certain costs of issuance incurred in connection with the Certificates. See “Plan of Financing” and “Estimated Sources and Uses of Funds” herein.

In connection with the prepayment of the 1998 Certificates and the financing of the Civic Center Project, the City will lease certain real property and all improvements thereon, as more particularly described herein (the “Leased Premises”), to the Corporation pursuant to a Site Lease, dated as of November 1, 2010 (the “Site Lease”), by and between the City and the Corporation. The City will sublease the Leased Premises from the Corporation pursuant to a Lease/Purchase Agreement, dated as of November 1, 2010 (the “Lease”), by and between the City and the Corporation. The 2010A Certificates evidence the right to receive certain fractional and undivided interests in the right to receive certain lease payments (the “2010A Lease Payments”) to be made by the City pursuant to the Lease as rental for the Leased Premises. The 2010B Certificates evidence fractional and undivided interests in the right to receive certain other lease

payments (the “2010B Lease Payments” and, together with the 2010A Lease Payments, the “Lease Payments”) to be made by the City pursuant to the Lease as rental for the Leased Premises.

Security and Source of Payment for the Certificates

Under the Lease, in consideration for the use and occupancy of the Leased Premises, the City has agreed to make certain payments designated as Lease Payments and certain other payments designated as Prepayments with respect to the Leased Premises (the “Prepayments”), in the amounts, at the times and in the manner set forth in the Lease. Lease Payments are scheduled to be sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates.

The City has covenanted in the Lease to take such action as may be necessary to include all Lease Payments and such amounts as shall be required for the payment of all administrative costs and charges (the “Additional Payments”) (to the extent the amounts of such Additional Payments are known to the City at the time its annual budget is proposed), due under the Lease in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year.

Pursuant to an Assignment Agreement, dated as of November 1, 2010 (the “Assignment Agreement”), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates all of the Corporation’s rights, title, and interest under the Site Lease and all of the Corporation’s rights, title and interest under the Lease (excepting only the Corporation’s rights to indemnity, the payment of its fees and expenses and certain consents and approvals), including the right to receive Lease Payments, Prepayments and Additional Payments from the City under the Lease or the Trust Agreement, as applicable. See Appendix C – “Summary of Principal Legal Documents” attached hereto.

THE CITY IS OBLIGATED TO PAY LEASE PAYMENTS FROM ANY SOURCE OF LEGALLY AVAILABLE FUNDS, AND THE CITY HAS COVENANTED IN THE LEASE TO MAKE THE NECESSARY ANNUAL APPROPRIATIONS THEREFOR. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE SHALL CONSTITUTE A CURRENT EXPENSE OF THE CITY AND SHALL NOT IN ANY WAY BE CONSTRUED TO BE A DEBT OF THE CITY, OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY APPLICABLE CONSTITUTIONAL OR STATUTORY LIMITATION OR REQUIREMENTS CONCERNING THE CREATION OF INDEBTEDNESS BY THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL ANYTHING CONTAINED IN THE LEASE CONSTITUTE A PLEDGE OF GENERAL REVENUES, FUNDS OR MONEYS OF THE CITY BEYOND THE FISCAL YEAR FOR WHICH THE CITY HAS APPROPRIATED FUNDS TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE OR AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The City’s obligation to pay Lease Payments is, however, subject to abatement in the event of damage, destruction, condemnation or title defect that causes a substantial interference with the use and possession of all or a portion of the Leased Premises by the City. During periods of abatement, the City shall remain obligated to make Lease Payments and Additional Payments under the Lease, as an obligation of the City payable from a special fund, (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Leased Premises, or any portion thereof, are available to pay the amount which would otherwise be abated and (ii) to the extent that moneys are

available in the Lease Payment Fund to pay the amount which would otherwise be abated. See “Security and Sources of Payment for the Certificates – Lease Payments” and “– Abatement” herein.

The City

The City was incorporated under the general laws of the State on September 1, 1906. The City is located in the coastal center of the County of Orange (the “County”), approximately 89 miles north of San Diego, 15 miles south of Long Beach and 45 miles southwest of Los Angeles. As of 2010, the City had a permanent population of 86,738, which typically grows to over 100,000 during the summer months, including 20,000 to 100,000 tourists daily. The City’s adopted budget for Fiscal Year 2010-11 (the “Fiscal Year 2010-11 Adopted Budget”) is approximately \$226.7 million, approximately \$149.3 million of which relates to the City’s General Fund. See Appendix A – “City of Newport Beach Financial Information and Regional Economic and Demographic Information” and Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009” attached hereto.

The Certificates

The Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery (the “Delivery Date”) and mature on the dates set forth on the inside cover page hereof. The interest represented by the 2010A Certificates and the 2010B Certificates will represent the sum of the portions of the 2010A Lease Payments and 2010B Lease Payments, respectively, designated as interest components coming due on the Interest Payment Dates in each year (each an “Interest Component”). The principal represented by the 2010A Certificates and the 2010B Certificates will represent the sum of the portions of the 2010A Lease Payments and the 2010B Lease Payments, respectively, designated as principal components coming due on the applicable Interest Payment Dates in each year (each a “Principal Component”). Interest represented by the Certificates is payable on January 1 and July 1 of each year, commencing on January 1, 2011 (each, an “Interest Payment Date”).

The City has designated the 2010B Certificates as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. The interest with respect to the 2010B Certificates is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive periodic payments (“Refundable Credits”) from the United States Treasury equal to 35% of the interest payable on the 2010B Certificates.

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the 2010A Certificates are payable directly to DTC by the Trustee from 2010A Lease Payments. Principal and interest payments represented by the 2010B Certificates are payable directly to DTC by the Trustee from 2010B Lease Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to direct participants of DTC, who will in turn disburse such payments to the beneficial owners of the Certificates. See Appendix D – “Book-Entry System” attached hereto.

The Certificates are subject to prepayment, as described herein. See “The Certificates – Optional Prepayment” and “The Certificates – Mandatory Prepayment” herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Special Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) evidenced by the 2010A Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest (and original issue discount) evidenced by the 2010A Certificates and 2010B Certificates is exempt from State of California personal income tax. See “TAX MATTERS” herein.

Continuing Disclosure

The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (the “Repository”) for purposes of Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See “Continuing Disclosure” herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made. The City has complied in all material respects in the last five years with each of its previous undertakings with regard to the Rule to provide annual reports and notices of material events.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. Neither the City nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, whether or not they prove to be correct.

Miscellaneous

The Certificates will be offered when, as and if issued, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions.

The description herein of the Trust Agreement, the Site Lease, the Lease and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – “Summary of Principal Legal Documents” attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at The Bank of New York Mellon Trust Company, N.A., 700 South Flower Street, Suite 500, Los Angeles, California 90017.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Corporation since the date hereof.

THE LEASED PREMISES

Pursuant to the Site Lease, the City will lease to the Corporation the Leased Premises. Pursuant to the Lease, the Corporation will lease the Leased Premises back to the City, and the City will make Lease Payments in consideration for the use and occupancy of the Leased Premises. The Leased Premises will initially consist of nine separate properties with an estimated aggregate value of \$128.9 million. Each of these Leased Premises is described below:

Newport Coast Community Center. The Newport Coast Community Center (the “Community Center”) is a 16,865 square-foot facility located at 6401 San Joaquin Hills Road in Newport Coast. The Community Center includes two conference rooms, a banquet room, warming kitchen, gymnasium, library book drop, indoor/outdoor stage and large outdoor patio, and is situated on 133,548 square feet of land. Constructed in 2007, the Community Center is valued at approximately \$17.6 million.

OASIS Senior Center. The OASIS Senior Center (the “Senior Center”) consists of three single-story buildings connected by covered walkways. The wood framed, 36,467 square-foot facility is located at 800 Marguerite Avenue in Corona Del Mar, at the intersection of Marguerite Avenue and Fifth Avenue, on 169,884 square feet of land. This state-of-the-art facility was designed by Robert R. Coffee, Architect & Associates of Newport Beach and houses educational classrooms, art and crafts programs, health and fitness activities, social and assembly functions, and administrative offices. The Senior Center also includes meeting and services rooms, family rooms, a library, a computer room, an activities/banquet hall, walkways through the outdoor areas, various active and passive park amenities and a parking area. The Senior Center is valued at approximately \$29.8 million.

Central Library. The Central Library (the “Central Library”) is a two-story, 50,930 square-foot facility located at 1000 Avocado Avenue in Newport Beach, near the intersection of MacArthur Boulevard and Pacific Coast Highway, on 174,240 square feet of land (the “Central Library Site”). The Central Library was designed by Simon Martin-Vegue Winkelstein Moris of San Francisco in association with James L. Piridy of Newport Beach and includes a children’s room, a young adult area, a public meeting room and exhibit space for highlighting works of community artists. The Central Library houses current books, magazines, newspapers, sound and video recordings and various reference collections. The Central Library was constructed in 1997 with proceeds of the 1998 Certificates, all of which will be prepaid with a portion of the proceeds of the 2010A Certificates, as further described below. See “Plan of Financing – Prepayment of the 1998 Certificates” herein. The Central Library is valued at approximately \$28.7 million, prior to the improvements to be financed with a portion of the proceeds of the Certificates. See “Plan of Financing - The Civic Center Project” herein.

Mariners Library. The Donna and John Crean Mariners Branch Library (the “Mariners Library”) is a one-story, 15,305 square-foot linear design built facility located at 1300 Irvine Avenue in Newport Beach on 64,355 square feet of land. The Mariners Library was designed by Thirtieth Street Architects of Newport Beach and serves as a public library for local residents and the school library for Mariners Elementary School. The Mariners Library features high ceilings and many windows to allow natural lighting in the main reading areas, which look out on Mariners Park. Highlights of the Mariners Library include the Friends Children’s Room, the Teen Corner, separate computer centers for adults, teens, and children, self-serve checkout machines as well as a fully-staffed customer service desk, wireless Internet

access throughout facility, and the Vincent Jorgensen Room, with a student study center for after-school and community programs. Constructed in 2006, the Mariners Library is valued at approximately \$10.1 million.

Fire Station 3. Fashion Island Fire Station 3 (“Fire Station 3”) is a 13,605 square-foot facility located at 868 Santa Barbara Drive in Newport Beach. Fire Station 3 is a two-story structure that houses, among other things, an apparatus room, a shop, storage rooms, administrative offices, a kitchen, a dining room, a fitness room, a conference room, a communications room and dormitories on 49,380 square feet of land. Constructed in 1971, Fire Station 3 is valued at approximately \$8.1 million.

Fire Station 4. Balboa Island Fire Station 4 (“Fire Station 4”) is a 4,400 square-foot facility located at 124 Marine Avenue in Newport Beach. Fire Station 4 is a two-story structure that houses, among other things, an apparatus room, a shop, storage rooms, administrative offices, a kitchen, a dining room, a fitness room and a dormitory on 4,482 square feet of land. Constructed in 1994, Fire Station 4 is valued at approximately \$3.9 million.

Fire Station 7. Santa Ana Heights Fire Station 7 (“Fire Station 7”) is an 11,027 square-foot facility located at 20401 Acacia Avenue in Newport Beach. Fire Station 7 is primarily a single-story structure that houses, among other things, an apparatus room, a shop, storage rooms, administrative offices, a kitchen, a dining room, a fitness room, dormitories and a training room on 91,912 square feet of land. Constructed in 2007, Fire Station 7 is valued at approximately \$11.3 million.

Police Station. The Newport Beach Police Station (the “Police Station”) is a 47,964 square-foot facility located at 870 Santa Barbara Drive in Newport Beach, at the intersection of Jamboree Road and Santa Barbara Drive, on 118,152 square feet of land. The Police Station houses the Newport Beach Police Department and includes conference rooms, meeting and interrogation rooms, a training room, a kitchen, offices, a reference room, evidence and property rooms, a communications center, a command center, holding cells, a juvenile detention area, a fitness center, a shop a garage, an on-site fueling station and a roof-top helipad. Constructed in 1973, the Police Station is valued at approximately \$19.4 million.

Civic Center Site. The site for the Civic Center Project is located at 1100 Avocado Avenue, 1300 Avocado Avenue and 1450 Avocado Avenue in Newport Beach and consists of 698,331 square feet of land. The value of the Civic Center Site, under its current land use, has not been determined. See “Plan of Financing – The Civic Center Project” herein for a description of the improvements to be financed with a portion of the proceeds of the Certificates.

Upon completion of the Civic Center Project, the City expects to exercise its option to release the Community Center, the Senior Center, the Mariners Library, Fire Station 3, Fire Station 4, Fire Station 7 and the Police Station from the lien of the Lease such that only Civic Center Project (consisting of the Central Library and the Civic Center Site, each as improved as described under “Plan of Financing – The Civic Center Project”) will constitute the Leased Premises. See “Plan of Financing – The Civic Center Project” herein. The City is permitted to substitute other real property for all or a part of the Leased Premises upon compliance with all of the conditions set forth in the Lease and the Trust Agreement. See Appendix C – “Summary of Principal Legal Documents – The Lease – Substitution or Release of the Leased Premises” attached hereto.

PLAN OF FINANCING

General

The 2010A Certificates are being executed and delivered to prepay the 1998 Certificates currently outstanding in the principal amount of \$3,990,000 and finance the acquisition, improvement and equipping of the Civic Center Project. The 2010B Certificates are being executed and delivered to provide additional financing for Civic Center Project. The proceeds of the Certificates will also be applied to pay certain costs of issuance incurred in connection with the Certificates.

The Civic Center Project

Project Components. The Civic Center Project consists of the design, construction and development or expansion of various public buildings and spaces on two parcels inland of the Newport Beach Central Library and bordered by Avocado Avenue and MacArthur Boulevard. In particular, the Civic Center Project includes:

- Design and development of the City's fifth largest park on 16-acres of land, which will include a dog park, a civic lawn for outdoor events, places for art, a restored wetlands, 1.23 miles of walking and viewing trails, a belvedere and other view opportunities, and restrooms.
- Design and expansion of the Central Library by 17,000 square feet and effectively linking the Central Library and Civic Center. The expansion of the Central Library will include improvements to the children's programs room, reading rooms, a sound and video room, expansion of the restrooms and the addition of a café and credit union.
- Design and construction 450-space parking structure to accommodate up to 350 cars associated with the City office building and 100 cars associated with use for the Central Library.
- Design and construction of an emergency readiness center to serve as the permanent home of the City's emergency response team.
- Design and construction of a new community room that seats up to 150 persons and opens to an outside covered area. This new community room will be made available for lectures, arts programs, and other community events.
- Design and construction of new City Council Chambers that seat up to 150 persons and double as community meeting space when not being used by the City Council or its commissions.
- Design and construction of a new City office building that will house approximately 240 employees who work at City Hall and include a large "One Stop Shop" to improve customer service for persons seeking parking permits or getting planning or building approvals. The office building will replace the "old" City Hall, now located at 3300 Newport Boulevard on the Balboa Peninsula. The City Charter has been amended to direct that City Hall be moved to the location at 1100 Avocado Avenue. The City Council is exploring potential uses for the "old" City Hall site.

- If construction costs permit, design and construction of a pedestrian bridge that would allow walkers to safely cross over San Miguel Avenue without impacting vehicular traffic.

The City will seek to attain at least a Leadership in Energy and Environmental Design Silver designation for the Civic Center Project. To attain such designation, design of the Civic Center Project must include passive heating and cooling systems in the City office building, including a raised floor system and advanced lighting technologies, California-friendly landscaping in the main portion of the park, adjacent transit facilities and other means to increase the number of City workers who carpool, bike to work, or use alternative fuel vehicles and a building orientation that maximizes the ability for natural ventilation and natural light.

Project Schedule. Design development has been completed. Construction documentation, site excavation and mass grading of over 280,000 cubic yards of dirt began in spring of 2010 and are expected to be completed by late 2010. The extensive earth removal is intended to assure that the parking structure and City office building stay below an approved “view plane” that protects the public’s view of the harbor and ocean from MacArthur Boulevard. Construction of the parking structure is scheduled to begin in late 2010 and conclude by fall of 2011. Bidding and contract award for the park and building construction is expected to occur in late 2010, with construction scheduled to commence in early 2011 and project completion, park opening and City office building occupation scheduled for late 2012.

Project Professionals. The City’s design and engineering team will consist of Bohlin Cywinski Jackson, an architecture, planning and interior design firm, Peter Walker & Partners, landscape architects, and Arup, a firm of designers, planners, engineers, consultants and technical specialists. The City retained C.W. Driver to serve as the City’s construction manager and LSA Associates to complete the environmental work for the Civic Center Project.

Prepayment of the 1998 Certificates

The 1998 Certificates were executed and delivered to prepay the City of Newport Beach Certificates of Participation, Series 1992, the proceeds of which were applied to the acquisition and construction of the Central Library. The City has deposited moneys into the Escrow Fund established under the Escrow Agreement, dated as of October 29, 2010 (the “Escrow Agreement”), by and between the City and U.S. Bank National Association (the “Escrow Agent”), as escrow agent thereunder in an amount, together with other moneys on deposit in the funds and accounts for the 1998 Certificates, is sufficient to prepay the 1998 Certificates on December 1, 2010 (the “Prepayment Date”) at the prepayment price of 100% (expressed as a percentage of the principal amount to be prepaid), plus accrued interest thereon to the Prepayment Date. Accordingly, the 1998 Certificates have been defeased pursuant to the defeasance provisions of the 1998 Trust Agreement. Upon execution and delivery of the 2010A Certificates and in accordance with the provisions of the Escrow Agreement, the City will replace \$3,525,828 of the amounts heretofore deposited in the Escrow Fund with \$3,525,828 of the proceeds of the 2010A Certificates and cause such proceeds to be used to defease the 1998 Certificates on the Prepayment Date.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates, together with other moneys available therefor, are expected to be applied approximately as follows:

	<u>2010A Certificates</u>	<u>2010B Certificates</u>	<u>Total</u>
Sources:			
Principal Amount of Certificates	\$ 20,085,000.00	\$ 106,575,000.00	\$ 126,660,000.00
Original Issue Premium	1,155,299.55	--	1,155,299.55
1998 Reserve Fund	565,655.00	--	565,655.00
Total Sources	<u>\$ 21,805,954.55</u>	<u>\$ 106,575,000.00</u>	<u>\$ 128,380,954.55</u>
Uses:			
Project Fund	\$ 17,509,969.90	\$ 105,490,030.10	\$123,000,000.00
Escrow Fund	4,091,512.50	--	4,091,512.50
Costs of Issuance ⁽¹⁾	204,472.15	1,084,969.90	1,289,442.05
Total Uses	<u>\$ 21,805,954.55</u>	<u>\$ 106,575,000.00</u>	<u>\$ 128,380,954.55</u>

⁽¹⁾ Includes underwriting discount, rating agencies fees, financial advisor fees and expenses, title insurance fees, legal fees and expenses, trustee fees and expenses, printing costs and other costs of issuance.

THE CERTIFICATES

General

The Certificates will be dated their Delivery Date and principal with respect to the Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the 2010A Certificates and the 2010B Certificates will represent the sum of the portions of the 2010A Lease Payments and 2010B Lease Payments, respectively, designated as the Interest Components coming due on the Interest Payment Dates in each year. The principal represented by the 2010A Certificates and the 2010B Certificates will represent the sum of the portions of the 2010A Lease Payments and the 2010B Lease Payments, respectively, designated as Principal Components coming due on the applicable Interest Payment Dates in each year. Interest with respect to the Certificates will be payable semiannually on each January 1 and July 1 of each year, commencing on January 1, 2011 and will be calculated on the basis of a 360-day year of twelve 30-day months. Each Certificate shall bear interest from the Interest Payment Date next preceding the date of execution thereof, unless (i) it is executed during the period from the day after the "Record Date" (being the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day) for an Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is executed on or prior to the Record Date for the first Interest Payment Date, in which event interest shall be payable from the Delivery Date; provided, however, that if, at the time of execution of any Certificate interest with respect to such Certificate is in default, such Certificate shall bear interest from the Interest Payment Date to which interest has been paid or made available for payment with respect to such Certificate.

Designation of the 2010B Certificates as "Build America Bonds"

The City has designated the 2010B Certificates as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. The interest with respect to the 2010B Certificates is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive Refundable Credits from the United States Treasury

equal to 35% of the interest payable on the 2010B Certificates. Pursuant to the Lease, all of the Refundable Credits received by the City are to be deposited to the 2010B Account of the Lease Payment Fund as a credit against the City's obligation to pay the Interest Component of the 2010B Lease Payments, and are pledged to the payment of the 2010B Certificates. The City is obligated to pay 2010B Lease Payments from any source of legally available funds, and the City has covenanted in the Lease to make the necessary annual appropriations therefor, which applies regardless of receipt of the Refundable Credits.

Book-Entry System

The Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the 2010A Certificates are payable directly to DTC by the Trustee from 2010A Lease Payments. Principal and interest payments represented by the 2010B Certificates are payable directly to DTC by the Trustee from 2010B Lease Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to direct participants of DTC, who will in turn disburse such payments to the beneficial owners of the Certificates. See Appendix D – “Book-Entry System” attached hereto.

Optional Prepayment

Optional Prepayment. The 2010A Certificates are not subject to prepayment prior to maturity.

Extraordinary Optional Prepayment of 2010B Certificates. The 2010B Certificates are subject to extraordinary prepayment prior to their respective maturities, at the option of the City, upon the occurrence of an Extraordinary Event, as a whole or in part, on any date, and in the event the City exercises its option under the Lease to prepay the 2010B Lease Payments at the applicable Make-Whole Prepayment Price.

“Extraordinary Event” means (a) a change has occurred to Section 54AA or 6431 of the Code, (b) there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections, or (c) any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the City to satisfy the requirements to qualify to receive the 35% federal cash subsidy payable with respect to the tax certificate for the 2010B Certificates, and as a result thereof, the federal cash subsidy expected to be received from the United States Treasury with respect to the Interest Component of the 2010B Lease Payments is eliminated or reduced, as reasonably determined by the City Manager or Director of Administrative Services, which determination shall be conclusive.

Optional Prepayment of 2010B Certificates with Make-Whole Payment. The 2010B Certificates will be subject to prepayment prior to maturity at the option of the City, as a whole or in part, on any Business Day in the event the City exercises its option under the Lease to prepay the 2010B Lease Payments at the applicable Make-Whole Prepayment Price.

“Make-Whole Prepayment Price” means the greater of (1) the original issue price (but not less than 100%) of such Principal Component of the 2010B Lease Payments to be prepaid; or (2) the Principal Component of the 2010B Lease Payment to be prepaid plus the Make-Whole Premium, together, in each case, with accrued interest, if any, to the date fixed for prepayment of the 2010B Certificates.

“Make-Whole Premium” means, with respect to any 2010B Certificate to be prepaid, an amount calculated by an Independent Banking Institution equal to the positive difference, if any, between:

- (a) the sum of the present values, calculated as of the date fixed for prepayment of:
 - (i) each Interest Component that, but for the prepayment, would have been payable with respect to the 2010B Lease Payment or portion thereof being prepaid on each regularly scheduled Lease Payment Date occurring after the date fixed for prepayment through the maturity date of the corresponding 2010B Certificate (excluding any accrued interest for the period prior to the date fixed for prepayment); plus
 - (ii) the Principal Component that, but for such prepayment, would have been payable on the maturity date (or applicable mandatory sinking fund prepayment date or dates) with respect to the 2010B Certificate or portion thereof being prepaid; minus
- (b) the principal amount of the 2010B Lease Payment or portion thereof being prepaid.

The present values of the Interest Components and Principal Components referred to in (a) above will be determined by discounting the amount of each such Interest Components and Principal Components from the date that each such payment would have been payable but for the prepayment to the date fixed for prepayment on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to the Comparable Treasury Yield, plus (1) with respect to a 2010B Certificate prepaid as described under “Extraordinary Optional Prepayment of 2010B Certificates”, 100 basis points, or (2) with respect to a 2010B Certificate prepaid as described under the “Optional Prepayment of 2010B Certificates with Make-Whole Payment”, 40 basis points.

“Treasury Rate” means, with respect to any prepayment for a particular 2010B Lease Payment, the rate per annum truncated to the fifth decimal, expressed as a percentage of the Principal Component, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the prepayment date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any prepayment date for a particular 2010B Certificate evidencing a 2010B Lease Payment, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2010B Certificates evidencing 2010B Lease Payments to be prepaid, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2010B Certificates evidencing 2010B Lease Payments to be prepaid.

“Comparable Treasury Price” means, with respect to any prepayment date for a particular 2010B Certificate, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for prepayment, after excluding the highest and lowest such quotations, and (b) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on any Business Day that falls not less than three Business Days nor more than 45 calendar days immediately preceding the applicable date fixed for prepayment.

“Independent Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the City. If the City fails to appoint an Independent Banking Institution at least 30 days prior to the date fixed for prepayment, or if the Independent Banking Institution appointed by the City is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield will be determined by an Independent Banking Institution designated by the Trustee.

“Comparable Treasury Yield” means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the 2010B Certificate being prepaid. The Comparable Treasury Yield will be determined as of any Business Day that falls not less than three Business Days nor more than 45 calendar days immediately preceding the applicable date fixed for prepayment. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the 2010B Certificate being prepaid, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the 2010B Certificate being prepaid; and (ii) closest to and less than the remaining term to maturity of the 2010B Certificate being prepaid. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) at the Comparable Treasury Price as of the date fixed for prepayment.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any prepayment date for a particular 2010B Lease Payment, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such prepayment date.

“Reference Treasury Dealer” means any firm, specified by the City from time to time, that is a primary United States Government securities dealer in the City of New York (a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

Mandatory Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment prior to their respective maturity dates on any date, in whole or in part, from any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Leased Premises remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof (the “Net Proceeds”), which the Trustee shall deposit in the Prepayment Fund at least 45 days prior to the date fixed for prepayment and credited towards the prepayment made by the City pursuant to the Lease, at a

prepayment price equal to the principal amount thereof together with accrued interest to the date fixed for prepayment, without premium.

Mandatory Sinking Account Payment. The 2010B Certificates maturing July 1, 2030 (the “2030 Term 2010B Certificates”) are subject to prepayment in part by lot, on July 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the 2030 Term 2010B Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced by the aggregate principal amount of the 2030 Term 2010B Certificates so prepaid as nearly as practicable in a pro rata basis in integral multiples of \$5,000. In addition, in lieu of prepayment thereof, the 2030 Term 2010B Certificates may be purchased by the City and tendered to the Trustee pursuant to the provisions of the Trust Agreement.

Mandatory Prepayment Date (July 1)	Sinking Account Payment
2024	\$ 2,620,000
2025	2,580,000
2026	2,555,000
2027	2,530,000
2028	2,510,000
2029	2,505,000
2030*	2,500,000

* Final Maturity

The 2010B Certificates maturing July 1, 2040 (the “2040 Term 2010B Certificates”) are subject to prepayment in part by lot, on July 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the 2040 Term 2010B Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced by the aggregate principal amount of the 2040 Term 2010B Certificates so prepaid as nearly as practicable in a pro rata basis in integral multiples of \$5,000. In addition, in lieu of prepayment thereof, the 2040 Term 2010B Certificates may be purchased by the City and tendered to the Trustee pursuant to the provisions of the Trust Agreement.

Mandatory Prepayment Date (July 1)	Sinking Account Payment
2024	\$ 890,000
2025	1,095,000
2026	1,295,000
2027	1,495,000
2028	1,700,000
2029	1,900,000
2030	2,100,000
2031	4,810,000
2032	5,035,000
2033	5,265,000
2034	5,510,000
2035	5,770,000
2036	6,035,000
2037	6,320,000
2038	6,615,000
2039	6,920,000
2040*	7,245,000

* Final Maturity

If prior to one of the mandatory prepayment dates specified above the City purchases any 2030 Term 2010B Certificates or 2040 Term 2010B Certificates, then at least 45 days prior to the prepayment date the City shall notify the Trustee as to the principal amount purchased, and the amount of Certificates so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce the upcoming sinking account payment for the applicable maturity of the Certificates so purchased.

Selection of Certificates for Prepayment

If less than all of the 2010 Certificates are prepaid, the Trustee shall select the 2010 Certificates to be prepaid from all Certificates not previously called for prepayment (a) with respect to any extraordinary prepayment, among maturities of all 2010 Certificates and Additional Certificates on a pro rata basis as nearly as practicable, (b) with respect to any optional prepayment of 2010 Certificates, among maturities as directed by the City, (c) with respect to 2010A Certificates with the same maturity, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair, and (d) with respect to 2010B Certificates with the same maturity, (i) if the 2010B Certificates are not book-entry bonds, the Trustee shall select the 2010B Certificates of such maturity to be prepaid among the Owners of such 2010B Certificates on a pro rata basis as nearly as practicable, and (ii) if the 2010B Certificates are book-entry bonds, the Trustee shall select the 2010B Certificates of such maturity to be prepaid on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the 2010B Certificates are held in book-entry form, the selection for prepayment of such 2010B Certificates shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for prepayment on a pro rata pass-through distribution of principal basis, the 2010B Certificates will be selected for prepayment, in accordance with DTC procedures, by lot.

It is the City's intent that the redemption allocations described herein with respect to the 2010B Certificates be made on a pro rata pass-through distribution of principal basis. However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. See Appendix D – "Book-Entry System" attached hereto.

Partial Prepayment of Certificates

Upon surrender by the Owner of a Certificate for partial prepayment at the principal office of the Trustee, payment of such partial prepayment of the principal amount of a Certificate will be paid to such Owner. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the registered Owner thereof, at the expense of the City, a new Certificate or Certificates which shall be of authorized denominations equal in principal amount to the unprepaid portion of the Certificate surrendered and of the same tenor and maturity. Such partial prepayment shall be valid upon payment of the amount required to be paid to such Owner, and the City, the Corporation and the Trustee shall be released and discharged from all liability to the extent of such payment.

Notice of Prepayment

When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates of a maturity are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, and (f) the original date of execution and delivery of the Certificates. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable. Such notice may specify that the prepayment of the Certificates to be prepaid is conditioned upon the timely receipt of funds required for such prepayment. Notice of such prepayment shall be sent by first class mail or delivery service postage prepaid, or by telecopy, to the Depository on the date of mailing of notice to the Owners by first class mail and by first class mail, postage prepaid, to the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, at least thirty (30) days, but not more than sixty (60) days, prior to the prepayment date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

Notice having been given to the Owners of the Certificates as set forth above, and the moneys for the prepayment (including, the interest to the applicable date of prepayment), having, been set aside in the Prepayment Fund, the Certificates shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment. If, on the date of a prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as set forth above, then, from and after said date of prepayment, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon. All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of the Trust Agreement shall be cancelled upon surrender thereof and destroyed.

SECURITY FOR THE CERTIFICATES AND SOURCES OF PAYMENT

Pledge and Security

Pursuant to the Trust Agreement, the Corporation and the City grant to the Trustee for the benefit of the Owners of the Certificates and all Additional Certificates a lien on and a security interest in all moneys in the following funds or accounts held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Prepayment Fund and the Net Proceeds Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified in the Trust Agreement and in the Lease. Only Owners of the 2010A Certificates and Owners of Additional Certificates (to the extent provided in a Supplemental Agreement) shall have a lien on and a security interest in all moneys in the 2010A Account of the Lease Payment Fund and the 2010A Account of the Prepayment Fund. Only Owners of the 2010B Certificates and Owners of Additional Certificates (to the extent provided in a Supplemental Agreement) shall have a lien on and a security interest in all moneys in the 2010B Account of the Lease Payment Fund and the 2010B Account of the Prepayment Fund.

Pursuant to the Trust Agreement, the 2010A Lease Payments and the 2010B Lease Payments are irrevocably pledged to and shall be used for the punctual payment of the interest and principal represented by the 2010A Certificates and 2010B Certificates (and Additional Certificates to the extent provided in a Supplemental Agreement), respectively. Any proceeds from the re-letting or any other disposition of the Leased Premises pursuant to the Lease (the "Lease Proceeds") are irrevocably pledged equally to the 2010A Certificates, the 2010B Certificates and any Additional Certificates. Except as permitted under the Trust Agreement, the Lease Payments and Lease Proceeds shall not be used for any other purpose while any of the Certificates remain Outstanding. The pledge shall constitute a first lien on the Lease Payments and Lease Proceeds in accordance with and subject to the terms of the Trust Agreement.

The 2010A Certificates represent the aggregate principal components of the 2010A Lease Payments under the Lease and the 2010B Certificates represent the aggregate principal components of the 2010B Lease Payments under the Lease. The 2010A Certificates evidence the right to receive certain fractional and undivided interests in 2010A Lease Payments to be made by the City pursuant to the Lease and the 2010B Certificates evidence the right to receive certain fractional and undivided interests in 2010B Lease Payments to be made by the City pursuant to the Lease. The City is required under the Lease to make Lease Payments subject to the provisions of the Lease related to abatement. The City has covenanted in the Lease to take such action as may be necessary to include all Lease Payments and Additional Payments (to the extent the amounts of such Additional Payments are known to the City at the time its annual budget is proposed), due under the Lease in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. Lease Payments are scheduled to be paid as set forth herein. See "– Lease Payments Schedule" herein.

THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE SHALL CONSTITUTE A CURRENT EXPENSE OF THE CITY AND SHALL NOT IN ANY WAY BE CONSTRUED TO BE A DEBT OF THE CITY, OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY APPLICABLE CONSTITUTIONAL OR STATUTORY LIMITATION OR REQUIREMENTS CONCERNING THE CREATION OF INDEBTEDNESS BY THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL ANYTHING CONTAINED IN THE LEASE CONSTITUTE A PLEDGE OF GENERAL REVENUES, FUNDS OR MONEYS OF THE CITY BEYOND THE FISCAL YEAR FOR WHICH THE CITY HAS APPROPRIATED FUNDS TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE OR AN

OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Trustee, pursuant to the Trust Agreement and the Assignment Agreement, will receive Lease Payments for the benefit of the Owners. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Site Lease, the Lease or the Trust Agreement. Additional amounts payable by the City under the Lease include, among others, amounts sufficient to pay certain taxes, assessments, utility and other charges on the Leased Premises.

The Lease shall be deemed and construed to be a “net-net-net lease” and the City has agreed pursuant to the Lease that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, taxes, fees, insurance premiums, rebate payments, costs associated with the Leased Premises, charges or set-offs whatsoever, except as expressly provided in the Lease. The Lease provides that the covenants on the part of the City contained therein shall be deemed to be and shall be construed to be duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City. See Appendix C — “Summary of Principal Legal Documents — Lease” herein.

Pledge of Refundable Credits to 2010B Certificates

The Refundable Credits constitute amounts payable by the Federal government under Section 6431 of the Code, and which, in the case of the 2010B Certificates, the City has elected to receive under Section 54AA(g)(1) of the Code. Pursuant to the Lease, all of the Refundable Credits received by the City are to be deposited to the Lease Payment Fund as a credit against its obligation to pay the Interest Component of the 2010B Lease Payments, and are pledged to the payment of the 2010B Certificates. The Lease provides that the City shall not make any use of the proceeds of the 2010B Certificates or take or omit to take any other action that would cause the City to lose the subsidy payments from the U.S. Treasury relating to the City’s obligations to pay the Interest Component of the 2010B Lease Payments under the Lease as evidenced by the 2010B Certificates.

Refundable Credits do not constitute a full faith and credit guarantee of the United States with respect to the 2010B Certificates, but are required to be paid by the U.S. Treasury under the American Recovery and Reinvestment Act of 2009 upon proper application by the City. Under the American Recovery and Reinvestment Act of 2009, the U.S. Treasury may offset any Refundable Credit to which the City is otherwise entitled against any other tax liability of the City payable to the U.S. Treasury, such as withholding or payroll taxes, or other penalties or interest that may be owed at any time to the U.S. Treasury.

The American Recovery and Reinvestment Act of 2009 contains broad legislative regulatory authority to prescribe such regulations and other guidance as may be necessary or appropriate to carry out the provisions relating to the Build America Bonds and the Refundable Credits. The Internal Revenue Service and the U.S. Treasury will continue to consider the need to develop any special rules to adapt or tailor the procedural framework implementing provisions of the American Recovery and Reinvestment Act of 2009, and may promulgate further regulations. No assurance is given that the U.S. Treasury will make payment of the Refundable Credits in the amounts to which the City believes it is entitled, nor that such

payments will be made in a timely manner. No assurance can be given that Congress will not amend or repeal provisions of the American Recovery and Reinvestment Act of 2009, which amendments could affect the payment of Refundable Credits.

Assignment of Lease; Sublease of Leased Premises

The Lease may be assigned by the City and all or a portion of the Leased Premises may be subleased by the City subject to the conditions set forth in the Lease, including the delivery of an opinion of Special Counsel to the effect that such assignment or sublease, as applicable, does not adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest with respect to the 2010A Certificates and any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) and would not result in the loss of the federal subsidy with respect to the City's obligation to make 2010B Lease Payments which have been designated as Build America Bonds. For purposes of an assignment of the Lease, Special Counsel shall also opine that the assignment does not affect the validity of the Lease. If the Lease is assigned by the City or all or any portion of the Leased Premises is subleased by the City, the obligation to make Lease Payments under the Lease shall remain the obligation of the City. See Appendix C — "Summary of Principal Legal Documents — Lease — *Assignment and Subleasing*" herein.

Lease Payments

The Lease requires the City to make Lease Payments on January 1 and July 1 of each year, beginning on January 1, 2011, and continuing until the end of the term of the Lease. Each Lease Payment shall be payable by the City to the Trustee, as assignee of the Corporation. The interest components of the Lease Payments payable by the City under the Lease shall be paid by the City as, and shall constitute interest paid on, the principal components of the Lease Payments payable by the City under the Lease. Lease Payments have been calculated to be at least sufficient to pay principal and interest components of the Certificates when due on each Interest Payment Date.

A table of annual Lease Payments under the Lease is set forth below.

LEASE PAYMENTS

Period Ending July 1	2010A Certificates 2010A Lease Payments ⁽¹⁾			2010B Certificates 2010B Lease Payments ⁽¹⁾			Total Base Rental Payments ⁽¹⁾⁽²⁾⁽³⁾
	Principal Component	Interest Component	Total Base Rental Payments	Principal Component	Interest Component ⁽²⁾	Total Base Rental Payments	
2011	\$ 1,740,000	\$ 401,691	\$ 2,141,691	\$ --	\$ 4,245,447	\$ 4,245,447	\$ 6,387,138
2012	2,690,000	650,550	3,340,550	--	7,243,417	7,243,417	10,583,967
2013	2,775,000	569,850	3,344,850	--	7,243,417	7,243,417	10,588,267
2014	2,860,000	486,600	3,346,600	--	7,243,417	7,243,417	10,590,017
2015	2,940,000	400,800	3,340,800	--	7,243,417	7,243,417	10,584,217
2016	3,060,000	283,200	3,343,200	--	7,243,417	7,243,417	10,586,617
2017	3,185,000	160,800	3,345,800	--	7,243,417	7,243,417	10,589,217
2018	410,000	33,400	443,400	2,900,000	7,243,417	10,143,417	10,586,817
2019	425,000	17,000	442,000	2,980,000	7,114,338	10,094,338	10,536,338
2020	--	--	--	3,065,000	6,972,758	10,037,758	10,037,758
2021	--	--	--	3,165,000	6,817,945	9,982,945	9,982,945
2022	--	--	--	3,275,000	6,648,586	9,923,586	9,923,586
2023	--	--	--	3,390,000	6,465,153	9,855,153	9,855,153
2024	--	--	--	3,510,000	6,266,804	9,776,804	9,776,804
2025	--	--	--	3,675,000	6,019,137	9,694,137	9,694,137
2026	--	--	--	3,850,000	5,759,583	9,609,583	9,609,583
2027	--	--	--	4,025,000	5,487,448	9,512,448	9,512,448
2028	--	--	--	4,210,000	5,202,731	9,412,731	9,412,731
2029	--	--	--	4,405,000	4,904,723	9,309,723	9,309,723
2030	--	--	--	4,600,000	4,592,730	9,192,730	9,192,730
2031	--	--	--	4,810,000	4,266,752	9,076,752	9,076,752
2032	--	--	--	5,035,000	3,921,971	8,956,971	8,956,971
2033	--	--	--	5,265,000	3,561,062	8,826,062	8,826,062
2034	--	--	--	5,510,000	3,183,667	8,693,667	8,693,667
2035	--	--	--	5,770,000	2,788,710	8,558,710	8,558,710
2036	--	--	--	6,035,000	2,375,117	8,410,117	8,410,117
2037	--	--	--	6,320,000	1,942,528	8,262,528	8,262,528
2038	--	--	--	6,615,000	1,489,510	8,104,510	8,104,510
2039	--	--	--	6,920,000	1,015,347	7,935,347	7,935,347
2040	--	--	--	7,245,000	519,322	7,764,322	7,764,322
Total	<u>\$20,085,000</u>	<u>\$3,003,891</u>	<u>\$23,088,891</u>	<u>\$106,575,000</u>	<u>\$152,265,286</u>	<u>\$258,840,286</u>	<u>\$281,929,178</u>

(1) Amounts reflect independent rounding.

(2) Amounts prior to the application of the cash subsidy payments the City expects to receive from the United States Treasury, in an amount equal to 35% of the interest payable with respect to the 2010B Certificates.

(3) Amounts reflect the aggregate amount of scheduled Lease Payments under the Lease due and payable in arrears on the fifteenth (15th) day of the month (or if such day is not a Business Day, the next succeeding Business Day) which are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates.

No Reserve Fund

There is no reserve fund for the Certificates.

Insurance

The Lease provides that the City shall maintain or cause to be maintained, throughout the term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the City and the Corporation and their officers, agents and employees, and insurance against loss or damage to any portion of the Leased Premises caused by fire and lightning, with

extended coverage and theft, vandalism and malicious mischief insurance. Pursuant to the Lease, the City shall also maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto (with provision for self-insurance). The Lease also provides that the City shall maintain or cause to be maintained on the Leased Premises rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Leased Premises caused by perils covered by casualty and theft insurance. The City is not required to purchase or maintain earthquake insurance with respect to the Leased Premises. Pursuant to the Lease, the insurance for public liability and property damage insurance, worker's compensation and casualty and theft insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City. See Appendix C – "Summary of Principal Legal Documents – Lease Agreement – Insurance" attached hereto.

Abatement

Except (i) to the extent that moneys derived from any person, including proceeds of rental interruption insurance, as a result of any delay in the reconstruction, replacement or repair of the Leased Premises, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Lease Payment Fund to pay the amount which would otherwise be abated, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Premises or defects in the title with respect to the Leased Premises there is substantial interference with the use and possession of all or a portion of the Leased Premises by the City. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Leased Premises not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided herein, in the event of any such damage, destruction, interference or taking, the Lease shall continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

In the event of abatement as described above, unless the abatement will be avoided as a result of a prepayment of Lease Payments from Net Proceeds pursuant to the Lease, the City will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Leased Premises, as the case may be, from Net Proceeds or special funds of the City or other moneys the application of which would, in the opinion of Special Counsel addressed to the Trustee, the City and the Corporation, not result in the obligations of the City hereunder constituting indebtedness of the City in contravention of the Constitution and laws of the State.

Substitution or Release of the Leased Premises

Pursuant to the Lease, the City shall have the right to substitute alternate real property for any portion of the Leased Premises or to release a portion of the Leased Premises from the lien of the Lease upon compliance with all of the conditions set forth in the Lease. Notwithstanding any substitution pursuant to the Lease, there shall be no reduction in or abatement of the Lease Payments due from the City hereunder as a result of such substitution. After a substitution or release, the part of the Leased Premises for which the substitution or release has been effected shall be released from the leasehold under the Lease.

The Lease further provides that, subject to certain conditions precedent, upon the filing by the City of a completion certificate with respect to the Project, the City may release all of the Leased Premises other than the Civic Center Site and the Central Library Site (each as defined in the Lease), provided that the City certifies to the Trustee that at least 90% of the proceeds of the Certificates deposited into the Project Fund have been applied toward the construction of the Project on either the Civic Center Site or the Central Library Site.

See Appendix C – “Summary of Principal Legal Documents – The Lease Agreement – Covenants with Respect to the Leased Premises – Substitution or Release of the Leased Premises” attached hereto.

Additional Certificates

In addition to the Certificates, the Trustee shall, upon written request or requests of the City Representative and of the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there shall have been compliance with all of the conditions set forth in the Trust Agreement, which are made conditions precedent to the preparation, execution and delivery of such Additional Certificates, including, but not limited to, (i) the parties to the Trust Agreement shall have executed a Supplemental Agreement setting forth the terms and provisions of such Additional Certificates and specification of whether such Additional Certificates are payable from the 2010A Lease Payments or 2010B Lease Payments and (ii) the Trustee shall have received a certificate of the City Representative that (1) there exists on the part of the City no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (2) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Leased Premises (as such term is defined in the amended Lease). See Appendix C – “Summary of Principal Legal Documents – The Trust Agreement – The 2010 Certificates of Participation – Additional Certificates” attached hereto.

Remedies on Default

Events of Default. Pursuant to the Lease, any one or more of the following shall be “events of default” thereunder: (a) failure by the City to pay any Lease Payment required to be paid hereunder by the corresponding Lease Payment Date; (b) failure by the City to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed under the Lease or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, subject to certain exceptions, and (c) the filing by the City of a case in bankruptcy or certain related events set forth in the Lease.

Whenever any event of default under the Lease shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default under the Lease, the City will surrender possession of the Leased Premises to the Corporation, if requested to do so by the Corporation, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement.

No Termination; Repossession and Re-Lease on Behalf of the City. Pursuant to the Lease, in the event the Corporation does not elect to terminate the Lease in the manner described under “– Termination; Repossession and Re-Lease” herein, the Corporation may, with the consent of the City, which consent is irrevocably given, repossess the Leased Premises and re-lease it for the account of the City, in which event the City’s obligation will accrue from year to year in accordance with the Lease and the City will continue to receive the value of the use of the Leased Premises from year to year in the form of credits against its

obligation to pay Lease Payments. The obligations of the City shall remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Corporation re-enters or not. The City agrees to and shall remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained herein and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Leased Premises, or, in the event the Corporation is unable to re-lease the Leased Premises, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments and Additional Payments hereunder, notwithstanding such repossession by the Corporation or any suit brought by the Corporation for the purpose of effecting such repossession of the Leased Premises or the exercise of any other remedy by the Corporation.

The City shall retain the portion of rental obtained by the Trustee, as assignee of the Corporation, that is in excess of the Lease Payments and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Leased Premises, and all amounts payable by the City under the Lease and the Trust Agreement.

In the event that the liability of the City under this caption “– No Termination; Repossession and Re-Lease on Behalf of the City” is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Corporation, or the Trustee or the Owners, as assignees of the Corporation, shall not exercise the remedies described under this caption “– No Termination; Repossession and Re-Lease on Behalf of the City”.

Termination; Repossession and Re-Lease. Pursuant to the Lease, in the event of the termination of the Lease by the Corporation at its option and in the manner described in this paragraph on account of default by the City (and notwithstanding any repossession of the Leased Premises by the Corporation in any manner whatsoever or the re-leasing of the Leased Premises), the City nevertheless agrees to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Leased Premises by the Corporation shall be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any proceeding taken by the Corporation to recover possession of the Leased Premises shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate the Lease. Pursuant to the Lease, the City covenants and agrees that no surrender of the Leased Premises for the remainder of the Term hereof or any termination of the Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice. No such termination shall be effected either by operation of law or act of the parties hereto, except only in the manner herein expressly provided.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

On June 6, 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

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

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. The City is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII B

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

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and

disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

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

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

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

The City Council adopted the annual appropriation limit for the Fiscal Year 2010-11 of approximately \$140.6 million. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. Based on the Fiscal Year 2010-11 Adopted Budget, the funds subject to limitation total approximately \$111.3 million (total General Fund budget minus non-proceeds of taxes and debt service) and are approximately \$29.3 million below the Article XIII B limit.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

The City does not believe any of the taxes constituting City revenues are levied in violation of Proposition 62.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges. The City is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the City's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the City's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, the City does not presently believe that the potential financial impact on the City as a result of the provisions of Proposition 218 will adversely affect the City's ability to pay its debt obligations and perform its other obligations payable from the General Fund as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax that the City imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 1996. The City has not enacted, imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues through General Fund taxes, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

SB 919 provides that the initiative powers extended to voters under Article XIII C likely excludes actions construed as impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund monies not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The City is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, fees and charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the City's General Fund. The City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the City, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the City would be able to pay the Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 as any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the City is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the City will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the City anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the City to pay the Certificates as and when due. However, no assurance can be given

that the City may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D also adds several provisions, including notice requirements and restrictions on use, affecting “fees” and “charges” which are defined as “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” The annual amount of revenues that are received by the City and deposited into its General Fund which may be considered to be property related fees and charges under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the City does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the City to pay the principal and interest with respect to the Certificates as and when due. However, no assurance can be given that the City may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Further, the fees and charges of the County’s enterprise funds, including those which are not property related for purposes of Article XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the City may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the City may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the City.

Proposition 1A

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

In Fiscal Year 2009-10, the State borrowed approximately 8.0% of property tax revenues from counties, cities and special districts, totaling approximately \$1.9 billion, which amount will be repaid

within three years of the borrowing pursuant to Proposition 1A (2004). The City's share of the borrowing was approximately \$6.2 million. The City recovered the full amount of the borrowing in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority.

Proposition 26

On November 2, 2010, voters approved Proposition 26, which amends the State Constitution to expand the definition of a tax so that certain fees and charges currently imposed by government will be subject to approval by two thirds of each house of the State Legislature or approval by local voters, as applicable. In addition, Proposition 26 requires a two-thirds approval by each of house the State Legislature to approve laws that increase taxes on any taxpayer, even if the law's overall fiscal effect does not increase State revenues. Proposition 26 also repeals recent State laws that conflict with the measure, unless approved again by two-thirds of each house of the State Legislature within one year of approval of Proposition 26. The State Legislative Analyst's Office ("LAO") states that Proposition 26 would make it more difficult for State and local governments to pass new laws that raise revenues and could reduce government revenues and spending statewide by up to billions of dollars annually compared to what otherwise would have occurred, particularly if the proposed voting requirements results in some proposes not being approved. There are several uncertainties regarding the terms of Proposition 26. Accordingly, the City can not presently estimate the potential impact Proposition 26 will have on the City's finances. However, the City believes that Proposition 26 will not adversely affect the ability of the City to pay the principal and interest with respect to the Certificates as and when due.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62, 1A and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be predicted by the City.

Text of the qualified statewide ballot measures may be found at the Secretary of State website, www.sos.ca.gov under the heading "Elections." An impartial analysis of the ballot measures is posted by the LAO at www.lao.ca.gov. The referenced information is prepared by the respective State agency maintaining the web site and not by the City, and the City can take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

RISK FACTORS

The ability of the City to pay principal of and interest with respect to the Certificates depends primarily upon the receipt by the City of sufficient General Fund revenues. Some of the events which could prevent the City from receiving sufficient General Fund revenues to enable it to pay the principal of and interest on the Certificates are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Certificates and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Not a Pledge of Taxes

The obligation of the City to pay Lease Payments and Additional Payments under the Lease shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory

limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall anything contained in the Lease constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Lease Payments and Additional Payments under the Lease or an obligation of the City for which the city is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease to pay Lease Payments from any source of legally available funds, and the City has covenanted in the Lease to make the necessary annual appropriations therefor. The City is currently liable on and may accrue other obligations payable from its general revenues. Such obligations, together with the Certificates, are payable from general revenues of the City without priority.

Additional Obligations of the City

The City has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Leased Premises, taxes and other governmental charges levied against the Leased Premises) are payable from funds lawfully available to the City. In the event that the amounts which the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues.

Default; Remedies Upon Default

Whenever any event of default under the Lease shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default under the Lease, the City will surrender possession of the Leased Premises to the Corporation, if requested to do so by the Corporation, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement.

Pursuant to the Lease, in the event the Corporation does not elect to terminate the Lease, the Corporation may, with the consent of the City, which consent is irrevocably given, repossess the Leased Premises and re-lease it, subject to the limitations set forth below with respect to the Central Library Site, for the account of the City, in which event the City's obligation will accrue from year to year in accordance with the Lease and the City will continue to receive the value of the use of the Leased Premises from year to year in the form of credits against its obligation to pay Lease Payments. The Lease provides that the obligations of the City shall remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Corporation re-enters or not. Pursuant to the Lease, the City agrees to and shall remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained in the Lease and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Leased Premises, or, in the event the Corporation is unable to re-lease the Leased Premises, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency shall

be payable only at the same time and in the same manner as provided above for the payment of Lease Payments and Additional Payments under the Lease, notwithstanding such repossession by the Corporation or any suit brought by the Corporation for the purpose of effecting such repossession of the Leased Premises or the exercise of any other remedy by the Corporation.

Alternatively, pursuant to the Lease, in the event of the termination of the Lease by the Corporation at its option (and notwithstanding any repossession of the Leased Premises by the Corporation in any manner whatsoever or the re-leasing of the Leased Premises, subject to the limitations set forth below with respect to the Central Library Site), the City nevertheless agrees to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Leased Premises by the Corporation shall be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any proceeding taken by the Corporation to recover possession of the Leased Premises shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate the Lease. Pursuant to the Lease, the City covenants and agrees that no surrender of the Leased Premises for the remainder of the Term hereof or any termination of the Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice. No such termination shall be effected either by operation of law or act of the parties hereto, except only in the manner in the Lease expressly provided.

Limitations on Remedies

The rights of the Owners of the Certificates are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

In addition, the portion of the Leased Premises consisting of the Central Library Site is subject to the conditions and restrictions set forth in that certain Declaration of Special Land Use Restrictions, Right of First Refusal, Mortgage Lien and Option to Repurchase (the "Declaration"), dated as of March 11, 1992, by and between the Irvine Company, as grantor (the "Declarant"), and the City, as grantee, pursuant to which the City was granted the Central Library Site. Pursuant to the Declaration, no portion of the Central Library Site or any improvements thereon shall be used for retail, commercial, quasi-retail or quasi-commercial facilities that materially compete with the retail and commercial facilities in the Newport Center, including the shopping center known as Fashion Island, or otherwise improved, developed, used, operated or maintained with any facilities or for any purpose whatsoever except as a public library with related parking unless expressly approved by the Declarant, which approval may be granted or withheld by the Declarant in its sole discretion. The Declaration also provides that, except for certain permitted

transfers to a governmental entity whose primary purpose is the maintenance and operation of public libraries and transfers in connection with the sale of public obligations, the Declarant has a right of first refusal with respect to all or any part of the Central Library Site determined to be transferred by the City. The Declaration further provides that upon any proposed, attempted or actual transfer in violation of the provisions of the Declaration and upon any violation of the restrictions set forth therein, the Declarant in its sole option and discretion shall be entitled to repurchase the Central Library Site.

Abatement

Except (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Leased Premises, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Lease Payment Fund to pay the amount which would otherwise be abated, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Premises or defects in the title with respect to the Leased Premises there is substantial interference with the use and possession of all or a portion of the Leased Premises by the City. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Leased Premises not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided in the Lease, in the event of any such damage, destruction, interference or taking, the Lease shall continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

Risk of Nonpayment of Refundable Credits

No assurance is given that the U.S. Treasury will make payment of the Refundable Credits in the amounts to which the City believes it is entitled, nor that such payments will be made in a timely manner. The U.S. Treasury may offset any Refundable Credit to which the City is otherwise entitled against any other tax liability of the City payable to the U.S. Treasury. No assurance can be given that Congress will not amend or repeal provisions of the American Recovery and Reinvestment Act of 2009, which amendments could affect the payment of Refundable Credits. See “Security for the Certificates and Sources of Payment – Pledge of Refundable Credits to 2010B Certificates” herein.

Seismic Events

The Leased Premises is located within a seismically active area, and damage from an earthquake could be substantial. The City is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Premises and no assurance can be made that the City will procure and maintain, or cause to be procured and maintained, such insurance. There can be no assurance that earthquake insurance on the Leased Premises, if any, can be renewed or will be maintained by the City in the future, or will be available for payments in respect of the Certificates. If there is no earthquake insurance on the Leased Premises and if the Leased Premises is damaged in an earthquake, the Lease Payments would be subject to abatement. See “Risk Factors – Abatement” herein.

The Leased Premises may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The City cannot predict what force majeure events may occur in the future. For additional

information regarding the City's risk management programs, see Appendix A – "City of Newport Beach Financial Information and Regional Economic and Demographic Information – City of Newport Beach Financial Information – Risk Management" and Appendix C – "Summary of Principal Legal Documents – The Lease – Insurance" attached hereto.

THE CORPORATION

The Corporation was incorporated on March 9, 1992, and is a nonprofit public benefit corporation duly organized and existing under the California Nonprofit Public Benefit Corporation Law for the purpose, among other things, of rendering financial assistance to the City by financing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, electrical, water, sewer, road and other public improvements, lands and any other real or personal property, tangible and intangible, for the benefit of residents of the City and surrounding areas.

The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Certificates and has pledged none of its moneys, funds or assets toward the Lease Payments or Prepayments under the Lease, or toward the payment of any amount due in connection with the Certificates.

The Corporation is a separate legal entity from the City. It is governed by a seven member Board of Directors (the "Board of Directors") appointed by the City Council. The Corporation has no employees. All staff work is performed by employees of the City. The members of the Corporation's Board of Directors are the members of the City Council in their *ex officio* capacity.

The Corporation has not entered into any material financing arrangements with respect to the Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the Corporation's office at 3300 Newport Boulevard, Newport Beach, California, 92659-1768.

TAX MATTERS

2010A Certificates. In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest with respect to the 2010A Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest with respect to the 2010A Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, 2010A Certificate Owners should consult their tax advisors regarding whether interest with respect to the 2010A Certificates is included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2010A Certificate (the first price at which a substantial amount of the 2010A Certificates of the same 2010And maturity is to be sold to the public) and the stated prepayment price at maturity with respect to the 2010A Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner of a 2010A Certificate (the "2010A Certificate Owner") before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2010A Certificate Owner will increase the 2010A Certificate Owner's basis in the applicable 2010A Certificate. In the opinion of Special Counsel, original issue discount that accrues to a 2010A Certificate Owner is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the

federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) with respect to the 2010A Certificates is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the 2010A Certificates to assure that the interest (and original issue discount) with respect to the 2010A Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the 2010A Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2010A Certificates. The City has covenanted to comply with all such requirements.

The amount by which a 2010A Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2010A Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2010A Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2010A Certificate premium reduces the 2010A Certificate Owner's basis in the applicable 2010A Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2010A Certificate premium may result in a 2010A Certificate Owner realizing a taxable gain when a 2010A Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2010A Certificate to the Owner. Purchasers of the 2010A Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2010A Certificate premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2010A Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2010A Certificates might be affected as a result of such an audit of the 2010A Certificates (or by an audit of similar bonds).

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate relating to the 2010A Certificates permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) with respect to the 2010A Certificates for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Special Counsel has rendered an opinion that interest (and original issue discount) with respect to the 2010A Certificates is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2010A Certificates and the accrual or receipt of interest (and original issue discount) with respect to the 2010A Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2010A Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2010A Certificates.

A copy of the proposed form of opinion of Special Counsel with respect to the 2010A Certificates is set forth in Appendix E herein.

2010B Certificates. The 2010B Lease Payments evidenced by the 2010B Certificates have been designated as Build America Bonds for purposes of Section 54AA of the Code for which the City is allowed a refundable credit which, with respect to any interest payment date for the 2010B Certificates, is equal to 35 percent of the amount of interest evidenced by the 2010B Certificates on such date. The City will elect to receive a cash subsidy payment from the United States Treasury equal to thirty-five percent (35%) of the interest payable by the City evidenced by the 2010B Certificates. **UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE 2010B CERTIFICATES RECEIVE OR BE ENTITLED AT ANY TIME TO A CREDIT AGAINST THE TAX IMPOSED BY THE CODE.** The City cannot ensure that it will receive such a refundable credit at any time and in any given amount.

The cash subsidy payment with respect to the 2010B Certificates to which the City is entitled is treated by the Internal Revenue Service as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the City payable to the Federal government, including in respect of any internal revenue tax (including any interest and penalties), past due child support, past due and legally enforceable debt due federal agencies, unemployment compensation debts, and past due legally enforceable state income tax debts. The payment of the cash subsidy payments do not represent a full faith and credit obligation or guarantee of the federal government and there can be no assurance that the subsidy payments will be timely received in any particular amount.

In the opinion of Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest evidenced by the 2010B Certificates is not excluded from gross income for federal income tax purposes under Section 103 of the Code but is exempt from State of California personal income tax.

Except for certain exceptions, the difference between the issue price of a 2010B Certificate (the first price at which a substantial amount of the 2010B Certificate of the same 2010And maturity is to be sold to the public) and the stated prepayment price at maturity with respect to such 2010B Certificate (to the extent the prepayment price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the 2010B Certificate Owner will increase the 2010B Certificate Owner's basis in the 2010B Certificate. 2010B Certificate holders should consult their own tax advisors with respect to taking into account any original issue discount on the 2010B Certificates.

2010B Certificate holders that have a basis in the 2010B Certificates that is greater than the principal amount of such 2010B Certificates should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The qualification of the 2010B Certificates and receipt of the refundable credit for purposes of Section 54AA of the Code is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2010B Certificates to assure that the 2010B Lease Payments evidenced by 2010B Certificates qualify as Build America Bonds under Section 54AA for which the City has made an irrevocable election to receive a refundable credit. Failure to comply with such requirements of the Code might result in the City not receiving such a refundable credit, possibly retroactive to the date of issue of the 2010B Certificates. The City has covenanted to comply with all such requirements.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of bond issues, including both random and targeted audits. It is possible that the 2010B Certificates will be

selected for audit by the IRS. It is also possible that the market value of the 2010B Certificates might be affected as a result of such an audit of the 2010B Certificates (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the 2010B Certificates to the extent that it adversely affects the status of the 2010B Lease Payments evidenced by 2010B Certificates as Build America Bonds for purposes of Section 54AA of the Code for which the Board is entitled to a refundable credit or the 2010B Certificate market value.

It is possible that subsequent to the issuance of the 2010B Certificates there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state, or local tax treatment of the 2010B Certificates or the market value of the 2010B Certificates. No assurance can be given that subsequent to the issuance of the 2010B Certificates such changes or interpretations will not occur.

The federal tax and State of California personal income tax discussion set forth above is included for general information only and may not be applicable depending upon an Owner's particular situation. The ownership and disposal of a 2010B Certificate and the accrual or receipt of interest with respect to a 2010B Certificate may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. **ANY FEDERAL TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE 2010B CERTIFICATES IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. THE FEDERAL TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE 2010B CERTIFICATES WAS WRITTEN TO SUPPORT THE PROMOTING AND MARKETING OF THE 2010B CERTIFICATES. BEFORE PURCHASING ANY OF THE 2010B CERTIFICATES, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE 2010B CERTIFICATES AND THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.**

A copy of the proposed form of opinion of Special Counsel with respect to the 2010B Certificates is set forth in Appendix E hereto.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, and certain other conditions. Complete copies of the proposed forms of opinions of Special Counsel are contained in Appendix E hereto. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City and the Corporation by David Hunt, City Attorney, and Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and for the Underwriters by their counsel, Jones Hall, A Professional Law Corporation, San Francisco, California.

Payment of the fees of Special Counsel, Disclosure Counsel and the Underwriter's counsel is contingent upon execution and delivery of the Certificates. Special Counsel and Disclosure Counsel represent the Underwriters on matters unrelated to the Certificates.

FINANCIAL STATEMENTS

The general purpose financial statements of the City, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by Mayer Hoffman McCann P.C. (the "Independent Auditors"), certified public accountants and management consultants, as stated in their report appearing in Appendix A. Independent Auditors has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Independent Auditors with respect to any event subsequent to its report dated December 18, 2009.

LITIGATION

No litigation is pending or, to the best knowledge of the City, threatened against the City or the Corporation concerning the validity of the Certificates. The City is not aware of any litigation pending or threatened questioning the political existence of the City or the Corporation or contesting the City's ability to cause the execution and delivery of the Certificates or pay the Lease Payments pursuant to the Lease. There are a number of lawsuits and claims pending against the City. Other than as described in Appendix A, the City does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the City.

UNDERWRITING

The Certificates are being purchased by the underwriters named on the cover page hereof (the "Underwriters"). Pursuant to the Purchase Contract for the Certificates the Underwriters have agreed, subject to certain conditions, to purchase the 2010A Certificates at a price of \$21,129,832.05 (representing the principal amount of the 2010A Certificates of \$20,085,000.00, plus an original issue premium of \$1,155,299.55, less an underwriting discount of \$110,467.50) and the 2010B Certificates at a price of \$105,988,837.50 (representing the principal amount of the 2010B Certificates of \$106,575,000.00, less an underwriting discount of \$586,162.50). The Purchase Contract for the Certificates provides that the Underwriters will purchase all of the Certificates, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

The following two sentences have been provided by De La Rosa & Co., one of the underwriters for the Certificates. De La Rosa & Co., one of the Underwriters of the Certificates, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Certificates, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the Certificates, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates, Irvine, California served as Financial Advisor to the City (the "Financial Advisor") in connection with the issuance of the Certificates. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting municipal bonds or other securities. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an

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APPENDIX A

**CITY OF NEWPORT BEACH FINANCIAL INFORMATION
AND REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION**

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CITY OF NEWPORT BEACH FINANCIAL INFORMATION

General

The City of Newport Beach (the “City”) was incorporated under the general laws of the State of California (the “State”) on September 1, 1906. The City is located in the coastal center of the County of Orange (the “County”), approximately 89 miles north of San Diego, 15 miles south of Long Beach and 45 miles southwest of Los Angeles. As of 2010, the City had a permanent population of 86,738, which typically grows to over 100,000 during the summer months, including 20,000 to 100,000 tourists daily. The City’s adopted budget for Fiscal Year 2010-11 (the “Fiscal Year 2010-11 Adopted Budget”) is approximately \$226.7 million, approximately \$149.3 million of which relates to the City’s General Fund.

Government

The City operates pursuant to a City Charter adopted in 1954. The City has a Council-Mayor form of government. City Council members are elected by district but voted on by the population as a whole, and serve four-year staggered terms. The City Council consists of the Mayor and six other members and is responsible for, among other things, policy-making, passing local ordinances, adopting the budget, appointing committees and hiring the City Manager, the City Attorney, and the City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the City and for appointing directors of departments.

The City is a full service city providing its residents and visitors with the following services: general governance, legal, financial, information technology, and administrative management; police, fire, paramedic, lifeguard, and emergency medical transport services; engineering, construction, and maintenance of public facilities, public streets, beaches, and parks; planning, zoning, and economic development services; building inspection, plan check and code enforcement services; libraries and cultural and arts services; recreation and senior services; and water, wastewater, rubbish disposal, and street light utilities services. The City provides water and sewer service to most areas within City limits, but it does not provide gas, electrical, or other utility service. Public elementary and secondary education is provided by school districts, which are separate government entities.

On November 2, 2010, the voters of the City approved various City Charter amendments that will, among other things, modify existing provisions of the City Charter relating to additional taxes, restrict oil operations, amend legal document publication requirements and franchise processes, increase formal bidding thresholds, adjust misdemeanor penalties, require redistricting appointments every ten years, amend the City’s civil service system, repeal the Chamber of Commerce contribution limit, remove City contract term limitations, require voter approval for the sale of City-owned waterfront property and effect administrative changes to comply with State and federal law. The City Charter amendments will not adversely affect the execution and delivery of the City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) and the City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project) (collectively, the “Certificates”) and the transactions described in the forepart of this Official Statement.

Accounting and Financial Reporting

The City maintains its accounting records in accordance with generally accepted accounting principles applicable to governmental entities (“GAAP”) and the standards established by the

Governmental Accounting Standards Board (“GASB”). At least quarterly, a report is prepared for the City Council to review fiscal performance to date against the budget. A comprehensive annual financial report (“CAFR”), including the audited financial statements, is prepared annually in conformance with GAAP, as promulgated by the GASB. The City’s financial statements are audited by an independent certified public accountant. The City’s most recent financial statements for the Fiscal Year ended June 30, 2009 were audited by Mayer Hoffman McCann P.C. The City’s audited financial statements, together with accompanying notes and opinions from the City’s Independent Auditor, for the Fiscal Year ended June 30, 2009, are set forth in Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009” attached to this Official Statement.

The City’s governmental funds, including the General Fund, use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. The City’s enterprise and internal service funds are proprietary funds that use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related goods or services are delivered.

Budget Process

The City prepares and adopts an annual budget as required by the City Charter. The budget is the operating and capital expenditure plan for the City for the fiscal year beginning on July 1 and ending on June 30 of the following year (the “Fiscal Year”) and serves as the foundation for the City’s financial planning and control.

The budget process commences in December when the Administrative Services Department prepares preliminary fund balance estimates for the current year and preliminary revenue estimates for the next fiscal year. In January, the Administrative Services Department prepares a budget calendar and issues budget instructions, including budget guidelines approved by the City Manager and appropriation limits, and expenditure detail to each department for use in preparation of the next year’s City budget. The departments then submit revenue and expenditure appropriation requests that are summarized by the Administrative Services Department and presented to the City Manager for review. The City Manager then meets with each department and, together with the Administrative Services Department, prepares and submits to the City Council a proposed budget for the next fiscal year. Subsequent to City Council review, including as many budget study sessions as the City Council deems necessary, and prior to the budget’s final adoption, the City Manager provides each City Council Member with an itemized list of all proposed changes to permit a roll call vote by the City Council on each item during the budget hearing at the regular City Council meeting. The City Council holds the budget hearing and adopts the budget on or before June 30 of each year, as required by the City Charter.

The budget is prepared on a modified accrual basis with all appropriations lapsing at the close of the fiscal year. Any revisions that increase the total appropriations of any fund over \$10,000 must be approved by the City Council. In the event of any shortfall in projected revenue, immediate steps are taken to mitigate the shortfall through the identification of alternative funding sources or freezing appropriations. Similarly, if expenditures are projected to exceed appropriations, steps are taken to freeze expenditures in other accounts within the affected department or to transfer available resources to offset the added expenditure requirement.

Financial Statements

Table A-1 below sets forth the audited General Fund Balance Sheet for Fiscal Years 2005-06 through 2008-09 and the unaudited General Fund Balance Sheet for Fiscal Year 2009-10.

TABLE A-1
CITY OF NEWPORT BEACH
GENERAL FUND BALANCE SHEETS
FIVE YEAR COMPARISON
Fiscal Years 2005-06 through 2009-10

	Fiscal Year Ended June 30,				
	2006 Audited	2007 Audited	2008 Audited	2009 Audited	2010 Unaudited
ASSETS					
Cash and Investments	\$ 51,002,231	\$ 63,551,764	\$ 75,278,961	\$ 76,435,099	\$ 70,382,742
Receivables					
Accounts	3,620,532	4,636,290	6,291,724	5,138,168	4,138,978
Notes	50,000	50,000	50,000	--	471,250
Interest	1,497,197	1,592,648	1,827,739	1,457,076	981,924
Intergovernmental Receivables	6,366,265	5,857,894	5,552,883	4,798,249	4,948,641
Due from Other Funds	3,309,485	7,351,061	3,297,073	3,686,684	11,940,685
Due from Agency Fund	--	436,484	--	--	--
Prepaid Items	865,350	492,032	127,836	526,444	932,148
Inventory	211,746	220,864	229,546	219,698	238,274
Total Assets	<u>\$ 66,922,806</u>	<u>\$ 84,189,037</u>	<u>\$ 92,655,762</u>	<u>\$ 92,261,418</u>	<u>\$ 94,034,642</u>
LIABILITIES, EQUITY AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 5,164,274	\$ 6,314,060	\$ 5,054,805	\$ 3,478,489	\$ 3,403,362
Accrued Payroll	2,055,909	2,358,540	3,688,974	4,083,477	4,204,908
Deposits Payable	3,277,731	3,741,959	2,913,141	2,992,328	2,339,224
Unearned Revenue	1,590,815	1,725,326	1,911,171	1,907,895	1,904,552
Unavailable Revenue	247,016	135,950	28,532	188,265	25,000
Deferred Revenues	--	--	--	--	--
Total liabilities	<u>\$ 12,335,745</u>	<u>\$ 14,275,835</u>	<u>\$ 13,596,623</u>	<u>\$ 12,650,454</u>	<u>\$ 11,877,046</u>
Fund balances:					
Reserved:	\$ 9,374,722	\$ 7,487,498	\$ 6,807,094	\$ 5,907,205	\$ 5,472,481
Unreserved:					
Designated ⁽¹⁾	45,212,339	62,425,704	72,252,045	73,703,759	76,685,115
Total Fund Balances	<u>\$ 54,587,061</u>	<u>\$ 69,913,202</u>	<u>\$ 79,059,139</u>	<u>\$ 79,610,964</u>	<u>\$ 82,157,596</u>
Total Liabilities and Fund Balances	<u>\$ 66,922,806</u>	<u>\$ 84,189,037</u>	<u>\$ 92,655,762</u>	<u>\$ 92,261,418</u>	<u>\$ 94,034,642</u>

⁽¹⁾ Pursuant to City practice, unreserved General Fund amounts are designated for contingencies, capital projects, appropriations and other special purposes. Such amounts are available to fund current obligations.

Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Years 2005-06 through 2008-09; City of Newport Beach for Fiscal Year 2009-10. See Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009” attached to this Official Statement.

Table A-2 below sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2005-06 through 2009-10 and the unaudited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Year 2009-10.

TABLE A-2
CITY OF NEWPORT BEACH GENERAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FIVE YEAR COMPARISON
Fiscal Years 2005-06 through 2009-10

	Fiscal Year Ended June 30,				
	2006 Audited	2007 Audited	2008 Audited	2009 Audited	2010 Unaudited
Revenue:					
Taxes and Assessments					
Property	\$ 57,888,545	\$ 63,003,057	\$ 67,388,838	\$ 70,126,680	\$ 71,999,679
Sales	21,465,557	21,088,118	21,855,242	17,925,956	17,440,736
Sales Tax in-lieu	5,720,028	7,348,253	8,017,539	7,503,113	4,539,946
Transient Occupancy	9,832,729	12,059,008	12,751,518	11,170,956	11,400,710
Other Taxes	7,377,811	8,309,012	8,288,855	8,486,937	7,976,309
Intergovernmental	3,935,193	3,811,671	3,083,152	2,597,108	2,693,785
Licenses and Permits	3,295,057	3,108,651	4,994,304	4,396,034	2,603,348
Charges for Services	13,098,106	14,368,652	14,935,333	14,374,139	15,210,962
Fines and Forfeitures	3,839,925	3,706,150	3,957,864	3,711,087	3,739,303
Investment Income	1,939,941	3,175,582	3,655,314	1,697,103	706,855
Net Increase (Decrease) in Fair Value of Investments	(715,615)	(545,533)	508,485	1,096,848	707,200
Property Income	6,224,093	6,471,129	6,603,973	6,552,603	6,080,577
Donations	605,271	1,323,550	1,202,474	261,357	124,703
Other	1,040,158	1,967,465	1,458,770	234,573	1,690,499
Total Revenue	\$ 135,546,799	\$ 149,194,765	\$ 158,701,661	\$ 150,134,494	\$ 146,914,612
Expenditures:					
Current					
General Government	\$ 12,457,334	\$ 13,624,189	\$ 14,425,553	\$ 15,478,258	\$ 15,086,125
Public Safety ⁽¹⁾	47,971,940	50,424,717	53,650,324	57,285,811	56,108,046
Public Works	22,446,976	24,403,360	25,454,281	26,220,846	25,681,411
Community Development	7,299,573	7,223,202	7,769,980	8,302,214	8,097,847
Community Services	10,950,588	11,749,016	12,639,243	13,281,963	13,109,514
Capital Outlay	6,510,325	10,368,748	10,455,571	5,910,047	8,627,010
Debt Service:					
Principal	--	2,000,000	1,500,000	1,500,000	--
Interest and fiscal changes	--	--	142,500	71,250	--
Total Expenditures	\$ 107,636,736	\$ 119,793,232	\$ 126,037,452	\$ 128,050,389	\$ 126,709,953
Excess of revenue over expenditures	\$ 27,910,063	\$ 29,401,533	\$ 32,664,209	\$ 22,084,105	\$ 20,204,659

(Table continued on next page.)

(Table continued from prior page.)

	Fiscal Year Ended June 30,				
	2006 Audited	2007 Audited	2008 Audited	2009 Audited	2010 Unaudited
Other Financing Sources (Uses):					
Transfers In	\$ 787,393	\$ 1,027,127	\$ 5,521,342	\$ 690,013	\$ 1,519,725
Transfers Out ⁽²⁾	(28,597,790)	(20,102,519)	(29,039,614)	(22,222,293)	(20,677,752)
Issuance of debt	--	5,000,000	--	--	1,500,000
Total Other Financing Sources (Uses)	<u>\$ (27,810,397)</u>	<u>\$ (14,075,392)</u>	<u>\$ (23,518,272)</u>	<u>\$ (21,532,280)</u>	<u>\$ (17,658,027)</u>
Net Change in Fund Balance	99,666	15,326,141	9,145,937	551,825	2,546,632
Fund Balances, Beginning	<u>\$ 54,487,395</u>	<u>\$ 54,587,051</u>	<u>\$ 69,913,202</u>	<u>\$ 79,059,139</u>	<u>\$ 79,610,964</u>
Fund Balance, Ending	<u>\$ 54,587,061</u>	<u>\$ 69,913,202</u>	<u>\$ 79,059,139</u>	<u>\$ 79,610,964</u>	<u>\$ 82,157,596</u>

(1) Increases in Public Safety expenditures are attributable to increases in the PERS (herein defined) rate, increases in cost of living adjustments and, beginning in Fiscal Year 2008-09, the charge of annual OPEB (herein defined) cost to the Police Department and the Fire Department.

(2) Includes in each of the respective years a transfer from the General Fund to finance in part the maintenance and operations of the Tide and Submerged Land Fund (the "Tide Fund"), which were \$15.2 million, \$17.0 million, \$17.4 million, \$20.3 million and \$20.1 million from Fiscal Years 2005-06 through 2009-10, respectively.

Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Years 2005-06 through 2008-09; City of Newport Beach for Fiscal Year 2009-10. See Appendix B – "City Financial Statements for the Fiscal Year Ended June 30, 2009" attached to this Official Statement.

Recent Budget Results; Fiscal Year 2010-11 Budget

Long-Term Financial Planning. The City undertakes financial planning with a long-term approach and has developed several master replacement plans for its critical assets and infrastructure, including major facilities, street pavement, water and sewer infrastructure, and City vehicles and heavy equipment. The City retains the services of actuaries to predict and fund long-term liabilities, including workers compensation, general claim liabilities, pension liabilities and post employment health care liabilities. Reserve levels and annual required funding contributions are set by City Council policy. See "City of Newport Beach Financial Information – Reserves" herein. Annual contribution rates for workers compensation and general liability are targeted to facilitate the accumulation of cash reserves to achieve at least a 75% "confidence funding level", meaning that there is a 75% probability that the respective funds will have enough money to cover all benefits and claims that have been incurred in connection therewith. Except for the implied subsidy component of the City's post employment health care plan ("OPEB liability"), the City's policy is to fund the cash subsidy of its OPEB liability and pension liabilities at 100% of the actuarially determined annual required contribution ("ARC"). Because the City pays the entire ARC each year, its net pension and net OPEB obligation at the end of each year is \$0 (except for the implied subsidy component of OPEB which is funded on a pay-as-you-go basis). See "City of Newport Beach Financial Information – Pension Benefits" and "City of Newport Beach Financial Information – Post-Employment Benefits" herein. To mitigate the rising cost of pension plans, the City has negotiated pension cost sharing agreements with certain employee associations and is reviewing the potential for additional contributions and the creation of a second tier of pension benefits for new employees.

Fiscal Year 2008-09 Results. As of the end of the Fiscal Year 2008-09, the City's Governmental Funds reflected combined fund balances of \$121 million, an increase of \$4.1 million from the prior year. The General Fund represented \$79.6 million or 65.7% of the combined fund balances of the Governmental Funds. The General Fund reflected an increase of \$0.6 million in fund

balance relative to the prior fiscal year, after a transfer of \$22.2 million to other funds, which consisted of \$20.3 million in routine transfers to subsidize the operations of the Tide Fund, a \$0.5 million transfer to the Contributions Fund and \$1.4 million in various nonrecurring transfers to other funds. At the end of Fiscal Year 2008-09, unreserved fund balance for the General Fund was \$73.7 million, or 57.6% of total General Fund expenditures. Although unreserved and available to fund current obligations, 100% of this balance is designated for contingencies, capital projects, appropriations, and other special purposes.

Fiscal Year 2009-10 Results. As of the end of the Fiscal Year 2009-10, the City's Governmental Funds reflected combined fund balances of \$110.2 million, a decrease of \$10.9 million from the prior year. The General Fund represented \$82.2 million or 74.6% of the combined fund balances of the Governmental Funds. The General Fund balance continued its trend of gradual increase, reflecting an increase of \$2.5 million in fund balance relative to the prior fiscal year, after a transfer of \$20.7 million to other funds, which consisted of \$20.1 million in routine transfers to subsidize the operations of the Tide Fund and a \$0.5 million routine transfer to the Debt Service Fund. At the end of Fiscal Year 2009-10, unreserved fund balance for the General Fund was \$76.7 million or 61% of total General Fund expenditures. Although unreserved and available to fund current obligations, 100% of this balance is designated for contingencies, capital projects, appropriations, and other special purposes.

To address an \$8 million projected revenue shortfalls in Fiscal Year 2009-10, the City Council took a series of corrective actions, including adopting its Fiscal Sustainability Plan, organizing a review to identify operation savings, deferring certain capital projects, renegotiating contracts and contracting for additional services and returning surplus reserves. The City also approved an Early Retirement Incentive Plan ("ERIP"), which operates through the Public Agency Retirement Systems ("PARS") Supplemental Retirement Plan ("SRP"). See "City of Newport Beach Financial Information – Pension Benefits – Public Agency Retirement System – Supplemental Retirement Plan" herein. The SRP offered through PARS allowed the City to set the payment, eligibility, and refilling based on the City's needs, and allowed the associated expense to be known and quantifiable. The benefit to the participating employee is paid through a 15-year annuity of 7% of "final pay up" to \$75,000 and 6% of amount of "final pay" over \$75,000, and it complements and is in addition to an employee's CalPERS retirement benefit. The total estimated cost to fund the ERIP benefit is \$862,359 for the first year and \$819,241 per year for the next four years. After accounting for the costs of implementing the ERIP plan and the estimated reduction to the City payroll, the net savings are expected to reach nearly \$3.1 million annually.

Fiscal Year 2010-11 Budget. The Fiscal Year 2010-11 Adopted Budget was adopted by the City Council on June 22, 2010. Total City revenues, excluding internal premiums, are expected to decrease approximately 4.4% relative to Fiscal Year 2009-10 actual revenues, from \$210.8 million to \$201.6 million. Total City expenditures, excluding internal charges but including debt service and capital projects, are \$226.7 million. The General Fund portion included revenues of approximately \$145.1 million and expenditures of approximately \$149.3 million. In accordance with the normal practice of the City, the Fiscal Year 2010-11 Adopted Budget has been adjusted to reflect carry-over appropriations from the prior fiscal year and program needs not included in the Fiscal Year 2010-11 Proposed Budget. See Table A-3 herein.

The City projects that Fiscal Year 2010-11 General Fund revenues will decrease approximately \$1.8 million from Fiscal Year 2009-10 actual revenues. Property tax revenues, which account for approximately 49% of total General Fund revenues, are budgeted to decrease by approximately \$1.4 million in Fiscal Year 2010-11. However, updated assessed valuation information from the County Assessor's Office reflects a projected 0.27% increase in net taxable

value in the City. See “City of Newport Beach Financial Information – Major Revenues” herein. Sales tax and uniform transient occupancy tax (“TOT”) are the next largest components of the City’s General Fund. The Fiscal Year 2010-11 sales tax estimate is \$17.4 million, the same as Fiscal Year 2009-10 actual sales tax receipts and approximately 3.1% lower than Fiscal Year 2008-09 actual sales tax receipts. TOT revenues are estimated to be \$11.6 million, an increase of 1.4% over the Fiscal Year 2009-10 actual TOT receipts.

The General Fund contains expenditures for all operating City departments, except for the Harbor Resources Division within the City Manager Department and the Oil and Gas Division of the Utilities Department, which are funded through the Tide Fund and the Water and Wastewater Divisions within the Utilities Department respectively. In Fiscal Year 2010-11, the General Fund expenditures, net of the Tide Fund, including General Fund capital improvements, total \$126.6 million, a decrease of \$0.1 million, or 0.1% from Fiscal Year 2009-10 General Fund actual expenditures.

Excluding internal service premiums charged to fund insurance reserves, equipment maintenance and replacement, and post employment medical benefits, total expenditures are proposed to be approximately \$226.7 million. The budget shortfall between total external revenues and expenditures is due to the timing of Capital Improvement Project (“CIP”) revenues and expenditures. CIP projects often span one or more fiscal years and it is estimated that \$29 million projects will be re-budgeted from a prior fiscal year because such projects were delayed or were only partially completed. These funds are reserved in a Capital Appropriations reserve, but when the appropriation is carried forward to the following year, this re-appropriation causes expenditures to exceed current year revenues.

Funding for the Project. The City’s Fiscal Year 2010-11 Adopted Budget includes a set-aside of \$31.3 million as part of its Facilities Replacement Program (the “Facilities Replacement Program”) to fund construction expenditures for the Civic Center Project, including a parking structure and library additions, which amount will be reimbursed from proceeds of the Certificates described in the forepart of this Official Statement. See “Reserves – Facilities Replacement Program” for a description of the City’s Facilities Replacement Program. The Civic Center project has been reviewed in context of all critical City facility replacement plans. The City’s facilities replacement policy limits General Fund annual contributions to debt service to not more than 5% of total General Fund operating budget in any one year. See “Plan of Financing – The Civic Center Project” in the forepart of this Official Statement.

Impact of the State’s Fiscal Year 2010-11 Budget on the City’s Fiscal Year 2010-11 Budget. On October 8, 2010, the Governor signed the 2010 Budget Act (the “2010-11 State Budget Act”) to address a then-projected \$19.3 billion shortfall in revenues. See “State of California Budget Information - Fiscal Year 2010-11 State Budget” herein. The funding provisions included in the 2010-11 State Budget Act are expected to have minor impacts on City operations.

The City has reviewed the 2010-11 Budget Act and reflected the reductions included therein in its Fiscal Year 2010-11 Adopted Budget. The primary impact to the City from the 2010-11 Budget Act is the delay of new Highway Users Tax Account payments. City monthly payments for the remainder of Fiscal Year 2010-11 will be increased and adjusted to compensate for the deferral.

Given the current state of the State’s economy and the projected imbalance in the State’s budget, the City cannot fully anticipate the impact of State’s continuing budget challenges on the revenues or expenditures of the City. The City cannot predict the extent of any additional fiscal problems that will be encountered in this or in any future fiscal years, and, it is not clear what measures will be taken by the

State or federal government to address the continuing economic downturn. Future State budgets could be affected by national economic conditions and the factors over which the City will have no control. Also, the City cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current and future budget deficits or the impact that such actions will have on the City's finances and operations. To the extent that the State budget process results in reduced revenues or increased expenses to the City, the City will be required to make adjustments to its budget. See "State of California Budget Information" herein.

Future Budget Impacts. For Fiscal Year 2010-11, the ERIP is expected to continue to provide operating savings. Notwithstanding the 13.3% investment earnings realized on pension investments for Fiscal Year 2009-10, the City is anticipating a significant increase in expenditures in Fiscal Year 2011-12 as that is when the Fiscal Year 2008-09 investment losses of 24% (approximately \$119.8 million of the market value of assets and \$102.9 million of the actuarial value of assets) in connection with pension are factored into the City's pension contribution rates. The City's total pension cost is expected to increase from a budgeted \$19.8 million in Fiscal Year 2010-11 to \$21.6 million in Fiscal Year 2011-12, \$25.8 in Fiscal Year 2012-13 and \$28.8 million in Fiscal Year 2013-14. The City currently has \$5 million in its Reserve for PERS Rate Changes to help offset rate increases. See "City of Newport Beach Financial Information – Pension Benefits" herein.

Table A-3 below sets forth the City's original, adopted budget and actual budget results for Fiscal Years 2008-09 and 2009-10 and the adopted budget for Fiscal Year 2010-11.

TABLE A-3
CITY OF NEWPORT BEACH
GENERAL FUND BUDGETS⁽¹⁾
Fiscal Years 2008-09 through 2010-11

	Fiscal Year 2008-09		Fiscal Year 2009-10		Fiscal Year 2010-11
	Original Budget	Actual	Original Budget	Estimated Actual	Original Budget
Revenues					
Taxes and Assessments:					
Property	\$ 68,834,854	\$ 70,126,680	\$ 71,119,504	\$ 71,999,679	\$ 70,642,840
Sales	22,635,634	17,925,956	19,656,428	17,440,736	17,374,734
Sales Tax In-Lieu ⁽²⁾	8,258,065	7,503,113	7,690,691	4,539,946	6,392,273
Transient Occupancy	13,014,079	11,170,956	13,000,000	11,400,710	11,555,034
Other taxes	8,018,514	8,486,937	7,634,000	7,976,309	8,410,800
Intergovernmental	2,407,991	2,597,108	2,051,200	2,693,785	1,840,272
Licenses and Permits	5,968,653	4,396,034	2,947,790	2,603,348	2,663,975
Charges for Services	15,280,400	14,374,139	14,380,989	15,210,962	13,878,895
Fines and Forfeitures	3,560,256	3,711,087	3,645,000	3,739,303	3,651,000
Investment Income	2,268,000	1,697,103	1,400,000	706,855	1,050,000
Net increase in Fair Value of					
Investments	--	1,096,848	--	707,200	--
Property income	6,117,202	6,552,603	6,018,404	6,080,577	7,232,797
Donations	112,500	261,357	100,000	124,703	50,000
Other	564,715	234,573	495,600	1,690,499	383,050
Total Revenues	\$ 157,040,863	\$ 150,134,494	\$ 150,139,606	\$ 146,914,612	\$ 145,125,670
Expenditures:					
General Government:					
City Council	\$ 1,196,180	\$ 1,188,990	\$ 1,279,250	\$ 1,163,486	\$ 1,047,612
City Clerk	524,193	469,507	381,140	382,393	500,270
City Attorney	1,542,595	2,097,159	2,403,871	2,688,217	2,379,426
City Manager	1,810,465	1,779,540	1,619,706	1,163,956	1,809,249
Administrative Services	8,390,086	7,889,562	8,156,605	7,356,232	7,824,501
Human Resources	2,155,636	2,053,500	2,357,506	2,331,841	2,321,792
Total General Government	\$ 15,619,155	\$ 15,478,258	\$ 16,198,078	\$ 15,086,125	\$ 15,882,850
Public Safety:⁽³⁾					
Police	\$ 37,936,468	\$ 36,646,654	\$ 36,886,066	\$ 35,374,156	\$ 35,599,103
Fire	19,540,265	20,639,157	21,077,491	20,733,889	21,536,261
Total Public Safety	\$ 57,476,733	\$ 57,285,811	\$ 57,963,557	\$ 56,108,045	\$ 57,135,364
Public Works:					
General Services	\$ 20,801,443	\$ 19,690,353	\$ 21,098,141	\$ 19,445,196	\$ 19,550,813
Public Works	5,250,308	5,075,801	5,180,773	5,077,222	4,973,274
Utilities	1,465,258	1,454,692	1,462,862	1,158,994	1,317,935
Total Public Works	\$ 27,517,008	\$ 26,220,846	\$ 27,741,776	\$ 25,681,412	\$ 25,842,022
Community Development:					
Planning	\$ 4,060,682	\$ 4,713,078	\$ 3,119,410	\$ 3,126,089	\$ 3,066,495
Building	4,947,609	3,324,759	4,858,614	4,408,216	4,332,481
Code and Water Quality Enforcement	439,401	264,377	430,204	563,542	266,882
Total Community Development	\$ 9,447,693	\$ 8,302,214	\$ 8,408,228	\$ 8,097,847	\$ 7,665,858

(Table continued on next page.)

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	Fiscal Year 2008-09		Fiscal Year 2009-10		Fiscal Year 2010-11
	Original Budget	Actual	Original Budget	Estimated Actual	Original Budget
Community Services:					
Library Services	\$ 6,966,096	\$ 6,521,718	\$ 6,629,814	\$ 6,554,183	\$ 6,562,723
Recreation and Senior Services	7,243,013	6,760,245	7,161,164	6,555,331	7,652,175
Total Community Services	<u>\$ 14,209,109</u>	<u>\$ 13,281,963</u>	<u>\$ 13,790,978</u>	<u>\$ 13,109,514</u>	<u>\$ 14,214,898</u>
Capital Outlay	14,270,981	5,910,047	8,636,613	8,627,010	5,054,497
Debt Service:					
Principal	\$ 1,500,000	\$ 1,500,000	\$ --	\$ --	\$ 750,000
Interest and Fiscal Charges	71,250	71,250	--	--	30,000
Total Debt Service	<u>\$ 1,571,250</u>	<u>\$ 1,571,250</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 780,000</u>
Total Expenditures	<u>\$ 140,111,929</u>	<u>\$ 128,050,389</u>	<u>\$ 132,739,230</u>	<u>\$ 126,709,953</u>	<u>\$ 126,575,489</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 16,928,934</u>	<u>\$ 22,084,105</u>	<u>\$ 17,400,376</u>	<u>\$ 20,204,659</u>	<u>\$ 18,550,181</u>
Other Financing Sources (Uses)					
Transfers In	\$ 440,000	\$ 690,013	\$ 440,000	\$ 1,519,725	\$ 440,000
Transfers Out	(20,884,284)	(22,222,293)	(20,701,193)	(20,677,752)	(51,728,627)
Issuance of Debt	--	--	--	1,500,000	--
Total Other Financing Sources (Uses)	<u>\$ (20,444,284)</u>	<u>\$ (21,532,280)</u>	<u>\$ (20,261,193)</u>	<u>\$ (17,658,027)</u>	<u>\$ (51,288,627)</u>
Net Change In Fund Balance	<u>\$ (3,515,350)</u>	<u>\$ 551,825</u>	<u>\$ (2,860,817)</u>	<u>\$ 2,546,632</u>	<u>\$ (32,738,446)</u>
Fund Balance, Beginning	<u>\$ 79,059,139</u>	<u>\$ 79,059,139</u>	<u>\$ 79,610,964</u>	<u>\$ 79,610,964</u>	<u>\$ 82,157,596</u>
Fund Balance, Ending	<u><u>\$ 75,543,789</u></u>	<u><u>\$ 79,610,964</u></u>	<u><u>\$ 76,750,147</u></u>	<u><u>\$ 82,157,596</u></u>	<u><u>\$ 49,419,150</u></u>

(1) Net of year-end allocations of certain General Fund revenues to the Tide Fund for maintenance services.

(2) Includes correction of \$1.2 million Sales Tax In-Lieu overpayment as a result of a State error in Fiscal Year 2008-09.

(3) Increases in Public Safety expenditures are attributable to increases in the PERS (herein defined) rate, increases in cost of living adjustments and, beginning in Fiscal Year 2008-09, the charge of annual OPEB (herein defined) cost to each of the Police Department and the Fire Department.

Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Year 2008-09; Adopted Budgets of the City for Fiscal Years 2009-10 and 2010-11; City for actual revenues and expenditures for Fiscal Year 2009-10.

Major Revenues

General. The City's General Fund and its activities are primarily supported by ad valorem property, sales and use taxes, and transient occupancy taxes, which account for approximately 73% of total General Fund revenues. Other revenue sources supporting General Fund activities include licenses, fees and permits, intergovernmental revenues, charges for services, fines, forfeitures and penalties, revenues from the use of money and property, contributions, and other miscellaneous revenues.

Table A-4 below sets forth the City's total General Fund revenues for selected major revenue sources from Fiscal Years 2006-07 through 2010-11.

TABLE A-4
CITY OF NEWPORT BEACH
SELECTED MAJOR REVENUE SOURCES
Fiscal Years 2006-07 through 2010-11

	<u>2006-07</u> <u>Actual</u>	<u>2007-08</u> <u>Actual</u>	<u>2008-09</u> <u>Actual</u>	<u>2009-10</u> <u>Estimated</u>	<u>2010-11</u> <u>Budgeted</u>
Taxes and Assessments Revenue Category					
Property Tax	\$ 63,003,057	\$ 67,388,838	\$ 70,126,680	\$ 71,999,679	\$ 70,642,840
Sales Tax	21,088,118	21,855,242	17,925,956	17,440,736	17,374,734
Sales Tax in-lieu	7,348,253	8,017,539	7,503,113	4,539,946	6,392,273
Transient Occupancy	12,059,008	12,751,518	11,170,956	11,400,710	11,555,034
Other	8,309,012	8,288,855	8,486,937	7,976,309	8,410,800
Intergovernmental	3,811,671	3,083,152	2,597,108	2,693,785	1,840,272
Licenses and Permits	3,108,651	4,994,304	4,396,034	2,603,348	2,663,975
Charges for Services	14,368,652	14,935,333	14,374,139	15,210,962	13,878,895
Fines and Forfeitures	3,706,150	3,957,864	3,711,087	3,739,303	3,651,000
Investment Income	3,175,582	3,655,314	1,697,103	706,855	1,050,000
Net Increase (Decrease) in Fair Value of Investments	(545,533)	508,485	1,096,848	707,200	--
Property Income	6,471,129	6,603,973	6,552,603	6,080,5777	7,232,797
Donations	1,323,550	1,202,474	261,357	124,703	50,000
Other	1,967,465	1,458,770	234,573	1,690,499	383,050
Total	<u>\$ 149,194,765</u>	<u>\$ 158,701,661</u>	<u>\$ 150,134,494</u>	<u>\$ 146,914,612</u>	<u>\$ 145,125,670</u>

Source: City of Newport Beach.

Property Taxes. Property tax receipts provide the largest tax revenue source of the City, contributing approximately \$70.1 million and \$72 million (or 47% and 49% of General Fund revenues) during Fiscal Years 2008-09 and 2009-10, respectively. Property tax receipts are expected to provide approximately \$70.6 million (inclusive of property transfer taxes) or 49% of General Fund revenues for Fiscal Year 2010-11.

Ad valorem property taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

One type of *ad valorem* property tax is the 1 percent *ad valorem* property tax levied by the County on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which

were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. Another type of *ad valorem* property tax is the *ad valorem* property levied by the County to pay debt service on voter-approved general obligation bonds. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and 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 tax defaulted property is subject to sale by the Office of 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 ten percent 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 unsecured personal property taxes: (1) 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 judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

The County employs an alternate method of property tax apportionment known as the "Teeter Plan", pursuant to which the County apportions taxing agencies 100% of their levy (adjusted for roll changes) and retains all delinquent receivables. However, the City is not a participant in the Teeter Plan. Accordingly, the City receives its property tax receipts as described above and retains all delinquent receivables relating thereto.

Property taxes allocated to the City include an amount to compensate cities for the loss of motor vehicle license fees. Motor Vehicle License Fees ("VLF") are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles at the time of registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis. Beginning in 1999, the VLF underwent a series of offsets that ultimately resulted in a 67.0% reduction in the effective VLF rate, from 2.0% of a vehicle's value to 0.65%. To compensate cities and counties for the tax offset, the State began providing State General Fund revenue to cities and counties on a dollar-for-dollar basis, otherwise known as the VLF backfill. As part of the Fiscal Year 2005 State Budget agreement, the VLF rate was statutorily reduced to 0.65%, eliminating the VLF backfill. Cities were compensated for the loss in VLF revenue with increased property tax revenues. Although the VLF rate has subsequently increased, the City does not share in this increase.

The Fiscal Year 2010-11 Adopted Budget includes \$69.4 million in projected property tax revenues, excluding property tax transfer of \$1.2 million, consisting of \$62.6 million of 1% property tax levy and \$6.8 million of "in-lieu of VLF" property tax revenue. Although the City has historically experienced steady growth in assessed valuation of 4% or more, the City assumed for purposes of the Fiscal Year 2010-11 Adopted Budget that there would be a 0.25% decline in secured property taxes from the prior year, with contingencies for a decline of assessed valuation. According to updated assessed valuation information provided by the County Assessor's Office, the City

experienced a year-to-year increase in net taxable value of \$38.8 billion, an increase of 0.27% over Fiscal Year 2009-10 values.

A number of factors contributed to the slower growth in assessed valuation for the last several years, such as falling residential real estate prices and increased foreclosures. In addition, the increased number of reassessment applications to the Assessor’s Office has contributed to increased refunds to homeowners and less revenue to the City. The 1.0% property tax levy is placed on the total assessed valuation of all commercial, residential, and industrial properties in the City. Due to the downturn on the real estate market, the average median home price decreased nearly 29.6 percent since 2007 through July 2010.

In Fiscal Year 2009-10, the State borrowed approximately 8.0% of property tax revenues from counties, cities and special districts, totaling approximately \$1.9 billion, which amount will be repaid within three years, all in accordance with Proposition 1A (2004) approved by voters in 2004. The City’s share of the borrowing was approximately \$6.2 million. The City recovered the full amount of the borrowing in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority. See “Constitutional and Statutory Limitations on Taxes, Revenues and Appropriations – Proposition 1A,” in the forepart of this Official Statement.

Table A-5 below sets forth the property tax rates for the City for the Fiscal Years 2005-06 through 2010-11.

TABLE A-5
CITY OF NEWPORT BEACH
PROPERTY TAX RATES
Fiscal Years 2005-06 through 2009-2010

	Fiscal Years				
	2005-06	2006-07	2007-08	2008-09	2009-10
City Direct Rates: ⁽¹⁾					
City Basic Rates	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000
Total City Direct Rate	1.000	1.000	1.000	1.000	1.000
Overlapping Rates:					
Water Districts	0.005	0.005	0.004	0.004	0.004
School Districts	0.0349	0.0315	0.0308	0.0302	0.0340
Total Direct Rate	<u>\$1.040</u>	<u>\$1.036</u>	<u>\$1.035</u>	<u>\$1.034</u>	<u>\$1.038</u>

⁽¹⁾ In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of other debt obligations.

Source: County of Orange Auditor Controller’s Office.

Table A-6 below sets forth the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2006-07 through 2010-11.

TABLE A-6
CITY OF NEWPORT BEACH
ASSESSED VALUATION
Fiscal Years 2006-07 through 2010-11

Fiscal Year⁽¹⁾	Locally Assessed	State Assessed	Total Secured⁽²⁾⁽³⁾	Unsecured Values⁽⁴⁾	Total Values⁽²⁾
2006-07	\$31,423,419,732	\$ 53,310	\$31,423,473,042	\$1,569,867,249	\$32,993,340,291
2007-08	34,188,515,273	53,310	34,188,568,583	1,668,015,342	35,856,583,925
2008-09	36,435,406,840	699,230	36,436,106,070	1,538,539,482	37,974,645,552
2009-10	37,077,896,580	699,230	37,078,595,810	1,564,808,312	38,643,404,122
2010-11	37,079,578,045	699,230	37,080,217,275	1,626,947,910	38,707,165,185

(1) As of January 1.

(2) Totals do not equal sum of component parts due to independent rounding.

(3) Represents Proposition 13 increases and decreases in taxable value of locally assessed real estate, excluding exempt properties such as churches, hospitals and schools.

(4) Consists of business personal property assessments, plus marine and aircraft assessments.

Source: County of Orange Auditor Controller's Office.

Table A-7 below sets forth property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2005-06 through 2009-10.

TABLE A-7
CITY OF NEWPORT BEACH
PROPERTY TAX LEVIES AND COLLECTIONS
Fiscal Years 2006 through 2010

Fiscal Year	Total Tax Levy	Tax Collections as of June 30	Percent of Levy Collected	Delinquent Tax Collections⁽¹⁾
2005-06	\$47,286,816	\$45,558,039	96.34%	\$ 728,365
2006-07	70,194,492	68,820,402	98.04	808,765
2007-08	69,315,117	68,242,326	98.45	846,904
2008-09	71,006,357	70,879,909	99.82	(294,366)
2009-10 ⁽²⁾	68,412,731	62,858,261	91.88	(1,227,109)

Source: County of Orange Auditor Controller's Office.

(1) Negative numbers reflect property tax refunds allocated to the referenced year.

(2) Net of amount property tax revenues borrowed by the State from the City, which was approximately \$6.2 million. The City recovered the full amount of the borrowing in Fiscal Year 2009-10 by participating in a securitization program through the California Statewide Communities Development Authority.

Table A-8 below sets forth the 10 largest taxpayers in the City as shown on the Fiscal Year 2009-10 secured tax roll and the land use, the assessed valuation and the percentage of the City's total property tax revenues attributable to each such taxpayer.

**TABLE A-8
CITY OF NEWPORT BEACH
TEN LARGEST TAXPAYERS
Fiscal Year 2009-10**

Property Owner	Taxable Assessed Valuation	Percentage of Total⁽¹⁾
1. The Irvine Company	\$1,845,922,190	4.78%
2. MacArthur Rockwell Semiconductor	145,017,612	0.38
3. Newport Bluffs LLC	138,143,707	0.36
4. Balboa Bay Club Inc.	128,568,741	0.33
5. 100 Bayview LLC	124,169,842	0.32
6. UDR Newport Beach North LP	117,788,896	0.30
7. Coronado South Apartments LP	114,618,841	0.30
8. Newport Healthcare Center	103,942,105	0.27
9. Jazz Semiconductor Inc.	103,174,333	0.27
10. HHR Newport Beach LLP	86,937,294	0.22

⁽¹⁾ 2009-10 Total City Assessed Valuation of \$38,643,404,122.
Source: County of Orange Assessor's Office.

Sales Taxes. Sales tax receipts provided the second largest tax revenue source of the City, contributing approximately \$17.9 million and \$17.4 million (or 11.9% and 11.8% of General Fund revenues) during Fiscal Years 2008-09 and 2009-10, respectively. Sales tax receipts are expected to provide approximately 17.4 million or 12.0% of General Fund revenues for Fiscal Year 2010-11.

Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 8.25 cent statewide sales tax levied on each dollar of taxable sales. Sales tax also includes a half-cent tax approved by California voters in 1993 pursuant to Proposition 172 for the purpose of funding local public safety expenditures.

Beginning in Fiscal Year 2004-05, the City's sales tax revenues have included a reimbursement from property taxes that the City will receive as a result of the "triple flip", the shift enacted by the State in Fiscal Year 2004-05 pursuant to which local governments shift one-quarter of a cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax. Once the State's Economic Recovery Bonds are repaid in full, local governments are expected to lose the property tax reimbursement, but will instead regain the one-quarter-cent sales tax that was diverted to the State by the triple-flip. This shift is different from the MVLFF property tax swap which is considered to be a permanent shift of revenues from MVLFF to property tax. The State may elect to repay its Economic Recovery Bonds prior to their expected payment date if sales tax revenues are sufficient to support such repayment. The timing of such repayment and the associated cessation of the property tax reimbursement and one-quarter-cent sales tax diversion are not expected to affect amounts available to repay the principal and interest with respect to the Certificates.

The Fiscal Year 2010-11 Adopted Budget includes \$17.4 million in projected sales tax revenues, which excludes \$6.4 million in triple flip reimbursements. Such amounts are in addition to \$0.7 million in Proposition 172 safety sales tax revenue derived from a half-cent sales tax resulting from the passage statewide of Proposition 172 in November 1993, which must be used solely for local public safety purposes. Sales tax revenues are dependent on consumer behavior, which has been negatively affected by the current economic recession, falling home prices and tightening credit policies. Sales revenues have decreased from \$21.9 million in Fiscal Year 2007-08 to \$17.4 million in Fiscal Year 2009-10 and are projected to be \$17.4 million in Fiscal Year 2010-11. Sales tax revenues are expected to increase as employment conditions improve and consumer confidence is restored. Safety sales tax receipts typically follow the same economic trends as sales tax receipts, but are distributed to cities based on a different allocation formula than the distribution of sales tax. The City can provide no assurance that actual sales tax receipts will not be materially less than projected.

Transient Occupancy Tax. TOT receipts provided the third largest tax revenue source of the City, contributing approximately \$11.2 million and \$11.4 million (or 7.4% and 7.8% of General Fund revenues) during Fiscal Years 2008-09 and 2009-10, respectively. TOT receipts are expected to provide approximately \$11.6 million or 8.0% of General Fund revenues for Fiscal Year 2010-11.

The TOT accrues to the City at a rate of 10% of room charges (with 18% of this collection going to the local CVB). The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of approximately twenty inns, motels, hotels and resorts and accounted for 91.3% of TOT revenues in Fiscal Year 2009-10. The residential category is made up of approximately 700 vacation rentals represented 8.7% of TOT revenue in Fiscal Year 2009-10.

The Fiscal Year 2010-11 Adopted Budget includes \$11.6 million in projected TOT revenues, which reflects a \$0.2 million increase over Fiscal Year 2009-10 actual TOT receipts. Transient occupancy tax collections generally follow a similar trend as sales taxes. The recent hotel expansions and the addition of a new luxury resort within the City have mitigated some of the effects of negative economic conditions the last few years.

Other Funds

In addition to the City's General Fund, there are numerous other funds whose amounts are used to finance City expenditures, including capital improvements. The City's Special Revenue Funds are used to account for the proceeds of special revenue sources, which are legally restricted to expenditures for specific purposes. One such Special Revenue Fund is the City's Gas Tax Fund, which is funded by the State Gasoline Tax and can only be expended for street repair, construction, and maintenance. The City has many other special revenue funds that are included in its budget.

The City employs Internal Service Funds to account for vehicle maintenance and replacement, as well as all compensated absences, general liability, workers' compensation, and other insurance payments. These internal service funds are funded by charging each of the operating departments a rate computed to support these activities.

Further, the City's budget includes Enterprise Funds, which are used to account for City operations that are financed and operated in a manner similar to private business enterprises. The objective of segregating activities of this type is to identify the costs of providing the services, and to finance them through user charges. The two main City enterprise funds are the City's Water Fund and the Wastewater Fund. Both of these funds are financed by user charges to the customers (residents and businesses of Newport Beach).

None of the amounts in the City's Special Revenue Funds, Internal Service Funds or Enterprise Funds are pledged to repayment of the principal and interest with respect to the Certificates.

Reserves

Reserves/Designations of Fund Balance. The City has established a Reserves/Designations of Fund Balance policy, as amended through November 12, 2008 (the "Reserves Policy"), for the administration of financial reserves and fund balances. Reserves are to be funded at the levels specified in the Reserves Policy as part of the annual budget process. If operational or other considerations require the City Council to temporarily override the Reserve Policy during any fiscal year, the City Manager will recommend to the City Council a plan to restore any reserves falling below required minimum levels and reserve levels will be restored as soon as practical. If the reserve requirements set forth in the Reserves Policy are unmet in any fiscal year, the City Manager will recommend funding prioritization to the City Council as part of the Budget. The City Council decides whether to appropriate funds from reserve accounts. Reserve amounts will not be spent for any function other than the specific purpose of the reserve account from which they are drawn without specific direction in the annual budget resolution or by a separate City Council resolution approving that specific action.

Each of the City's funds, including the General Fund, contains accounting reserves (non discretionary), contingency reserves, designated reserves (strategic savings) and stabilization reserves. Accounting reserves are established pursuant to GAAP and represent the unspendable portions of fund balance, such as inventories and long-term receivables, as well as funds that are legally restricted by some external source, such as debt service reserves and encumbrances. Contingency reserves represent funds for unexpected financial emergencies, such as the adverse impact of natural disasters. Designated reserves or strategic savings are designated for known or anticipated events that events require large, non-recurring financial outlay, such as the replacement of systems and equipment or major capital improvements. Stabilization reserves facilitate the orderly management of the operating budget by stabilizing revenues and expenditures within the context of large market fluctuations.

The City's General Fund contains a contingency reserve with a target balance of not less than 12% of annual General Fund expenditures. Funds in this reserve cannot be used without the specific authorization of City Council. The General Fund contingency reserve is currently at the target balance set forth in the Reserves Policy. The City's General Fund also contains three stabilization reserves: an appropriations reserve that serves as a temporary repository for funds not yet fully appropriated in the annual budget; a reserve for capital projects, and a PERS rate reserve to help smooth (for internal budgeting purposes) the year-to-year fluctuations in PERS rates, which is accomplished by budgeting the normal cost of PERS rates and setting aside excess amounts when actual PERS rates are below budgeted levels and drawing on such amounts when actual PERS rates are above budgeted levels. Further, the City's General Fund includes a number of accounting reserves, such as those for debt service, long-term receivables and encumbrances, and a number of designated reserves, such as those for off-street parking, affordable housing, neighborhood enhancement and capital improvements See "City of Newport Beach Financial Information – Recent Budget Results; Fiscal Year 2010-11 Budget – Funding for the Project" herein.

Facilities Replacement Program. The City has established a Facilities Replacement Program, as amended through August 11, 2009 (the "Facilities Replacement Policy"), to address the replacement or major renovation of existing physical infrastructure and the addition of new facilities. Funding for the program is derived from development fees, contributions from individuals and organizations within the community, annual budget appropriations from the General Fund, net

proceeds of financings and investment earnings on temporarily idle funds. Program funds are used for actual site acquisition, design, construction, directly related costs and debt service expenses. Pursuant to the Facilities Replacement Policy, General Fund contributions to the Facilities Replacement Program should be in the range of 3.0% to 4.5% of the General Fund operating budget each year (exclusive of periodic year-end-close contributions of unexpended appropriations originally budgeted for other purposes or contributions of unexpected one-time revenues not specified for another purpose), but not in excess of 5.0% of the total General Fund operating budget, subject to certain limited exceptions. The Facilities Replacement Policy also provides that the final maturity for any borrowed funds shall not exceed 30 years or the projected life of the new facility, whichever is earlier. The City's Fiscal Year 2010-11 budget includes a \$31.3 million transfer to the Facilities Replacement Program to fund a set-aside for construction expenditures and debt service for the Civic Center Project, including a parking structure and library additions, which amount will be reimbursed from proceeds of the Certificates described in the forepart of this Official Statement. The projected General Fund Balance of \$49.40 million, as set forth in the Fiscal Year 2010-11 budget, is net of the foregoing set-aside. The City intends to reimburse itself for Civic Center Project expenditures from the proceeds of the Certificates.

Other Reserves. The City has also established a number of other reserves pursuant to its reserves and funding policies, including reserves for the Tide Fund, the Permanent Endowment Fund (Robinson Skinner Annuity) for Newport Bay Dredging, the Water Fund, the Wastewater Fund and the Internal Service Fund (the "Internal Service Fund"). See "City of Newport Beach Financial Information – Risk Management" herein. In addition, the Reserves Policy sets forth the City's funding policies with respect pension benefits and OPEB. The City currently has \$5 million in its Reserve for PERS Rate Changes to help offset rate increases. See "City of Newport Beach Financial Information – Pension Benefits" and "City of Newport Beach Financial Information – Other Post Employment Benefits" herein. The amounts in such funds, including the reserves therein, are not pledged for payment of the principal and interest with respect to the Certificates.

Capital Projects

The City's CIP serves as a plan for the provision of public improvements, special projects, ongoing maintenance programs, and the implementation of the City's master plans. Projects in the CIP include improvements and major maintenance on arterial highways, local streets, and alleys; storm drain and water quality improvements; bay, pier, and beach improvements; park and facility improvements; water and wastewater system improvements; transportation safety and traffic signal improvements; and planning programs and studies.

The proposed Fiscal Year 2010-11 CIP consists of 51 projects representing nearly \$24 million in new appropriations and more than \$29 million in re-budgeted funds for a total CIP budget of \$52,916,797. Major funding initiatives include Rhine Channel dredging, Big Canyon restoration, Jamboree Road Bridge widening and Jamboree Road improvements. Significant work continues on major facilities projects such as the Civic Center, Marina Park, and Sunset Ridge Park. Given the current fiscal climate, the development of the proposed CIP was limited to meeting Council priorities and master plan requirements. As a result, the Fiscal Year 2010-11 CIP represents a 12.9% decrease in total funding compared to the adopted Fiscal Year 2009-10 CIP. Essential projects were prioritized and summarized by available funds and presented to the City Council for consideration. Funding of capital projects is derived from multiple funding sources.

Labor Relations

As of July 1, 2010, the City employs approximately 808 full-time and 135 full-time equivalent employees. The 135 full-time equivalent employee hours are staffed by approximately 479 part-time employees. The City has ten labor organizations which represent an aggregate 1,004 classified employees. The labor organizations are the Firefighters Association, the Fire Management Association, the Lifeguard Management Association, Police Association, Police Management Association, Association of Newport Beach Ocean Lifeguards, Newport Beach City Employees Association, Newport Beach Employees League, Professional and Technical Association, and Part-Time Unit (UPEC Local 777). The City has never experienced a strike or other work stoppage.

Table A-9 below sets forth the City's employee labor organizations and their respective contract expiration dates.

**TABLE A-9
CITY OF NEWPORT BEACH
EMPLOYEE LABOR ORGANIZATIONS
As of June 30, 2010**

Labor Organizations	Approximate Number of Employees In Organization	Contract Expiration Date
Newport Beach Firefighters Association	119	December 31, 2011
Fire Management Association	6	December 31, 2010
Lifeguard Management Association	17	December 31, 2011
Police Association	206	December 31, 2011
Police Management Association	33	December 31, 2011
Association of Newport Beach Ocean Lifeguards	197	April 30, 2011
Newport Beach City Employees Association	103	June 30, 2010 ⁽¹⁾
Newport Beach Employees League	156	June 30, 2010 ⁽¹⁾
Professional & Technical Association	91	June 30, 2010 ⁽¹⁾
Part-Time Unit (UPEC Local 777)	76	June 30, 2010 ⁽¹⁾

⁽¹⁾ Terms of expired contracts remain in effect until new contracts are executed.
Source: City of Newport Beach.

Pension Benefits

California Public Employees' Retirement System. The City contracts with, and contributes to, the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan, for certain defined pension benefits. 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. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. Such information is not incorporated herein by reference.

City safety employees and City non-safety employees participating in PERS are required to contribute 9% and 8%, respectively, of their annual covered salary. Pursuant to the terms of labor contracts with safety employees, the City historically made the entire contribution required of City safety employees on their behalf and for their account. Effective December 19, 2009, February 27, 2010 and

July 3, 2010, members of the Newport Beach Firefighters Association, Newport Beach Lifeguard Management Association and Police Association and Police Management Association, respectively, will contribute 3.5% of base pay to offset the 9% PERS member contribution made by the City. Safety employees have also agreed to a PERS contract amendment that requires all new safety employees to pay 5.5% of the 9% PERS member contribution for their first five years of uninterrupted service. Since January 2008, pursuant to agreements with non-safety employees, the City has contributed 7% and non-safety employees have contributed 1% of the 8% non-safety employee required contribution. Non-safety employees also contribute 2.42% of the City's employer contribution. Benefit provisions and all other requirements are established by State statutes and City contracts with employee bargaining groups.

The City's contributions to the PERS plan include the employer-paid member contribution described above and the actuarially determined annual required contribution ("ARC"), which fluctuates each year based on an annual actuarial plan valuation. The ARC is calculated using the entry age actuarial cost method and consists of two components: the "normal cost", which represents the portion of the actuarial present value of the benefits that the City and its employees will be expected to fund that are attributable to a current year's employment, and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment. The UAAL is an estimate based on a series of assumptions that operate on economic and demographic data of the PERS plan membership and may increase or decrease as result of changes in actuarial assumptions (such as the assumed investment rate of return of 7.75%, net of administrative expenses), benefit improvements and other experience that differ from that anticipated by the actuarial assumptions. This process is used to determine, as of the date of the calculation, how sufficient the assets in the PERS plan are to fund, as of the date of calculation, the accrued costs attributable to PERS plan participants. The funding sufficiency is typically expressed as the ratio of the valuation assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAAL. For a summary of principal assumptions and methods used to determine the ARC for the City's PERS plan for safety and non-safety employees, see Note 10 to the financial statements attached to this Official Statement as Appendix B – "City Financial Statements for the Fiscal Year Ended June 30, 2009".

When measuring assets for determining the UAAL, many pension plans, including the City's PERS plan, "smooth" gains and losses to reduce volatility. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Pursuant to the Employer Rate Stability Policy (herein defined) adopted by PERS and the "fresh start" implemented in connection therewith, gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of approximately 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period. Using a rolling 30-year amortization period for measuring the actuarial accrued liability could result in the UAAL continuing to rise indefinitely even if the City were to contribute the full ARC in each year. Under certain circumstances, the City may be unable to effectively amortize the plan's UAAL.

In April 2005, the PERS Board of Administration adopted its Employer Rate Stability Policy (the "Employer Rate Stability Policy"), which provided for, among other things, calculating the annual contribution amount with regard to gains and losses as a rolling 30-year amortization of all remaining unamortized gains and losses (as opposed to recognizing 10% of annual gains and losses pursuant to prior policy) beginning with the actuarial valuation as of June 30, 2004. Pursuant to such policy change, multiple amortization bases (including those for benefit improvement or changes in actuarial methods or

assumptions, which are typically less than 30 years) were combined into a single base (the gain and loss bases) and amortized over a rolling 30-year period to effect a “fresh start” as of June 30, 2004. The Employer Rate Stability Policy did not affect other existing amortization bases for benefit improvements, assumptions changes and method changes.

After accounting for the investment return of 16.7% for Fiscal Year 2003-04 and the implementation of the Employer Rate Stability Policy and the fresh start, as of June 30, 2004, the City’s non-safety plan had an actuarial value of assets of \$140,911,426, a market value of assets of \$138,642,729 and accrued liabilities of \$151,246,453 and its safety plan had an actuarial value of assets of \$200,715,264, a market value of assets of \$197,605,409 and accrued liabilities of \$250,554,103. As of June 30, 2004, as a result of the fresh start, \$648,199 was credited to the non-safety plan and \$437,343_ was credited to the safety plan. As of June 30, 2008, the date of the most recent actuarial valuation prepared by PERS, a \$775,562 credit was included in the calculation of the City’s required contribution for the non-safety plan (which had accrued liabilities of \$217.4 million) and a \$554,430 credit was included in the calculation of the City’s required contribution for the safety plan (which had accrued liabilities of \$336.1 million) as a result of the fresh start.

Beginning with the June 30, 2009 valuation, PERS will implement a 3-year phase-in of the 24% investment losses experienced in Fiscal Year 2008-09. The phased-in approach entails temporarily increasing the corridor limits for establishing the actuarial value of assets from 80-120% of market value of assets to 60-140% of market value on June 30, 2009 (which impacts the Fiscal Year 2011-12 contribution rate), changing the corridor limits to 70-130% of market value on June 30, 2010 (which impacts the 2012-13 contribution rate) and returning to the 80-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 (which impacts contribution rates for Fiscal Year 2013-14 and thereafter). According to PERS, the Fiscal Year 2008-09 asset loss, isolated outside of the 80-120% corridor, will be calculated amortized using a fixed 30-year schedule. Temporary expansion of the corridor limits for the actuarial value of assets is expected to result in lower City pension contributions in the short-term and a higher UAAL in the long-term. The amortization periods and assumptions used by PERS are subject to change from time to time. The City cannot predict the nature or effect of such changes on the City’s pension costs. For Fiscal Year 2009-10, PERS experienced 13.3% earnings on pension investments.

There is a lag between the point in time at which the actuary completes the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically two years. The actuarial valuation of the plan as of June 30, 2009, the most recent actuarial valuation provided by PERS, sets forth the employer contribution rates for Fiscal Year 2011-12, which are 14.628% for non-safety employees (prior to application of cost-sharing arrangements) and 35.028% for safety employees (prior to application of cost-sharing arrangements) of annual covered payroll. After the application of cost-sharing arrangements, the employer contribution rates are 12.208% and 35.028% of annual covered payroll for non-safety employees and safety employees, respectively. The employer contribution rates for Fiscal Year 2010-11 are 8.406% for non-safety employees (inclusive of applicable cost-sharing arrangements) and 30.202% for safety employees of annual covered payroll. Without the cost sharing agreement with non-safety employees, the contribution rate would have been 10.826% for non-safety employees. The City has included its ARC in the Fiscal Year 2010-11 Adopted Budget. The employer contribution rate for Fiscal Year 2009-10 was 7.734% for non-safety employees (inclusive of applicable cost-sharing arrangements) and 28.760% for safety employees of annual covered payroll. The employer contribution rate for Fiscal Year 2008-09 was 9.055% for non-safety employees (inclusive of applicable cost-sharing arrangements) and 29.67% for safety employees of annual covered payroll.

Under GASB 27, an employer reports an annual pension cost (“APC”) equal to the ARC plus an adjustment for the cumulative difference between the APC and the employer’s actual plan

contributions for the year. The cumulative difference is called the net pension obligation (“NPO”). Pursuant to the City’s Reserves Policy, the City makes contributions to the plan equaling at least 100% of the ARC. Because the City pays the entire ARC each year, by definition, its NPO at the end of each year is \$0. For more information on the City’s pension plan and funding levels, see Note 10 to the financial statements attached to this Official Statement as Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009”.

Table A-10 below sets forth the APC, percentage of APC contributed and NPO for Fiscal Years 2006-07 through 2009-10 and the estimated amounts for Fiscal Year 2010-11.

TABLE A-10
CITY OF NEWPORT BEACH
PERS ANNUAL PENSION COSTS
Fiscal Years 2006-07 through 2010-11
(\$ in thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost⁽¹⁾</u>	<u>City General Fund Portion</u>	<u>% of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
2006-07	\$16,207	\$15,363	100%	\$0
2007-08	16,454	15,613	100	0
2008-09	18,405	17,526	100	0
2009-10 ⁽²⁾	17,822	17,072 ⁽⁴⁾	100	0
2010-11 ⁽³⁾	19,819	18,999 ⁽⁵⁾	100	0

⁽¹⁾ Includes City contribution and employer paid member contributions.

⁽²⁾ Actual; unaudited.

⁽³⁾ Projected; includes 0% vacancy assumption.

⁽⁴⁾ Does not reflect 3.5% of base pay (equal to \$167,428) contribution by safety members of the Newport Beach Firefighters Association.

⁽⁵⁾ Does not reflect budgeted 3.5% of base pay (equal to approximately \$897,501) contribution by safety members of the Newport Beach Firefighters Association, Newport Beach Lifeguard Management Association and Police Association and Police Management Associations.

Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Years 2006-07 through 2008-09; City approved Budget for Fiscal Years 2009-10 and 2010-11. See Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009” attached to this Official Statement.

Table A-11 below sets forth the PERS schedule of funding progress for Fiscal Years 2004-05 through 2008-09.

**TABLE A-11
CITY OF NEWPORT BEACH
PERS SCHEDULE OF FUNDING PROGRESS
Fiscal Years 2004-05 through 2008-09
(\$ in thousands)**

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets ⁽¹⁾	Market Value of Assets	Unfunded Liability (Excess Assets)	Funded Status			UAAL as a Percentage of Payroll
					Actuarial Value of Assets ⁽¹⁾	Market Value	Annual Covered Payroll	
2005								
Miscellaneous	\$161,371	\$150,730	\$155,028	\$ 10,641	93.4%	96.1%	\$32,218	31.098%
Safety	267,192	215,965	222,326	51,227	80.8	83.2	24,303	210.785
Total	<u>\$428,563</u>	<u>\$366,695</u>	<u>\$377,354</u>	<u>\$ 61,868</u>	<u>85.6%</u>	<u>88.1%</u>	<u>\$58,521</u>	<u>105.719%</u>
2006								
Miscellaneous	\$183,637	\$163,158	\$173,031	\$ 20,479	88.8%	94.2%	\$37,224	55.016%
Safety	296,420	231,701	246,396	64,719	78.2	83.1	26,053	248.413
Total	<u>\$480,057</u>	<u>\$394,859</u>	<u>\$419,427</u>	<u>\$ 85,198</u>	<u>82.3%</u>	<u>87.4%</u>	<u>\$63,277</u>	<u>134.643%</u>
2007								
Miscellaneous	\$192,178	\$178,524	\$206,931	\$ 13,654	92.9%	107.7%	\$36,795	37.108%
Safety	308,552	250,062	292,102	58,490	81.0	94.7	25,035	233.633
Total	<u>\$500,730</u>	<u>\$428,586</u>	<u>\$499,033</u>	<u>\$ 72,144</u>	<u>85.6%</u>	<u>99.7%</u>	<u>\$61,830</u>	<u>116.681%</u>
2008								
Miscellaneous	\$217,378	\$195,954	\$199,722	\$ 21,424	90.1%	91.9%	\$41,148	52.066%
Safety	336,061	264,634	272,104	71,427	78.7	81.0	28,056	254.587
Total	<u>\$553,439</u>	<u>\$460,588</u>	<u>\$471,826</u>	<u>\$ 92,851</u>	<u>83.2%</u>	<u>85.3%</u>	<u>\$69,204</u>	<u>134.170%</u>
2009 ⁽²⁾								
Miscellaneous	\$249,666	\$207,818	\$152,670	\$ 41,849	83.2%	61.1%	\$42,893	97.566%
Safety	366,918	274,649	200,974	92,269	74.9	54.8	30,253	304.991
Total	<u>\$616,584</u>	<u>\$482,469</u>	<u>\$353,644</u>	<u>\$134,118</u>	<u>78.2%</u>	<u>57.4%</u>	<u>\$73,146</u>	<u>183.357%</u>

⁽¹⁾ Reflects the fresh start established as of June 30, 2004.

⁽²⁾ Decrease in market value for Fiscal Year 2008-09 is attributable to the PERS investment loss of 24.0% in Fiscal Year 2008-09. Does not reflect approximately \$125 million of net unsmoothed losses for Fiscal Year 2008-09.

Source: California Public Employee's Retirement System Actuarial Reports for the respective Fiscal Years for market value of assets and Fiscal Year 2008-09 data; City of Newport Beach Comprehensive Annual Financial Report for Fiscal Years 2005-06 through 2008-09 for all other data for Fiscal Years 2004-05 through 2007-08.

The City's pension costs are expected to substantially increase due to, among other things, the PERS investment losses of 24.0% in Fiscal Year 2008-09, the significant increase in unfunded liability as a result of such losses, the greater longevity of plan members and lower than expected actual rates of return on investments. From Fiscal Year 2010-11 to Fiscal Year 2014-15, absent changes to the actuarial assumptions and City pension arrangements with employees, the City's pension contribution rates (inclusive of the employer-paid member contributions described herein) as a percentage of covered payroll is projected to increase from 15.4% to 26.8% (from \$6.78 million to \$12.91 million) for non-safety employees and from 35.7% to 57.7% (from \$11.89 million to \$19.12 million) for safety employees, and remain at this level for approximately 30 years. The City is exploring various options to address the

projected cost increases, including the potential for negotiating additional employee contributions and the creation of a new tier of reduced pension benefits of new employees. If the City is unsuccessful in attaining such cost reductions, the City may make additional operations reductions, which may include furloughs and layoffs. For information regarding retirement plans, deferred compensation plans, defined contribution plans and post employment benefits, see “Summary Information” and Notes 9, 10 and 11 in Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009” attached to this Official Statement.

Public Agency Retirement System.

Alternate Retirement Plan. The City entered into a defined contribution plan administrated by Public Agency Retirement System, a private administrator known, for all of its part-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council resolved to match the employees’ contributions of 3.75%. The City’s contributions for each employee and the interest thereon are fully vested immediately. There is no actuarial accrued liability attributable to past years’ employment.

For the year ended June 30, 2009, the City’s covered payroll for employees participating in the plan was \$2,919,260. Employees made contributions of \$109,472 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,485,659 at June 30, 2009. For the year ended June 30, 2010, the City’s covered payroll for employees participating in the plan was \$2,963,120. Employees made contributions of \$111,117 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,615,399 at June 30, 2010. The City’s estimated covered payroll for employees participating in the plan during Fiscal Year 2010-11 is \$3,341,227 and employee contributions are budgeted at \$125,296.

Supplemental Retirement Plan. At its December 8, 2009 regular meeting, the City Council approved Resolution 2009-90 authorizing its ERIP through PARS. The ERIP was one part of a multi-pronged approach to help close a projected deficit in the City’s Fiscal Year 2009-10 General Fund. See “City of Newport Beach Financial Information – Recent Budget Results; Fiscal Year 2010-11 Budget – Fiscal Year 2009-10 Results” herein. The ERIP provides participating employees with a supplement to their normal PERS retirement benefits through an additional payment from the City. Fifty-one employees elected to participate in the ERIP. Eligible retirees were given the option of receiving a direct lump sum payment, fixed term distribution or a lifetime benefit. To finance the ERIP, the City entered into a funding arrangement with a third party insurance company pursuant to which the City will make fixed annual payments in the amount of \$819,241 per year for five years. Thereafter, the City will have no further funding obligation with respect to the ERIP.

Laborer’s International Union of North America. The City is the agent for employees to contribute funds to support a supplemental pension plan for some employee associations through contract with Laborer’s International Union of North America (“LIUNA”). The contract is funded at a fixed percentage of total compensation on a pay-as-you-go basis. The City is not contractually required to guarantee the level of the ultimate LIUNA benefit to retirees nor does it do so.

Other Post Employment Benefits

General. The City has established the City of Newport Beach Medical Expense Reimbursement Plan (the “Reimbursement Plan”). All employees and eligible retirees participate in the Reimbursement Plan through a Health Reimbursement Arrangement (“HRA”) that is held in trust and

managed by ING pursuant to IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002). The City is the sole employer for the Reimbursement Plan. As of June 30, 2009, the Reimbursement Plan had a total of 1,194 participants, consisting of 521 miscellaneous employees, 273 safety employees, and 400 retirees and their beneficiaries. As of June 30, 2010, the Reimbursement Plan had a total of 1,181 participants, consisting of 462 miscellaneous employees, 271 safety employees, and 448 retirees and their beneficiaries. For a description of the benefits provided pursuant to the Reimbursement Plan, see Note 11 of the financial statements attached to this Official Statement as Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009”.

Defined Contribution Portion. The City established a defined contribution program within the Reimbursement Plan, effective January 2006 (the “New Plan”), that requires mandatory employee and employer contributions. Benefits depend solely on amounts contributed to the plan, plus investment earnings thereon, and the City has no further funding obligation to the New Plan once the contributions are made to the applicable employee’s account. Participants in the New Plan include all employees hired after January 1, 2006, certain employees hired prior to this date and certain employees hired prior to January 1, 2006 that elected to fully convert (“Fully Converted Participants”) to the New Plan. Consistent with agreements between the City and applicable employee labor contracts, the New Plan will be 100% funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department’s annual operating budget.

Defined Benefit Portion. Employees who retired prior to January 1, 2006 receive an ongoing defined benefit consisting of a contribution made by the City to the participant’s HRA account each month (the “Old Plan”). The Old Plan is closed to new participants. The cost of the Old Plan is divided among the City, current employees and retirees. Prior to 2001, the Old Plan was largely funded on a pay-as-you-go basis and the City accrued unfunded liabilities. The City began funding its accrued liabilities in 2001. In 2008, such assets were placed in a pre-funding trust. The City intends to amortize the remaining unfunded liability within 20 years. See “– Funding” below.

Hybrid Portion. Certain employees hired prior to January 1, 2006 had the option to retain a hybrid of the Old Plan or to fully convert to the New Plan. Employees electing to retain a hybrid of the Old Plan (“Hybrid Participants”) participate in a program that requires mandatory defined contributions by employees and the City, as well as a defined benefit consisting of an ongoing contribution from the City to the participant’s HRA account each month after retirement. These employees are also eligible to receive health care benefits under the City’s group health care plans, provided they pay the City \$100 per month, up until their retirement, to offset the unfunded portion of post employment health benefits existing at the inception of the plan.

Funding. Employee and City contributions to the Reimbursement Plan are based on the participant’s status as Fully Converted Participant, Hybrid Participant or retired participant. See Note 11 to the financial statements attached to this Official Statement as Appendix B – “City Financial Statements for the Fiscal Year Ended June 30, 2009”. Historically, Reimbursement Plan expenses were funded on a pay-as-you-go basis. In 2001, the City began setting aside amounts for its accrued liability. In 2008, the City entered into an agreement with the PERS as a participating employer in the CalPERS Employers Retirement Benefits Trust (“CERBT”) to pre-fund future OPEB expenses and placed its previously accumulated cash reserves in the amount of \$8.8 million in trust, reducing the City’s unfunded accrued liability to \$49.8 million. In Fiscal Year 2009-10, the City contributed \$2.02 million to the CERBT. For Fiscal Year 2010-11, the City budgeted approximately \$2.13 million contribution to the CERBT. As of June 30, 2010, the balance in the CERBT was approximately \$6.79 million.

Pursuant to the City's Reserve Policy, the City will pre-fund the "explicit subsidy" or cash subsidy portion of the actuarial accrued liability of the Old Plan over a 20-year amortization period, or less. This amount will be based on the ARC determined by a biennial actuarial review, subject to review and analysis by the City. The annual target reserve balance will be established and maintained through the same process. Because one of the two health plans offered by the City is a non-community-rated plan and retirees are offered the same premium rates as active employees, GASB 45 requires that an "implied subsidy" (the difference between expected claims and premiums paid for retirees) be valued for the life of the retiree and accrued as a cost of the retiree health care plan. The City has elected to fund the implied subsidy on a pay-as-you-go basis since employer contributions to active and retiree medical plans are fixed, and significant uncertainty exists whether additional cash flows will occur in the future as a result of the implied subsidy. Pursuant to the City's Reserve Policy, the City will not separately fund any actuarially defined liability for "implied subsidy". However, the City plans to meet all other contributions connected with this retiree benefit pursuant to GASB 45. Costs for administering the Old Plan are included in the Human Resources Department's annual operating budget. See Note 11 to the financial statements attached to this Official Statement as Appendix B – "City Financial Statements for the Fiscal Year Ended June 30, 2009".

In connection with GASB 45 compliance, the City has calculated its net OPEB obligation ("NOPEBO") as of June 30, 2009 to be approximately \$4.4 million. The NOPEBO is the cumulative difference between the City's annual OPEB cost and the City's contributions to OPEB in a particular year, including the OPEB liability or asset at transition, if any. Annual OPEB cost is equal to (i) the ARC for OPEB, (b) one year's interest on the NOPEBO from prior years (which the City determined to be \$6.2 million at the beginning of Fiscal Year 2007-08, the transition year, in accordance with GASB 45), and (c) an adjustment to the ARC for OPEB to offset the effect of actuarial amortization of past under- or over-contributions.

The most recent actuarial valuation of the City's Reimbursement Plan was prepared as of June 30, 2008 (the "2008 OPEB Valuation") for the purpose of determining the City's annual cost in accordance with GASB 45. The valuation reflected an entry age normal cost method and included a fixed 20-year amortization period, a discount rate of 7.75% for the cash subsidy to be prefunded through the CERBT, a discount rate of 5% for the implied subsidy to be funded from the City's General Fund and projected salary increases of 3.25% per year. The 2008 OPEB Valuation also reflected the actuarial value of assets being established between 80-120% of market value of assets and gains and losses in the actuarial value of assets being recognized over a 5-year period. Further, the 2008 OPEB Valuation reflected the following unfunded liability amortization: the initial unfunded liability as of June 30, 2007 being amortized as a level percentage of pay over 20 years (with 17 years remaining as of June 30, 2010), benefit and assumption changes being amortized as a level percentage of pay over a fixed 20 years, gains and losses being amortized as a level percentage of pay over a rolling 15 years, experience gains and losses being amortized over a rolling 15 years. According to the 2008 OPEB Valuation, using the assumptions and methodology described above and consistent with GASB 45, the UAAL for OPEB for all retirees and participants was \$40.2 million as of June 30, 2008 and projected to be \$43.8 million as of June 30, 2009. The cash subsidy portion of the Reimbursement Plan had a funded status of 30.5% as of June 30, 2008. The implied subsidy portion reflected a funded status of 0% because that portion is funded on a pay-as-you-go basis. Pursuant to the 2008 OPEB Valuation, the City's ARC for Fiscal Year 2010-11 is projected to be 6.4% of covered payroll, 0.1% higher than the City's ARC for Fiscal Year 2009-10. The next actuarial valuation of the City's Reimbursement Plan, dated as of June 30, 2010, is expected to be available in 2011.

Table A-12 below sets forth the City’s NOPEBO for Fiscal Years 2007-08 through 2009-10.

TABLE A-12
CITY OF NEWPORT BEACH
ANNUAL OPEB COST AND NET OPEB OBLIGATION
Fiscal Years 2007-08 through 2009-10
(\$ in thousands)

Fiscal Year and Subsidy Amount	Net OPEB Obligation (July 1)	Annual OPEB Cost⁽¹⁾⁽²⁾	Prefunding Contributions and Benefit Payments	Net OPEB Obligation (June 30)
2007-08				
Cash Subsidy	\$6,200 ⁽³⁾	\$2,629	\$(8,829) ⁽⁴⁾	\$ --
Implied Subsidy	--	2,648	(427) ⁽²⁾	2,221
Total	\$6,200	\$5,277	\$(9,256)	\$2,221
2008-09				
Cash Subsidy	\$ --	\$2,720	\$(2,720)	\$ --
Implied Subsidy	2,221	2,703	(516) ⁽²⁾	4,408
Total	\$2,221	\$5,423	\$(3,236)	\$4,408
2009-10				
Cash Subsidy	\$ --	\$2,016	\$(2,016)	\$ --
Implied Subsidy	4,408	2,477	(346)	6,472
Total	\$4,408	\$4,493	\$ 2,362	\$6,472

⁽¹⁾ Equal to the ARC for the applicable year as adjusted for expected interest on the NOPEBO and an amortization of the NOPEBO.

⁽²⁾ Over 95% of the annual OPEB cost is attributable to the City General Fund.

⁽³⁾ Based on a prior period adjustment to the cash subsidy component of the NOPEBO.

⁽⁴⁾ Equal to Fiscal Year 2007-08 annual OPEB cost plus \$6.2 million payment on prior period NOPEBO adjustment.

Source: City of Newport Beach Comprehensive Annual Financial Report for Fiscal Year 2008-09.

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance with independent third parties for loss risks associated with real and personal property, and automotive liability. The City purchases fidelity bonds for employees in key positions. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. For general liability, the City has excess insurance coverage of \$26 million per occurrence with a self-insured retention (“SIR”) of \$500,000 per occurrence. For workers’ compensation and employer’s liability insurance, the City has excess insurance coverage of \$1,000,000 per occurrence with a \$1,000,000 SIR. This coverage provides for work-related accidents and diseases.

The Insurance Reserve Fund was established to account for costs associated with general liability and workers’ compensation. The Insurance Reserve Fund is accounted for as an Internal Service Fund where assets are set aside for risk management, administration, claim settlements

and benefit distribution. A premium is charged to each fund that accounts for part-time or full-time employees. The total charge allocated to each of the funds is calculated using trends in actual experience after considering unexpected and unusual claims.

Fund Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The total liability claims payable include \$17,790,737 which represents the discounted present value at June 30, 2009; the claims were discounted using an interest rate of five percent.

For the past three years, no payment on any claim or judgment has exceeded the amount of applicable insurance.

Indebtedness

General Obligation Debt. The City has no general obligation debt outstanding.

Debt and Certificates of Participation. The City has no long-term or short term bonded debt outstanding. The City has entered into lease arrangements with nonprofit public benefit corporations to finance capital projects, typically through the execution and delivery of certificates of participation. As of June 30, 2010, the City had \$3.99 million of certificates of participation outstanding. Lease payments which secure these certificates of participation are paid from amounts in the City's General Fund, a portion of which is reimbursed with amounts from various other revenue sources. The City has no outstanding variable rate obligations and does not have an outstanding liquidity facility.

Information on the City's long-term debt is in Note (6) of the Notes to the Financial Statements attached to this Official Statement as Appendix B – "City Financial Statements for the Fiscal Year Ended June 30, 2009." The \$1.6 million water revenue bonds reflected in Note (6) have been repaid in full and are no longer outstanding.

Estimated Direct and Overlapping Bonded Debt. Table A-13 below sets forth a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of August 1, 2010. 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 representations in connection therewith. The Debt Report does not include the Certificates described in the forepart of this Official Statement.

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 City periodically issues special assessment or community facilities district bonds on behalf of petitioning developers or citizens when the City determines that the public facilities to be financed are of a defined, extraordinary benefit to the City. The City also issues revenue bonds on behalf of qualified borrowers from time to time. Although such obligations are included in the Debt Report, they are not secured by or payable from the City's General Fund or any other fund of the City.

TABLE A-13
CITY OF NEWPORT BEACH
ESTIMATED DIRECT AND OVERLAPPING DEBT
(As of August 1, 2010)

2009-10 Assessed Valuation: \$38,643,404,122
 Redevelopment Incremental Valuation: 894,901,662
 Adjusted Assessed Valuation: \$37,748,502,460

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 8/1/10</u>
Metropolitan Water District	2.086%	\$ 5,511,629
Coast Community College District	35.120	114,761,226
Rancho Santiago Community College District	3.908	12,257,667
Laguna Beach Unified School District	15.236	4,997,408
Laguna Beach Unified School District Community Facilities District No. 98-1	100.	9,680,000
Newport Mesa Unified School District	71.997	115,593,689
Newport Mesa Unified School District Community Facilities District No. 90-1	100.	13,390,000
Santa Ana Unified School District	9.117	24,168,596
Irvine Ranch Water District Improvement Districts	16.895-100.	47,315,471
Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1	100.	41,275,000
City of Newport Beach Special Improvement District No. 95-1	100.	8,715,000
City of Newport Beach 1915 Act Bonds	100.	17,719,652
Orange County Assessment District No. 88-1	100.	34,718,296
Orange County Reassessment District No. 99-1R	100.	13,835,000
Orange County Assessment District No. 01-1	100.	53,769,000
Orange County Reassessment District No. 01-1R	100.	<u>6,505,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$524,212,634
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	10.080%	\$34,217,266
Orange County Pension Obligations	10.080	5,728,882
Orange County Board of Education Certificates of Participation	10.080	1,938,384
Municipal Water District of Orange County Water Facilities Corporation	11.918	1,682,822
South Orange County Community College District Certificates of Participation	3.105	539,494
Santa Ana Unified School District Certificates of Participation	9.117	4,918,963
Irvine Ranch Water District Certificates of Participation	11.436	9,737,182
City of Newport Beach Certificates of Participation	100.	<u>3,990,000</u>(1)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$62,752,993
Less: MWDOC Water Facilities Corporation (100% supported)		<u>1,682,822</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$61,070,171
 GROSS COMBINED TOTAL DEBT		\$586,965,627(2)
NET COMBINED TOTAL DEBT		\$585,282,805

- (1) Excludes issue to be sold and certificates of participation to be prepaid with a portion of the proceeds thereof.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2009-10 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.36%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$3,990,000) 0.01%

Gross Combined Total Debt..... 1.55%

Net Combined Total Debt 1.55%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics Inc.

City Investment Policy

The City pools all cash and investments of all funds, except for bond or certificate of participation proceeds, which are invested pursuant to the terms of their respective issuing instruments. The City's Statement of Investment Policy, as amended through September 28, 2010 (the "Investment Policy"), provides for investment of the City's funds pursuant to City policies and codes, State statutes and Federal regulations in a manner designed to preserve security of principal, maintain sufficient liquidity and attain a benchmark rate of return commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. The City Charter provides for investment of City funds by the Director of Finance, who is responsible for establishing and maintaining a system of internal controls designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. Pursuant to the Investment Policy, the Director of Finance is also responsible for submitting to the City Council monthly reports on the investment earnings and performance results of the City's investment portfolio. The City's investment program is managed using the prudent investor standard set forth in Section 53600.3 of the California Government Code.

Pursuant to the Investment Policy, the City may deposit and invest in U.S. Treasury issues, federal agency or federal instrumentality obligations, mortgage-backed securities and asset-backed securities, medium-term notes, municipal bonds, non-negotiable certificates of deposit, negotiable certificates of deposit, prime commercial paper, eligible banker's acceptances, repurchase agreements and reverse repurchase agreements, the State's local agency investment fund, county investment funds (excluding the Orange County Pool) and money market funds, subject to the provisions of Section 53601 of the California Government Code and the further conditions and restrictions of the Investment Policy. The Investment Policy provides that any security type or structure not specifically approved thereby is prohibited, including, but are not limited to, "exotic" derivative structures such as range notes, dual index notes, inverse floating rate notes, leveraged or de-leveraged floating rate notes, interest only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility risk. The Investment Policy states that the portfolio shall be diversified, with investments matched with anticipated cash flow requirements and known future liabilities and no more than 5% of the City's portfolio being invested in the instruments of any one non-governmental issuer, subject to certain exceptions. To that end, the Investment Policy provides that the City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment. The Investment Policy further provides that the City shall not purchase any security rated A1 and / or A+ or below if that security has been placed on "credit watch" for a possible downgrade by a nationally recognized statistical rating organization. The City is not a party to any swap agreements and has not sustained losses from investment in any collateralized mortgage obligation.

Table A-14 below sets forth the par value, market value, adjusted cost basis and percent of total investments for each category of the City's investments as of September 30, 2010.

TABLE A-14
CITY OF NEWPORT BEACH
SCHEDULE OF INVESTMENTS
(As of September 30, 2010)

<u>Investment Type</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Adjusted Cost Value</u>	<u>% of Total Investments</u>
Money Market Fund	\$ 2,676,723	\$ 2,676,723	\$ 2,676,989	1.88%
U.S. Treasury Obligations	19,065,000	19,492,852	19,234,127	13.68
U.S. Agency	69,025,000	70,608,623	69,964,492	49.54
Mortgage Backed Securities	197,106	200,565	198,030	0.14
Local Agency Investment Fund	10,732,287	10,732,287	10,732,287	7.53
Corporate Note	32,645,000	33,935,421	33,818,357	23.81
Negotiable Certificates of Deposit	1,600,000	1,599,432	1,600,748	1.12
Foreign Bonds	585,000	591,148	593,406	0.41
Commercial Paper	2,700,000	2,700,000	2,700,016	1.89
Totals	<u>\$139,226,116</u>	<u>\$142,537,052</u>	<u>\$141,518,452</u>	<u>100.00%</u>

Source: City of Newport Beach.

Litigation

The City is a defendant in lawsuits pertaining to various matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contracts, alleged violations of law, and condemnation proceedings. The City does not expect the aggregate amount of the uninsured liabilities of the City which may result from an adverse ruling in any or all of such claims to have a material adverse effect on its ability to pay principal and interest with respect to the Certificates when due.

STATE OF CALIFORNIA BUDGET INFORMATION

General

The City derives certain of its revenues, including gas tax revenues and property tax transfers, from the State. Under certain circumstances, the State has borrowed or otherwise shifted revenues from local agencies, including the City, to the State. See “City of Newport Beach Financial Information-Recent Budget Results; Fiscal Year 2010-11 Budget-Fiscal Year 2010-11 Budget-Impact of the State’s Fiscal Year 2010-11 Budget on the City’s Fiscal Year 2010-11 Budget” for a description of the primary impacts anticipated by the City. The following information concerning the State’s budgets has been obtained from publicly available information which the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading “California Budget.”

An impartial analysis of the budget is posted by the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City or the Underwriters, and the

City and the Underwriters take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

Fiscal Year 2010-11 State Budget

On October 8, 2010, the Governor signed the 2010-11 State Budget Act to address a then-projected \$19.3 billion shortfall in revenues. The 2010-11 State Budget Act estimates Fiscal Year 2009-10 revenues and transfers of \$86.92 billion, total expenditures of \$86.35 billion and a year-end deficit of \$4.80 billion, which included a negative \$5.38 billion prior-year State General Fund balance, \$6.34 billion withdrawal from the reserve for economic uncertainties and an allocation of \$1.54 billion to the reserve for the liquidation of encumbrances. The 2010-11 State Budget Act projects 2010-11 revenues and transfers of \$94.23 billion, total expenditures of \$86.55 billion and a year-end surplus of \$2.87 billion (net of the \$4.80 billion deficit from Fiscal Year 2009-10), of which \$1.54 billion is budgeted to be reserved for the liquidation of encumbrances and \$1.34 billion is budgeted to be deposited in a reserve for economic uncertainties.

The 2010-11 State Budget approves placement of a constitutional amendment on the State's reserve funds on the March 2012 ballot. If approved, the State would increase the maximum size of its Budget Stabilization Account from five percent to ten percent of annual State General Fund revenues and provide new requirements for depositing State funds into the Budget Stabilization Account. If the ballot measure were approved, the law would further restrict the State's ability to withdraw funds from its reserves.

Certain of the features of the 2010-11 State Budget Act affecting local agencies, including the City, include the following:

1. The 2010-11 State Budget Act includes a \$187.1 million General Fund decrease in funding resulting from the enrollment of seniors and people with disabilities in managed care and deferring a managed care payment for two-plan and geographic managed care counties.
2. The 2010-11 State Budget includes a \$84.5 million General Fund funding decrease resulting from freezing daily per diem hospital inpatient rates at existing levels.
3. The 2010-11 State Budget includes a \$365.9 million funding decrease from utilization of an advance of Temporary Assistance for Needy Families Block Grant funds for the quarter ending June 30, 2011 in lieu of General Fund.
4. The 2010-11 State Budget includes a \$300 million decrease in IHSS program, consisting of (1) using IHSS provider-generated revenue to draw down additional federal funds and offset General Fund expenditures in the program (\$190 million), (2) imposing a 3.6% across-the-board reduction to the hours assessed for IHSS recipients (\$35 million) and (3) reflecting an updated caseload estimate based on an actual decline in recipients as compared to the previous caseload projection (\$75 million).
5. The 2010-11 State Budget includes approximately \$162.4 million funding decrease as a result of maintaining the level of Child Welfare Services program funding at Fiscal Year 2009-10 budgeted levels, eliminating State funding for the Seriously Emotionally disturbed portion of the Foster Care program and reducing the reimbursement rates for license-exempt child care providers.
6. The 2010-11 State Budget includes a one-time reduction of \$365 million resulting from the suspension of most mandates not related to elections, law enforcement and property taxes.

The LAO released a report entitled “Major Features of the Legislature’s 2010-11 Budget” on October 8, 2010 and a report entitled “Major Features of California’s 2010-11 Budget” on October 12, 2010 (collectively, the “2010-11 LAO Budget Overviews”), which provide analysis by the LAO of the 2010-11 State Budget. The 2010-11 LAO Budget Overviews state that more than two-third’s of the budget solutions contained State Legislature’s budget for 2010-11 are one-time or temporary in nature. Accordingly, the LAO cautions that the State will continue to face sizable annual budget problems in Fiscal Year 2011-12 and thereafter. The LAO provided further analysis of the 2010-11 State Budget pursuant to its report entitled “The Budget Package: 2010-11 California Spending Plan” on November 4, 2010.

On November 10, 2010, the LAO released a report entitled “The 2011-12 Budget: California’s Fiscal Outlook” (the “2011-12 LAO Fiscal Outlook”), which updates the LAO’s forecast of the State’s General Fund revenues and expenditures. The LAO projects that, absent corrective action, the State will have a budget deficit of approximately \$25.4 billion at the end of Fiscal Year 2011-12 (inclusive of a budget deficit of \$6 billion at the end of Fiscal Year 2010-11) and budget deficits of approximately \$20 billion per fiscal year through Fiscal Year 2015-16. The LAO notes that the Fiscal Year 2010-11 State Budget included \$4 billion in assumed federal funding that had not been approved at the time of its adoption, and projects that \$3.5 billion of such amount (or flexibility related thereto) will not be received. The LAO cautions that a net \$3 billion of additional budget solutions will not be achieved and that Proposition 22, which was approved in November 2010, will reduce State General Fund solutions by approximately \$800 million. In order to address the State’s structural budget deficit, the LAO recommends the State take a multi-year approach and minimize the use of risky budgetary measures that it believes contribute to fiscal year-end deficits. The LAO further recommends that the State Legislature consider revenue policies including, among other things, tax expenditure programs such as special credits, deductions and exemptions, increasing charges for program beneficiaries, extending certain temporary tax increases, and reconsidering the optional single sales factor for multistate companies. According to the LAO, the approval of permanent actions and certain temporary budget solutions could eliminate the State’s structural deficit and allow the State to build reserves to address the next economic downturn and any long-term fiscal liabilities.

See “City of Newport Beach Financial Information – Recent Budget Results; Fiscal Year 2010-11 Budget – Impact of the State’s Fiscal Year 2010-11 Budget on the City’s Fiscal Year 2010-11 Budget” herein for a description of the State budget’s impact on the City. Reports of the LAO are available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

Current and Future State Budgets

The City receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other counties in the State.

The City cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. See “City of Newport Beach Financial Information – Recent Budget Results; Fiscal Year 2010-1 Budget – Fiscal Year 2010-11 Budget – Impact of the State’s Fiscal Year 2010-11 Budget on the

City’s Fiscal Year 2010-11 Budget” herein for a description of the potential impact of the State budget on the City.

REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

Set forth below is certain demographic information regarding the City and the County. This information is provided for informational purposes only and general background. The Certificates are not a debt of the County, the State, or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable thereon. As set forth under “The Certificates – Security for the Certificates” in the forepart of this Official Statement, the Certificates are secured by lease payments and prepayments to be made by the City pursuant to the terms of the Trust Agreement and the Lease. See “The Certificates” in the forepart of this Official Statement.

Population

The City is located in the coastal center of the County, approximately 89 miles north of San Diego, 15 miles south of Long Beach and 45 miles southwest of Los Angeles.

Table A-15 below sets forth the population of the City, the County and the State for calendar years 2006 through 2010.

**TABLE A-15
POPULATION GROWTH
CITY OF NEWPORT BEACH, THE COUNTY OF ORANGE
AND THE STATE OF CALIFORNIA
(Calendar Years 2006-2010)**

Calendar Year⁽¹⁾	City of Newport Beach	County of Orange	State of California
2006	83,124	3,061,535	37,087,005
2007	83,564	3,077,656	37,463,609
2008	84,145	3,104,046	37,871,509
2009	86,145	3,134,858	38,255,508
2010	86,738	3,166,461	38,648,090

⁽¹⁾ As of July 1 of the year shown. Reflects revised estimates as of May 2010.
Source: California State Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010 with 2000 Benchmark.

Employment

Table A-16 below sets forth the wage and salary employment in the County for calendar years 2005 through 2009. Service Providing is the largest employment sector in the County.

TABLE A-16
ANNUAL AVERAGE INDUSTRY EMPLOYMENT
COUNTY OF ORANGE
(Calendar Years 2005-2009)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Farm	5,600	5,300	5,000	4,600	3,900
Total Nonfarm	1,491,000	1,518,900	1,515,500	1,481,600	1,371,400
Total Private	1,335,600	1,362,200	1,356,200	1,320,900	1,214,200
Goods Producing	283,500	289,900	284,000	265,900	228,600
Natural Resources and Mining	700	600	600	600	500
Construction	99,900	106,600	103,100	91,200	73,600
Manufacturing	182,900	182,700	180,400	174,100	154,500
Service Providing	1,207,400	1,229,000	1,231,500	1,215,700	1,142,800
Trade, Transportation and Utilities	269,800	272,800	277,000	271,600	250,000
Wholesale Trade	83,000	83,700	86,900	86,700	80,100
Retail Trade	158,100	160,800	161,200	155,600	141,900
Transportation, Warehousing and Utilities	28,700	28,200	28,900	29,300	27,900
Information	32,800	31,900	31,200	30,100	27,400
Financial Activities	138,400	138,200	127,700	113,100	105,600
Professional and Business Services	264,300	274,500	273,300	266,600	239,000
Educational and Health Services	133,500	137,700	142,600	150,700	151,100
Leisure & Hospitality	165,000	169,600	172,900	176,400	169,700
Other Services	48,400	47,700	47,400	46,500	42,800
Government	155,300	156,700	159,400	160,800	157,300
Total, All Industries ⁽¹⁾	1,496,500	1,524,300	1,520,500	1,486,200	1,375,400

⁽¹⁾ The "Total All Industries" data is not directly comparable to the employment data found herein. Employment is reported by place of work; it does not include persons involved in labor management disputes. Figures are rounded to the nearest hundred. Totals may not equal sum of component categories due to independent rounding.

Source: State of California, Employment Development Department, Industry Employment and Labor Force by Annual Average, March 2009 Benchmark.

Table A-17 below sets forth the civilian labor force, employment, and unemployment in the City, the County and the State for calendar years 2005 through 2009.

TABLE A-17
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾
CITY OF NEWPORT BEACH, COUNTY OF ORANGE AND
THE STATE OF CALIFORNIA
(Annual Averages for Calendar Years 2005-2009)

	Calendar Year				
	2005	2006	2007	2008	2009
Civilian Labor Force					
City of Newport Beach					
Employed	43,800	44,500	44,500	44,100	41,500
Unemployed	1,000	900	1,100	1,500	2,500
City	2.3%	2.1%	2.4%	3.3%	5.7%
County	3.8	3.4	3.9	5.3	9.0
California	5.4	4.9	5.3	7.2	11.4

⁽¹⁾ Data Not Seasonally Adjusted.

Source: State of California, Employment Development Department, based on March 2009 benchmark.

The State of California Employment Development Department, Labor Market Information Division (the "EDD"), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the City in September 2010 was 44,300, of which approximately 41,600 persons were employed. Based on preliminary estimates of the EDD as of October 22, 2010, the City's unemployment rate in September 2010 of 6.0%, on a seasonally unadjusted basis, was below that of the County at 9.6%, below that of the State at 12.2% and below that of the United States at 9.2%.

Median Household Income

Table A-18 below sets forth the median household income for the City, the County and the State for calendar years 2005 through 2009.

**TABLE A-18
MEDIAN HOUSEHOLD INCOME⁽¹⁾
CITY OF NEWPORT BEACH, COUNTY OF ORANGE,
THE STATE OF CALIFORNIA AND THE UNITED STATES
(Calendar Years 2005-2009)**

Year	City of Newport Beach	County of Orange	State of California	United States
2006	\$103,068	\$70,232	\$56,645	\$48,451
2007	110,511	73,263	59,948	50,740
2008	123,958	75,078	61,021	52,029
2009	104,435	71,865	58,931	50,221
2010	105,657	76,412	62,401	52,795

⁽¹⁾Inflation Adjusted Dollars for each respective year.

Source: U.S. Census Bureau - American Community Survey for Fiscal Years 2005-06 through 2008-09; Claritas for Fiscal Year 2009-10.

Personal Income

Table A-19 below sets forth the per capita personal income in the County and the State for calendar years 2005 through 2009:

**TABLE A-19
PER CAPITA PERSONAL INCOME
COUNTY OF ORANGE AND THE STATE OF CALIFORNIA⁽¹⁾⁽²⁾
(Calendar Years 2005-2009)**

Calendar Year	County of Orange⁽³⁾	State of California
2005	\$47,141	\$38,767
2006	50,997	41,567
2007	52,009	43,402
2008	51,894	43,852
2009 ⁽⁴⁾	--	42,325

⁽¹⁾ Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2005-2008 reflect county population estimates available as of April 2008.

⁽²⁾ All state and local area dollar estimates are in current dollars (not adjusted for inflation).

⁽³⁾ Reflects per capita personal income for the Santa Ana-Anaheim-Irvine, California Metropolitan Division.

⁽⁴⁾ County of Orange Per Capita Personal Income for Year 2009 not yet available.

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

Major Employers

Table A-20 below sets forth the principal employers as of June 30, 2010 in the City:

TABLE A-20
CITY OF NEWPORT BEACH
PRINCIPAL EMPLOYERS⁽¹⁾
(As of June 30, 2010)

Name	Type of Business or Entity	Number Employed
Hoag Memorial Hospital	Hospital and health care	4,001
Conexant Systems	Semiconductor solutions	1,650
Pacific Life Insurance Company	Life insurance, investment	1,513
Glidewell Laboratories	Dental	1,400
City of Newport Beach	City government	940
US Bank	Financial	883
B. Alan Whitson Company	Management Consulting company	750
Newport-Mesa Unified School District	Education	545
Marriott Newport Beach	Hotel, resort	510
Balboa Bay Club and Resort	Hotel, resort	500
Fletcher Jones Motor Cars	Automotive	500
Island Hotel ⁽²⁾	Hotel, resort	500
Pimco Advisors	Investment company	500

⁽¹⁾ Figures reflect number of employees of each employer at the time the information was collected.

⁽²⁾ The Island Hotel was formerly the Four Seasons Hotel.

Source: InfoGroup.

Table A-21 below sets forth the largest employers within Orange County reported as of December 31, 2009:

**TABLE A-21
COUNTY OF ORANGE
LARGEST EMPLOYERS⁽¹⁾
(As of December 31, 2009)**

Name	Type of Business or Entity	Number Employed
Walt Disney Co.	Entertainment	19,800
University of California, Irvine	Higher education and health care	19,279
St. Joseph Health System	Health care	10,929
Boeing Co.	Aerospace and communications	8,477
Yum! Brands Inc.	Fast food restaurants	7,000
Target Corp.	Retail	6,226
Supervalu Inc.	Grocery retailer	5,923
Kaiser Permanente	Health care	5,598
Memorial Health Services Inc.	Health care	5,533
Bank of America Corp.	Banking	5,450
Home Depot Inc.	Retail	5,000
California State University, Fullerton	Higher education	4,952
The Kroger Co.	Grocery retailer	4,500
Wells Fargo & Co.	Banking	4,455
AT&T Inc.	Telephone service	4,300
Hoag Memorial Hospital Presbyterian	Hospital and health care	4,241
Wal-Mart Stores Inc.	Retail	4,000
Cedar Fair LP	Entertainment	3,900
United Health Group Inc.	Health care	3,800
Tenet Healthcare Corp.	Health care	3,795
Costco Wholesale	Discount retailer	3,663
CVS Caremark Corp.	Pharmacy	3,650
Edison International	Utilities and investments	3,500
Automobile Club of Southern California	Information systems, insurance and automotive assistance	3,300
Stater Bros, Holdings Inc.	Grocery retailer	3,115

⁽¹⁾ Includes corporations, hospitals and universities. Excludes government entities and school and community college districts.

Franchise operations are considered separately from their corporate chains.

Source: Orange County Business Journal – 2010 Book of Lists.

Construction Activity

Table A-22 below sets forth building permit valuations and new housing units in the City for calendar years 2006 through 2010.

TABLE A-22
CITY OF NEWPORT BEACH
BUILDING PERMIT VALUATION AND NEW HOUSING UNITS
Calendar Years 2006-2010

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>
Residential					
Single-Family	\$ 82,967,310	\$ 68,054,930	\$ 81,504,056	\$ 44,246,031	\$18,300,981
Multi-Family	7,450,000	11,283,560	9,791,756	3,287,177	9,600,000
Alteration/Additions	56,805,626	58,058,723	49,507,192	38,080,919	29,585,044
Total:	<u>\$147,222,936</u>	<u>\$137,397,213</u>	<u>\$140,803,004</u>	<u>\$ 85,614,127</u>	<u>\$18,846,025</u>
Non-Residential					
New Commercial	\$ 36,300,000	\$ 57,666,475	\$ 17,000,000	\$ 22,177,120	\$ 2,867,530
New Industry	0	2,000,000	0	0	0
Other ⁽²⁾	37,093,731	29,236,976	32,513,364	9,866,091	3,817,380
Alteration/Additions	53,803,425	40,431,975	62,653,046	40,201,278	21,870,834
Total:	<u>\$127,197,156</u>	<u>\$129,335,426</u>	<u>\$112,166,410</u>	<u>\$ 72,244,489</u>	<u>\$28,555,744</u>
Total All Industry:	<u>\$274,420,092</u>	<u>\$266,732,639</u>	<u>\$252,969,414</u>	<u>\$157,858,616</u>	<u>\$77,401,769</u>
New Housing Units					
Single-Family Units	126	107	90	66	22
Multi-Family Units	34	40	38	6	4
Total:	<u>160</u>	<u>147</u>	<u>128</u>	<u>72</u>	<u>26</u>

⁽¹⁾ Numbers reflect January through June 2010 only.

⁽²⁾ Other New Nonresidential includes churches and religious buildings, medical and institutional buildings, schools and educational buildings, agricultural buildings, residential garages, utilities buildings, and miscellaneous nonresidential structures.

Source: Construction Industry Research Board.

Taxable Sales

Table A-23 below sets forth the taxable sales in the City for calendar years 2004 through 2008. Table A-24 below sets forth the taxable sales in the City for the first two quarters of calendar year 2009.

TABLE A-23
CITY OF NEWPORT BEACH
TAXABLE SALES
Calendar Years 2004-2008
(In Thousands)

Type of Business	2004	2005	2006	2007⁽¹⁾	2008⁽¹⁾
Retail Stores:					
Apparel Stores	\$ 138,308	\$ 159,346	\$ 168,773	\$ 172,604	\$ 154,951
General Merchandise Stores	237,968	256,604	259,294	247,316	215,698
Food Stores	76,493	82,662	86,262	88,522	88,880
Eating and Drinking Places	344,205	381,592	392,918	403,373	390,435
Home Furnishings and Appliances	81,027	99,458	96,501	94,043	61,173
Building Materials and Farm Implements	25,548	29,130	30,566	29,774	26,934
Auto Dealers and Auto Supplies	382,748	430,653	538,993	647,238	517,940
Service Stations ⁽²⁾	74,715	89,411	105,462	116,143	128,087
Other Retail Stores ⁽³⁾	288,372	327,910	334,155	217,538	198,233
Retail Stores Totals	1,649,384	1,856,766	2,012,924	2,016,551	1,782,332
All Other Outlets	475,161	501,875	559,897	631,800	622,532
Total All Outlets	\$2,124,545	\$2,358,641	\$2,572,821	\$2,648,351	\$2,404,864

⁽¹⁾ In early 2007 the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System Codes. As a result of the coding change process, industry data for 2007 and 2008 are not comparable with data from prior years.

⁽²⁾ Prior to 2007, industry data for Service Stations were included in Automotive.

⁽³⁾ In 2007 and 2008, industry data for Specialty Stores were included in Other Retail Stores.

Source: California Board of Equalization.

TABLE A-24
CITY OF NEWPORT BEACH
TAXABLE SALES
Calendar Year 2009, First and Second Quarter
(In Thousands)

Type of Business	First Quarter 2009	Second Quarter 2009
Retail and Food Services:		
Motor Vehicle and Parts Dealers	\$115,984	\$108,638
Home Furnishings and Appliance Stores	11,054	9,542
Building Materials and Garden Equipment and Supplies	9,481	11,412
Food and Beverage Stores	20,575	23,484
Gasoline Stations	18,718	24,313
Clothing and Clothing Accessories Stores	32,579	40,334
General Merchandise Stores	33,540	38,575
Food Services and Drinking Places	83,706	91,665
Other Retail Group	<u>34,128</u>	<u>38,936</u>
Total Retail and Food Services	\$359,765	\$386,898
All Other Outlets	<u>134,624</u>	<u>133,022</u>
Totals All Outlets	<u>\$494,388</u>	<u>\$519,920</u>

Source: California Board of Equalization.

Foreclosure Activity

Table A-25 below sets forth foreclosure activity in the City and the County for the calendar years 2005 through 2010:

**TABLE A-25
CITY OF NEWPORT BEACH AND COUNTY OF ORANGE
FORECLOSURE ACTIVITY
Calendar Years 2005 through 2010**

Calendar Year	Foreclosures	Total Number of Housing Units	% of Total Housing Units
2005			
City	1	42,143	0.00%
County	152	1,013,634	0.01
2006			
City	14	42,352	0.03
County	691	1,019,012	0.07
2007			
City	40	42,580	0.09
County	4,223	1,025,302	0.41
2008			
City	117	42,711	0.27
County	11,647	1,030,914	1.13
2009			
City	141	43,477	0.32
County	8,502	1,035,536	0.82
2010⁽¹⁾			
City	84	--	0.09
County	4,839	--	0.27

Source: MDA DataQuick Information Systems.

⁽¹⁾ Reflects data from January through July, 2010.

APPENDIX B

CITY FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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City of Newport Beach
Year Ended June 30, 2009

Comprehensive Annual Financial Report

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*Comprehensive Annual Financial Report
For the Year Ended June 30, 2009*

*Prepared by the Administrative Services Department
Dennis C. Danner, Director*



The City of Newport Beach was incorporated September 1, 1906
The present City Seal was adopted July 22, 1957

INTRODUCTORY SECTION

INTRODUCTORY SECTION

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CITY OF NEWPORT BEACH
 Comprehensive Annual Financial Report
 Year Ended June 30, 2009

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CITY OF NEWPORT BEACH

ADMINISTRATIVE SERVICES

Dennis Danner, Director/Treasurer

December 18, 2009

Honorable Mayor and Members of the
City Council,
and Citizens of the City of Newport Beach
Newport Beach, California

The City Charter and California state law require that the City of Newport Beach issue annually a complete set of financial statements and that an independent firm of certified public accountants audit this report in conformance with generally accepted auditing standards (GAAS). The Comprehensive Annual Financial Report (CAFR) of the City of Newport Beach for the year ended June 30, 2009, is hereby submitted.

The CAFR was prepared in conformance with generally accepted accounting principles (GAAP). The City's financial reporting is based upon all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standard Board (FASB) statements and interpretations that were issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements. This report consists of City management's representations concerning the finances of the City of Newport Beach. Responsibility for the accuracy and completeness of the data presented rests with the City. Management of the City is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe the information presented in this report is complete and accurate in all material respects, and that it is reported in a manner designed to fairly present the financial position and results of operations of the various activities of the City of Newport Beach.

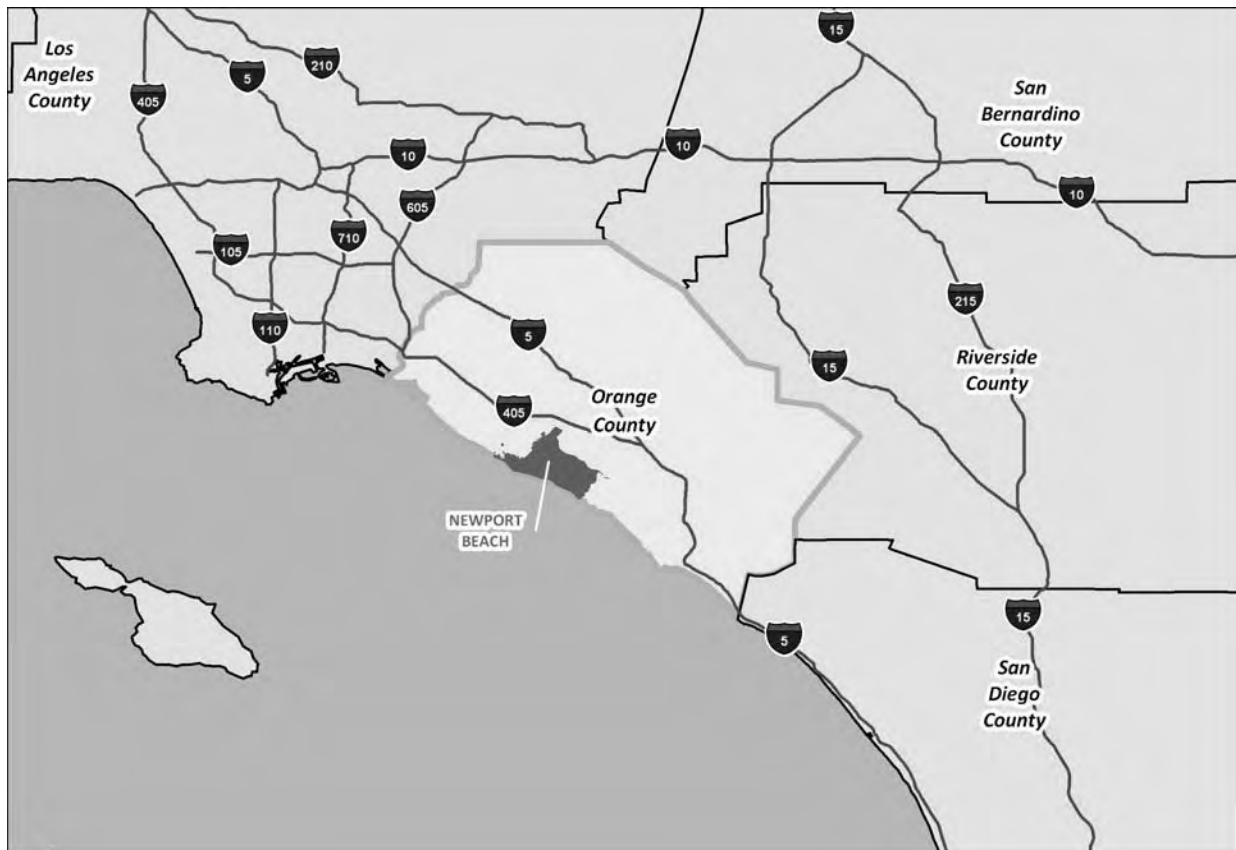
The City of Newport Beach's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the audit was to provide reasonable assurance that the financial statements of the City of Newport Beach for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Newport Beach's financial statements for the year ended June 30, 2009, are fairly

presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. A narrative introduction, overview, and analysis accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Newport Beach MD&A can be found immediately following the report of the independent auditors and will provide further information regarding the format and content of this report. The notes to the financial statements contain a summary of significant policies and disclosures, including contingencies and subsequent events the reader should consider in assessing the financial condition of the City.

PROFILE OF THE CITY

The City of Newport Beach is located in the coastal center of Orange County, in the heart of Southern California, with Los Angeles County to the north and San Diego County to the south. There are currently 34 cities within the County offering one of the finest climates in the United States. Orange County is the third largest county in California trailing Los Angeles and San Diego and is the sixth largest county in the nation.

The general vicinity of Newport Beach and the County of Orange relative to the counties of Los Angeles, San Bernardino, Riverside and San Diego is illustrated on the map below:



The City of Newport Beach is one of Southern California's most scenic and dynamic communities. It surrounds Newport Bay, well known for its picturesque islands and one of the greatest natural yacht harbors in the world, accommodating over 9,000 boats of all types docked within its 21 square mile harbor area. This bay area and the ten miles of ocean beach offer outstanding fishing, swimming, surfing, and aquatic sports activities. The City has a permanent population of 86,252. During the summer months, the population grows to over 100,000 with 20,000 to 100,000 tourists daily. There are fine residential areas, modern shopping facilities, and a quality school system. A major campus of the University of California is located immediately adjacent to the City, and eight other colleges are within a 30-mile radius.

The following map illustrates the communities within the City of Newport Beach; the City's bay, recreational harbor and beachfront topography; and the City's location relative to the bordering cities of Costa Mesa to the north, Irvine to the east and Laguna Beach to the south.



The City of Newport Beach was incorporated September 1, 1906. The current City Charter was adopted in 1954. The City operates under a Council-Manager form of government. Council Members are elected by district but voted on by the population as a whole, and serve four-year staggered terms. The governing council consists of the mayor and six other members and is responsible for among other things, policy-making, passing local ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney, and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the City, and for appointing heads of departments. The City of Newport Beach is a full service city providing its residents and visitors with the following functional services: general governance, legal, financial, information technology, and administrative management; police, fire, paramedic, lifeguard, and emergency medical transport services; engineering, construction, and maintenance of public facilities, public streets, beaches, and parks; planning, zoning, and economic development services; building inspection, plan check, and code enforcement services; libraries and cultural and arts services; recreation and senior services; and water, wastewater, rubbish disposal, and street light utility services. The City provides water and sewer service to most areas within City limits, but it does not provide gas, electrical, or other utility service. Public elementary and secondary education is provided by school districts, which are separate government entities.

Component Unit: The City's financial statements present the financial activity of the City of Newport Beach (the primary government) and the Newport Beach Public Facilities Corporation (a component unit of the City). The Corporation is blended into the City's financial statements because of its operational and financial relationship with the City. Even though it is a legally separate organization, City of Newport Beach elected officials have continuing accountability for fiscal matters of the Corporation. Additional information about the Newport Beach Public Facilities Corporation and the reporting entity in general can be found in Footnote 1a of the notes to the financial statements.

Budget: The annual budget serves as the foundation for the City of Newport Beach's financial planning and control. The Administrative Services Department, with City Manager direction, develops budget guidelines and appropriation limits for each department every year in January. The departments then submit revenue and expenditure appropriation requests which are summarized by the Administrative Services Department and presented to the City Manager for review. The City Manager then meets with each department and prepares a proposed budget document for the City Council. The City Council holds a budget hearing and adopts a budget on or before June 30, the close of the City's fiscal year.

Budgets are adopted for the General Fund and Special Revenue Funds. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions which increase the total appropriations of any fund over \$10,000 must be approved by the City Council.

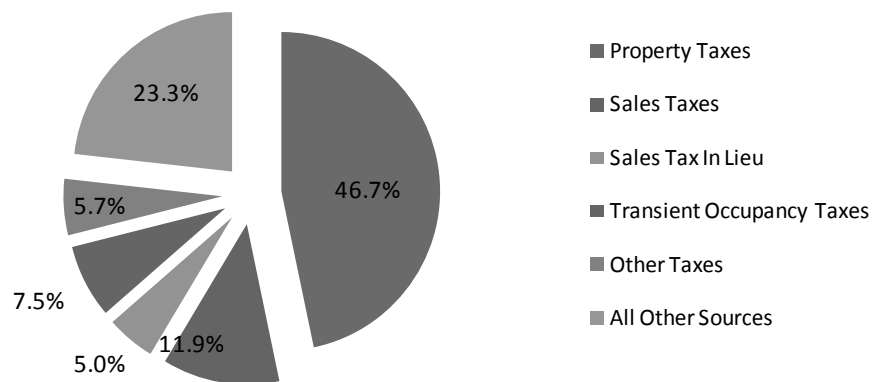
LOCAL ECONOMIC MIX

From 1950 to 2009, the population of the City increased from 12,120 to 86,252. As vacant land becomes increasingly scarce, population growth is expected to flatten considerably as the City becomes relatively built-out. According to the Center for Demographic Research at California State University Fullerton, the City of Newport Beach will be home to an estimated 91,321 residents by the year 2015.

Newport Beach's physical setting encompasses about 25.3 square miles of land, of which approximately 75% is developed and 25% is undeveloped including the City's coastal beaches used for recreation and open space. The developed land is 70% residential and 30% non-residential. Of the City's 41,850 residential dwelling units, 60% of the housing is single-family units and 40% is multi-family units.

This current land use mix produces General Fund revenues of approximately \$150 million. Tax revenues represent nearly 76.7% of all General Fund revenues while only 23.3% is generated by other revenue sources. The top three individual revenue sources, Property Taxes, Sales Taxes and Transient Occupancy Taxes (TOT), represent 71% of all General Fund revenues.

General Fund Revenues

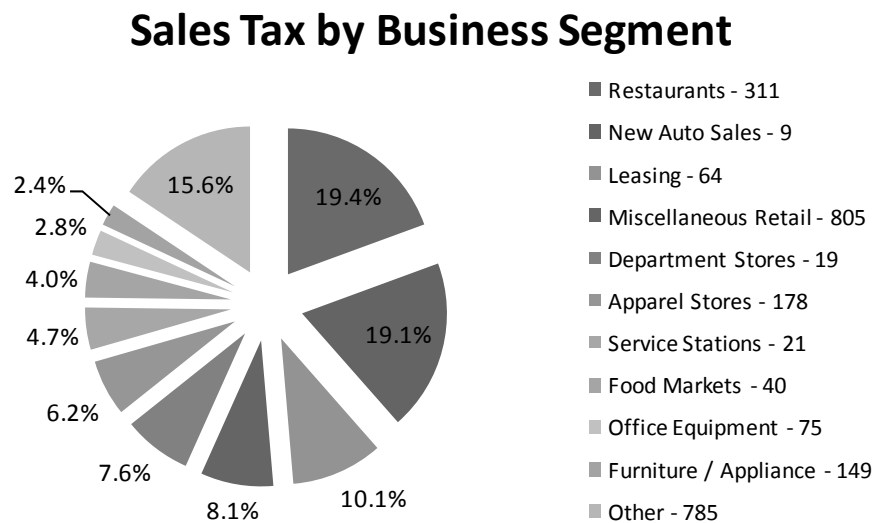


Property Taxes: Property taxes account for 46.7% of all General Fund revenues.. Property taxes generated with the City limits are distributed amongst various local governments. The City receives, on average, 16.5% of the property taxes paid by Newport Beach residents. The remainder goes to school districts, the County, and other government entities.

Sales Taxes: In March of 2004, voters approved Proposition 57 which allowed the State to enact revenue swapping procedures commonly referred to as the "Triple Flip." In doing so, Sales Taxes were reallocated to cities in two separate revenue streams "Sales Taxes" and "Sales Taxes In Lieu" which impacted the timing and distribution

method but did not materially impact the revenue category in total. Sales Taxes and sales taxes in lieu represent 16.9% of all General Fund revenues.

The City's sales tax base is generated from a relatively diverse business community and is not dependent on any one merchant or industry. The following chart demonstrates the diversity of the City sales tax revenue. The largest segment, "Restaurants," accounts for 19.4% of total sales taxes and is represented by 311 restaurants. The next largest segment, "Auto Sales - New," accounts for 19.1% of total sales taxes and is represented by 9 dealerships. The "Other" categorization accounts for another 15.6% and is represented by 785 businesses.



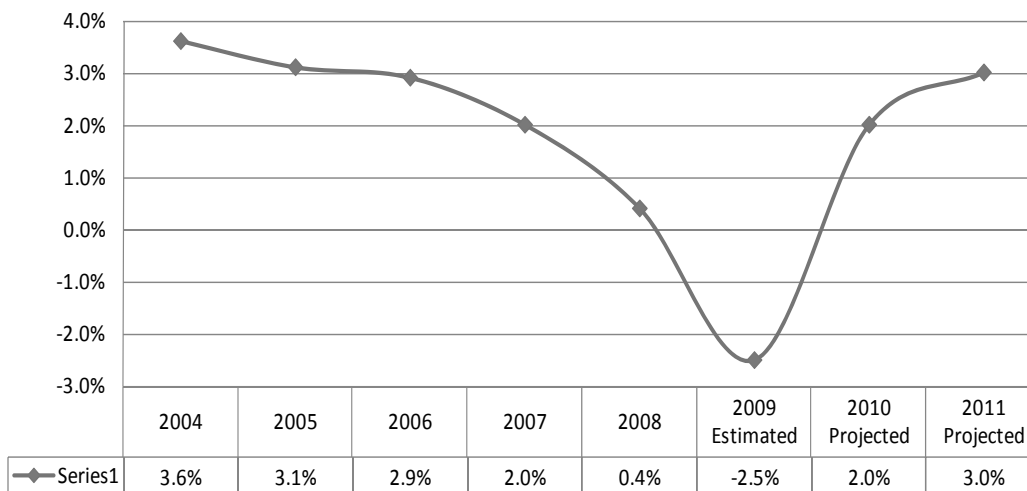
Transient Occupancy Taxes (TOT): The TOT accrues to the City at a rate of 10% of room charges (with 18% of this collection going to the local Conference and Visitors Bureau). The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of approximately twenty inns, motels, hotels and resorts and accounts for 89% of TOT revenues. The residential category is made up of some 700 vacation rentals representing only 11% of TOT revenue. Together, they account for nearly \$11.2 million in annual TOT revenue.

	Annual Revenue (In Millions)	Percent of Total
Commercial Property: Inns, Motels and Hotels	\$10.0	89%
Residential Property: Vacation Rentals	\$ 1.2	11%
	<u>\$11.2</u>	<u>100%</u>

ECONOMIC OUTLOOK & FACTORS EFFECTING FISCAL PLANNING

U.S. Economy: In the fall of 2008, the national economy began a freefall which has continued through the second quarter of 2009. Current data and consensus amongst economists, however, suggest the national economy is stabilizing and the recovery has begun. During the third quarter of 2009, the Gross Domestic Product (GDP) turned around and grew at a rate of 3.5%. Dampening this news is some speculation that the turn-around was largely bolstered by federal stimulus spending and the underlying recovery of the economy is occurring more modestly. As can be seen in the chart below, the California Legislative Analyst Office (LAO) projects the annualized real GDP growth to bottom-out at -2.5% in 2009 before slowly returning to modest growth of 2% in 2010 and 3% in 2011.

U.S. Real GDP Growth



Source: LAO's Economic Forecast

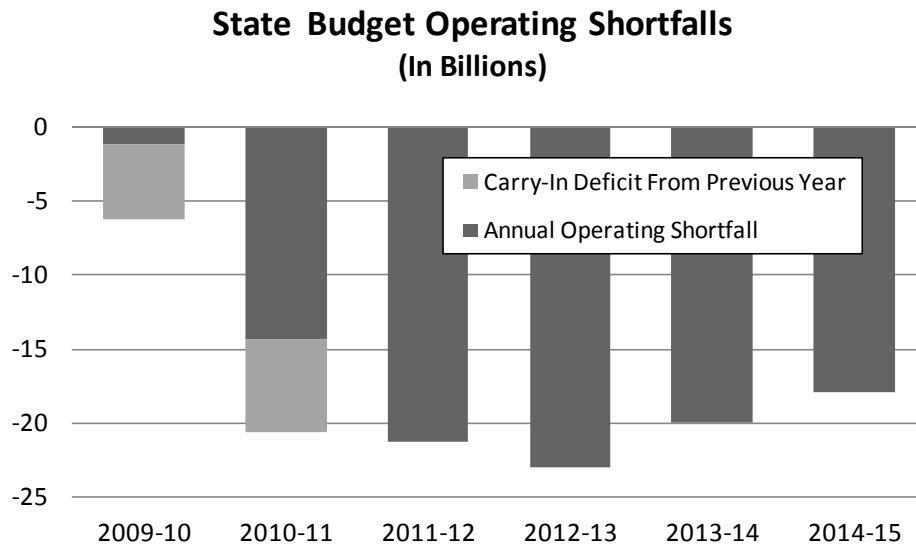
State of California Economic Recovery: Like the national economy, the State of California economy is in recovery. The pace of job losses has subsided and home sales are on the rise. The recession in California will likely end in 2009 but since the recession started earlier and fell sharper than the rest of the nation, the California economy has further to travel as demonstrated by the table below:

Unemployment Rate (Percent)*

	Actual	Estimated	Forecast		
	2008	2009	2010	2011	2012
United States	5.8	9.2	10.0	9.4	8.5
California	7.2	11.7	12.1	11.3	10.2

* Source: LAO Economic Forecast

California State Budget: The State budget is of great concern to all cities, including Newport Beach. The State’s inability to achieve meaningful on-going budget solutions has resulted in massive lingering budget problems in the coming months and into the foreseeable future. As depicted by the following chart, the LAO projects a \$6.3 billion deficit for 2009-10 and a \$14.4 billion shortfall between revenues and expenditures in 2010-11 with similar projections for the succeeding years.



Source: LAO’s California Fiscal Outlook

Considering the projected annual shortfalls, a plan that permanently addresses the State’s structural deficit represents an enormous challenge and will require substantial ongoing solutions.

LOCAL ECONOMY

Local Impact of the State’s Budget Crisis

As the State’s budget deficits continue to balloon, there is a considerable risk that the State may attempt to shift the burden to local governments by reallocating or permanently shifting revenues from local governments. In the early nineties, the State enacted a number of permanent revenue shifts from local governments to schools. The cumulative impact of the ERAF shifts I, II and III since 1993 have cost City of Newport Beach taxpayers in excess of \$89 million.

As a part of the State’s 2009-10 budget initiatives, the State acted to defer certain tax sources due to local governments including 8% of local property taxes, certain highway users taxes (gas tax) and traffic congestion relief taxes. The State took these actions to replace a portion of the shortfall in state revenues associated with current economic conditions. With regard to the property tax borrowing, legislation was signed into law on July 28, 2009 that enabled the State of California to borrow \$6.2 million of property tax

revenue due to the City in fiscal year 2009-10. On November 10, 2009, the California Statewide Communities Development Authority (CSCDA) issued debt to provide to participating local governments, 100% of the property tax revenue that the State had been authorized to borrow. The bonds provide for the borrowed funds to be remitted to the participating local governments in two installments (on January 15, 2010 and on May 3, 2010).

Although the 2009-10 State budget actions thus far have largely represented short-term borrowings rather than permanent revenue shifts, we are very concerned that the State will continue to look at local government revenues sources as a means to resolve their staggering budget problems.

Property Taxes: Unlike many cities, property taxes, not sales taxes, are the number one source of revenue for the City of Newport Beach, representing 46.7% of all General Fund revenues. Due to the limited supply of scenic coastal property and the unique access to the scenic Newport Bay and one of the best recreational yacht harbors, the Newport Beach community has been developed into affluent residential neighborhoods (70%) and high-end commercial districts (30%).

Despite the dramatic declines in the real estate market, sales data for the month of October, 2009, demonstrates the relatively high density of affluence throughout the residential communities. Median home sales prices in all areas of the City approach or exceed \$1 million.

CITY OF NEWPORT BEACH
Median Home Sales*
Comparitive Month Ending November

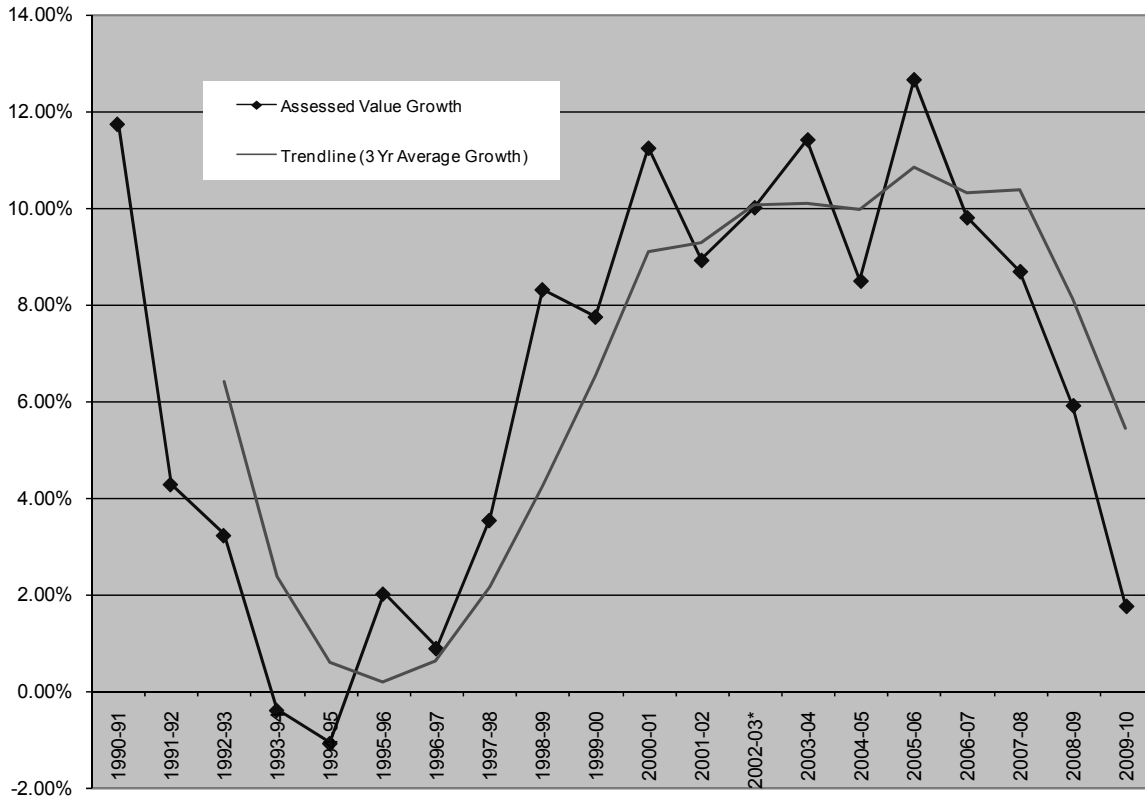
Newport Beach Zip Code	Median Sales Price 2008	Median Sales Price 2009	Number of Home Sales 2008	Number of Home Sales 2009
92625	\$ 3,000,000	\$ 1,500,000	9	8
92660	\$ 1,225,000	\$ 1,061,250	8	33
92661	\$ 3,450,000	\$ 1,950,000	2	4
92663	\$ 2,350,000	\$ 810,000	1	18
92657	\$ 1,393,000	\$ 1,535,000	5	20
All Orange County	\$ 400,000	\$ 432,000	2,177	2,528

* Source: DataQuick Information Systems

Due to a vigorous demand for coastal property, the City has enjoyed long-term growth trends with its number one revenue source. Over a ten-year period, assessed valuation increased an average of 9.48% per annum and 6.76% over a twenty-year period. Since Californians passed Proposition 13 in 1978, assessed property value is reassessed to market value only when the property changes ownership. Otherwise, the assessed value grows by no more than 2% per year. This practice creates a constant lag and buffer between assessed and market values, effectively insulating the tax base from more erratic market value gyrations.

Although assessed value growth has slowed for the last several years and will likely continue to decrease in 2010-11, we are hopeful that assessed valuations will modestly rebound in years thereafter.

20 Year Assessed Property Value Growth



*The 2000-03 datapoint was normalized to reduce the impact the Newport Coast Annexation had on the assessed valuation growth trendline.

Although the City has normally been any able to rely on steady growth in assessed valuation of 4% or more, it is probable the City will build the 2010-11 budget assumptions around a zero growth scenario with contingencies for a decline of assessed valuation.

Sales and Transient Occupancy Revenues: Because sales tax and TOT revenues follow consumer behavior, they are much more volatile than property taxes. The current economic recession, falling home prices and tightening credit policies have significantly depressed consumer spending patterns. Sales taxes have contracted precipitously during 2008-09 and are expected to continue to decline in 2009-10 until employment conditions improve and consumer confidence is restored. Transient occupancy tax collections generally follow a similar trend as sales taxes but are somewhat muted due to recent hotel expansions and the addition of a new luxury resort. TOT revenues are

currently expected remain at 2008-09 revenue levels before modestly rebounding in 2010-11.

LONG TERM FINANCIAL PLANNING

The City takes long-term financial planning seriously and has developed several master replacement plans for its critical assets and infrastructure including major facilities, street pavement, water and sewer infrastructure, and City vehicles and heavy equipment. The City retains actuaries to predict and fund long-term liabilities including workers compensation, general claim liabilities, pension liabilities and post employment health care liabilities. Reserve levels and annual required funding contributions are set by Council policy. In the case of workers compensation and general liability, annual contribution rates are targeted to accumulate cash reserves in excess of the \$11.9 million and \$5.9 million expected liability respectively, to achieve at least a 75% confidence funding level of \$13.2 million and \$6.1 million respectively. Except for the implied subsidy component of the City's post employment health care plan (OPEB liability), the City policy is to fund the cash subsidy of our OPEB liability of \$ 2.7 million and pension liabilities of \$18.4 million at 100% of the actuarially determined annual required contribution (ARC). Because the City pays the entire ARC each year, its net pension and net OPEB obligation at the end of each year is \$0 (except for the implied subsidy component of OPEB which is funded on a pay-as-you-go basis).

To mitigate the rising cost of pension plans, the City is actively pursuing cost sharing agreements with our employee associations pertaining to pension plans. Regarding OPEB plan liabilities, the City closed the defined benefit component of the OPEB plan to new participants in 2006. The new plan resembles a defined contribution style plan through which once the contribution is made the employee account, the employer has no further funding obligation to the plan. See footnotes 10 and 11 of the notes to the financial statements for further information on the funding status of the City's pension and OPEB plans.

Stewardship: The City has long taken a conservative approach to forecasting revenues, often assuming a "worst case scenario." This fiscal conservatism has created a stable financial base. As a result, even in a downturn, the City of Newport Beach is able to maintain its services at a high level, while reducing expenses to accommodate reduced revenues. The City's fiscal discipline has allowed it to prepare balanced budgets and save, both during prosperous and difficult economic periods. While the current recession is much deeper than expected, management and the Council were able to act swiftly to trim the operating budget at the midpoint of the 2008-09 fiscal year, averting a decline in the fund balance of the General Fund. The General Fund ended the year with a \$79.1 million fund balance, a net increase of \$552,000. Of this amount, \$5.8 million is reserved and is not available to finance new activities because it has already been committed to fulfill contractual obligations or is otherwise legally restricted beyond the City Council's control. Within the Council's discretion, the City Council has designated \$18.6 million for contingencies, \$13.1 million for unspecified future appropriations, \$4.7 million for capital projects that were not

completed during the fiscal year, and \$37.3 million designated for other special purposes including \$25.0 million designated for the City's facilities replacement plan and \$5.0 million designated to offset unexpected increases in PERS pension costs.

2009-10 Cost Saving Measures: After the date of this report's balance sheet but prior to the issuance of this report, it became clear that deteriorating revenues would present budget short-falls in 2009-10. With the approval of City Council, management initiated an Early Retirement Incentive Plan (ERIP) with intent to further trim the City's overall cost structure. A total of 51 people participated in the plan and this action is expected to save nearly \$3.1 million annually. Additionally, the City has initiated a second phase restructuring effort to effect additional long-term cost savings and improved efficiencies.

Major Initiative: While 2010-11 will likely present another challenging budget year, plans for a new Civic Center Project, which includes a parking structure and library additions, are underway that will be integrated in a 16-acre passive park with ocean views. The costs of the improvements are expected to exceed \$100 million and will require bond financing. The Civic Center project has been reviewed in context of all critical City facility replacement plans and the City has judiciously set aside \$25 million to pre-fund debt service and or construction expenditures. The City's facilities replacement policy limits General Fund contributions to debt service to not more than 5% of total General Fund expenditures in any one year as added measure to insure long-term sustainability and fiscal prudence.

AWARDS AND ACKNOWLEDGMENTS

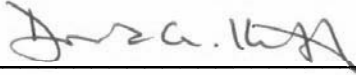
Awards: The City has prepared a comprehensive annual financial report for the past 17 years. The City has received awards for excellence in financial reporting each of those years.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport Beach for its comprehensive annual financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments: Preparation of this report was accomplished through the efficient and dedicated services of virtually everyone in the City's Accounting Division and the Graphics and Print Services unit. In addition, members of the Administrative Services

Department would like to thank the City Manager, and the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. We would also like to thank our auditors, Mayer Hoffman McCann P.C., for their time and assistance in the preparation of the report. This report was completely prepared and published by City employees.



David A Kiff
City Manager



Richard C. Kurth
Acting Administrative Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport Beach
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

NEWPORT BEACH CITY OFFICIALS



L to R: Council Member Michael F. Henn, Mayor Pro Tem Keith D. Curry, Mayor Edward D. Selich, Council Members Leslie J. Daigle, Nancy Gardner, Steven Rosansky and Don Webb



City Attorney
David R. Hunt

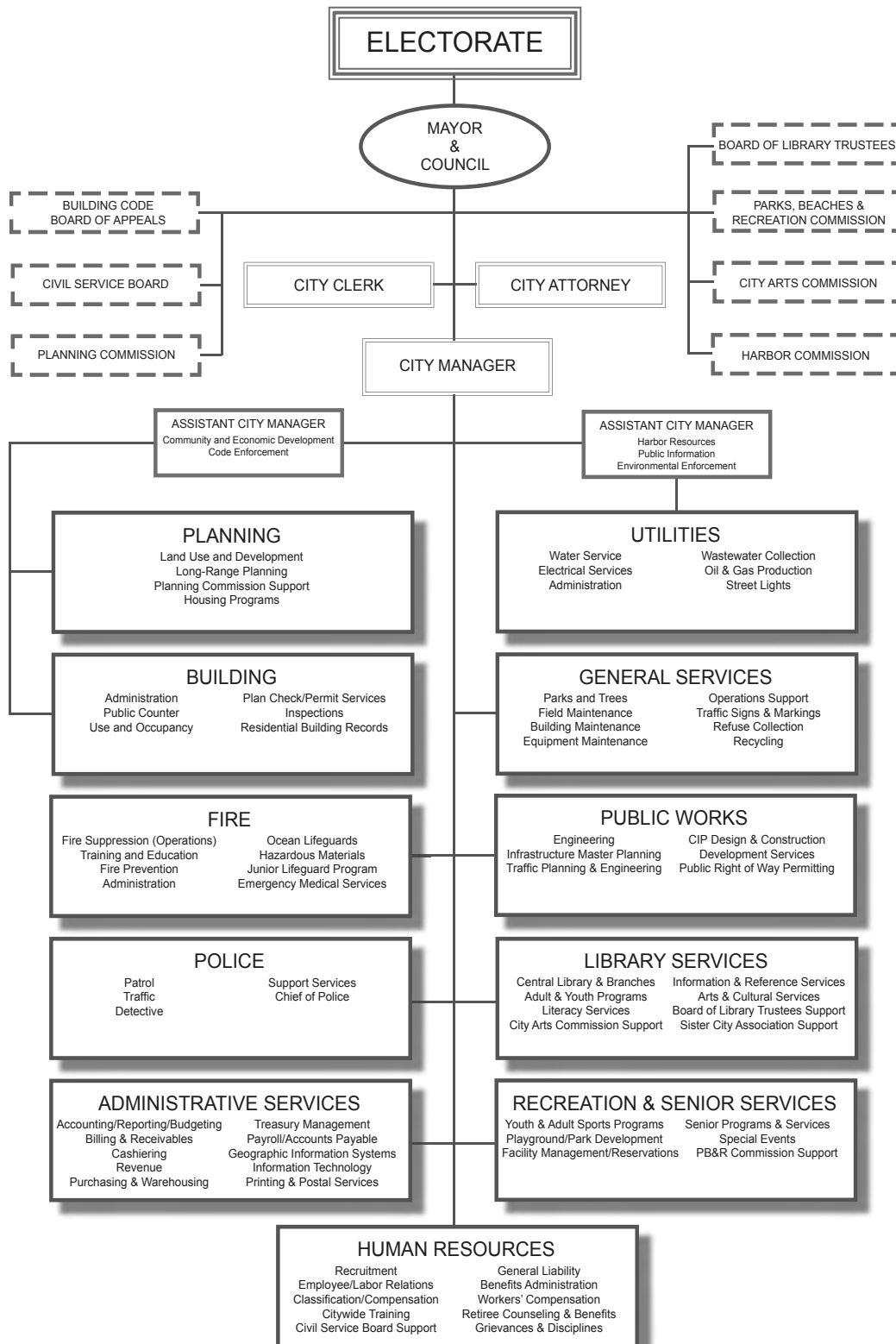


City Manager
Homer L. Bludau



City Clerk
Leilani Brown

- Sharon Wood.....Assistant City Manager/Director of Community & Economic Development
- Dave Kiff..... Assistant City Manager
- Dennis C. DannerAdministrative Services Director/Treasurer
- Jay Elbettar Building Director
- Steve Lewis Fire Chief
- Mark Harmon..... General Services Director
- Terri L. Cassidy Human Resources Director
- Cynthia CowellLibrary Services Director
- David Lepo Planning Director
- John Klein..... Police Chief
- Steve Badum Public Works Director
- Laura DetweilerRecreation & Senior Services Director
- George Murdoch Utilities Director




ELECTED OFFICIALS


COUNCIL APPOINTED BOARDS & COMMISSIONS


COUNCIL APPOINTED POSITIONS


CITY DEPARTMENTS

Fiscal Year 2008-2009

FINANCIAL SECTION

INDEPENDENT
AUDITORS' REPORT

FINANCIAL SECTION

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City Council
City of Newport Beach
Newport Beach, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Newport Beach's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, of the City of Newport Beach, California and the respective budgetary comparison information for the general fund and major special revenue funds of the City for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by the accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Council
City of Newport Beach
Newport Beach, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport Beach's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffman McCann P.C.

Irvine, California
December 18, 2009

FINANCIAL SECTION

MANAGEMENT'S
DISCUSSION AND ANALYSIS

FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2009. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Long-term Economic Resource (Government-wide) Focus – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net assets as soon as the event occurs regardless of the timing of related cash flows. Therefore, this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net assets utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$2.322 billion. The vast majority of this figure is represented by illiquid capital assets including land and infrastructure. Capital assets net of accumulated depreciation and any related debt totaled \$2.170 billion, while the remaining balance of net assets totaled \$151.9 million. Of this amount, \$107.7 million represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors for both governmental and business-type activities.
- The City's total net assets increased \$21.4 million (0.93%) to \$2.322 billion as a result of current year activities. The increase is partially attributable to donations totaling in the amount of \$6.4 million associated with the construction of the new OASIS Senior Center, property owner contributions associated with the new assessment districts, two parcels of land contributed in the amount of \$8.4 million by a developer as a condition of development in the Fashion Island area of the City (North Newport Center Development Agreement) and smaller capital projects.
- The City's total debt decreased by \$1.1 million, from \$51.7 million to \$50.6 million, during the current fiscal year. The decrease is the net result of regular debt service payments of \$16.2 million combined with an increase in our estimate of our OPEB liability of \$5.4 million.

Short-term Financial Resources (Fund) Focus – The financial resources focus measures inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) is a measure of the City's ability to finance activities in the near term.

- At the close of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$121 million, an increase of \$4.1 million. Approximately \$106.4 million is unreserved fund balance available to fund current obligations at the City Council's discretion. Of the \$106.4 million unreserved fund balance, City Council has designated \$18.6 million for contingencies, \$13.1 for unspecified future appropriations, \$4.7 million for capital projects that were not completed during the fiscal year, and \$39.6 million designated for other special purposes including \$25 million for facilities identified for replacement in the City's facilities replacement plan. The remaining \$30.4 million is made up of smaller amounts designated across various funds.
- The General Fund reported an increase of \$0.6 million in fund balance after transferring \$22.2 million to other funds. Of this transfer, \$20.3 million represented a routine transfer to subsidize the operations of the Tide and Submerged Land Fund and a \$0.5 million transfer to the Contributions Fund. The remaining \$1.4 million represented various nonrecurring transfers to other funds.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$73.7 million, or 57.6% of total General Fund expenditures. Although unreserved and available to fund current obligations, 100% of this balance is designated for contingencies, capital projects, appropriations, and other special purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report contains the following information: *Independent Auditors' Report*, *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and the *Supplementary Information* section, an optional section that presents combining and budgetary schedules for individual non-major funds. The *Basic Financial Statements* are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements* and, 3) *Notes to the Financial Statements*. Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – The Government-wide Financial Statements are intended to provide a “Big Picture” view of the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the City's assets (including non-spendable assets like streets, roads, and land rights) and liabilities (including long-term liabilities that may be paid over twenty or so more years). All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide Financial Statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one should also consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The Government-wide Financial Statements of the City are divided into two categories:

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other general revenues. Most of the City's basic services are included in this category, such as the public safety, public works, community development, community services and general administration. Taxes and other general revenues finance most of these activities.

Business-type Activities – The City accounts for its Water and Wastewater utilities as business enterprises. The City charges fees to customers to recover the cost of providing Water and Wastewater services.

Fund Financial Statements – Funds are accounting devices that the City uses to track and control resources intended for specific purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole. Some funds are required by State and Federal law or by bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes.

The City utilizes three broad categories of funds:

Governmental Funds – Governmental Funds are used to account for essentially the same functions reported as Governmental Activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements utilize the financial resources measurement focus and thus concentrate on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the Governmental Fund Financial Statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. Also included in the Governmental Funds are Permanent Funds. These funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support City programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide

both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (Water and Wastewater Funds) are individual funds represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (e.g. fleet maintenance, risk management, retiree insurance, etc.). Because the Internal Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

Fiduciary Funds – The City utilizes Fiduciary Funds to account for assets held by the City in a trustee capacity, or as an agent for other governmental entities, private organizations, or individuals. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's Government-wide Financial Statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements – The financial statements also include the Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the Financial Statements is critical to a reader's full understanding of the Government-wide and Fund Financial Statements.

Supplementary Information – In addition to the required elements of the Basic Financial Statements, we have also included a Supplementary Information section, which includes budgetary and combining schedules that provide additional details about the City's non-major Governmental Funds, Internal Service Funds, and Fiduciary Funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve a useful indicator of a government's overall financial condition over time. The City's combined net assets for the year ended June 30, 2009, as shown in Table 1, were \$2.322 billion, increasing \$21.4 million over the prior year.

Table 1
Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Current and other assets	\$ 175,010	\$ 182,934	\$ 18,288	\$ 15,234	\$ 193,298	\$ 198,168
Capital assets	2,070,835	2,084,794	108,954	108,642	2,179,789	2,193,436
Total assets	2,245,845	2,267,728	127,242	123,876	2,373,087	2,391,604
Long-term liabilities outstanding	48,600	49,009	3,095	1,585	51,695	50,594
Other liabilities	17,527	16,594	3,194	2,346	20,721	18,940
Total liabilities	66,127	65,603	6,289	3,931	72,416	69,534
Net assets						
Invested in capital assets, net of debt	2,050,925	2,061,636	107,314	108,510	2,158,239	2,170,146
Restricted	40,989	44,213	-	-	40,989	44,213
Unrestricted	87,803	96,276	13,639	11,435	101,442	107,711
Total net assets	<u>\$ 2,179,717</u>	<u>\$ 2,202,125</u>	<u>\$120,953</u>	<u>\$ 119,945</u>	<u>\$ 2,300,670</u>	<u>\$ 2,322,070</u>

Invested in Capital Assets – By far the largest component of net assets, \$2.170 billion (93.4%), reflects the City’s investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and any related outstanding debt used to acquire those assets. The City’s capital assets do not represent a financial resource and consequently are not readily available for funding current obligations.

Restricted Assets – An additional portion of the City’s net assets, \$44.2 million (1.9%), represents resources that are subject to external restrictions on how they may be used.

Unrestricted Assets – The remaining balance of unrestricted net assets, \$107.7 million (4.6%), may be used to meet the City’s ongoing obligations to citizens and creditors.

- Overall, the City’s net assets increased \$21.4 million in the current fiscal year. The increase is partially attributable to the donations associated with the construction of the new OASIS Senior Center, property owner contributions associated with the new assessment districts, two parcels of land contributed by a developer as a condition of development in the Fashion Island area of the City (North Newport Center Development Agreement) and smaller capital projects. Other key financial activity for the year ended June 30, 2009, is shown in Table 2.

Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 40,122	\$ 36,739	\$ 20,823	\$ 20,446	\$ 60,945	\$ 57,185
Operating grants and capital contributions	15,779	13,404	-	-	15,779	13,404
Capital grants and contributions	31,038	24,634	-	-	31,038	24,634
General Revenues:						
Taxes:						
Property taxes	67,389	70,127	-	-	67,389	70,127
Sales tax	21,855	17,926	-	-	21,855	17,926
Sales tax in-lieu	8,018	7,503	-	-	8,018	7,503
Transient occupancy taxes	12,751	11,171	-	-	12,751	11,171
Other taxes	8,277	8,465	-	-	8,277	8,465
Intergovernmental (Unrestricted):						
Motor Vehicle License Tax	373	356	-	-	373	356
Investment related income	4,164	2,862	662	511	4,826	3,373
Miscellaneous	1,859	1,863	-	-	1,859	1,863
Total revenues	211,625	195,050	21,485	20,957	233,110	216,007
Expenses:						
General government	15,557	16,431	-	-	15,557	16,431
Public safety	75,821	79,301	-	-	75,821	79,301
Public works	42,631	45,600	-	-	42,631	45,600
Community development	10,053	10,284	-	-	10,053	10,284
Community services	19,147	20,589	-	-	19,147	20,589
Interest	532	437	-	-	532	437
Water	-	-	20,148	18,211	20,148	18,211
Wastewater	-	-	3,423	3,753	3,423	3,753
Total expenses	163,741	172,642	23,571	21,964	187,312	194,606
Increases in net assets	47,884	22,408	(2,086)	(1,007)	45,798	21,401
Net asset at beginning of year	2,131,833	2,179,717	123,039	120,953	2,254,872	2,300,670
Net assets at end of year	\$2,179,717	\$ 2,202,125	\$120,953	\$ 119,946	\$2,300,670	\$2,322,071

Governmental Activities – The cost of all governmental activities in the current fiscal year was \$172.6 million. As shown in the statement of activities, \$36.7 million of the cost was paid by those who directly benefited from the programs, \$38 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$97.9 million was subsidized through general City revenues.

Net assets for governmental activities of the City at the beginning of the year were \$2.18 billion, and increased by \$22.4 million by the end of the year. The increase is partially attributable to the donations associated with the construction of the new OASIS Senior Center, property owner contributions associated with the new assessment districts, two parcels of land contributed by a developer and smaller capital projects.

The City is a full service city providing residents and visitors with the following functional services:

General Government is comprised of six departments (City Council, City Clerk, City Manager, City Attorney, Human Resources, and Administrative Services) providing general governance, executive management, legal services, records management, risk management, finance, accounting, and information technology services.

Public Safety is comprised of two departments (Police and Fire) providing general law enforcement, fire suppression and prevention services, paramedic and medical transport services, disaster preparedness, and ocean lifeguard services.

Public Works is comprised of two departments (Public Works and General Services) providing engineering, construction and maintenance of public streets, highways, buildings, beaches, parks, and related infrastructure; as well as traffic engineering, street lighting, and trash disposal services.

Community Development is comprised of two departments (Planning and Building) that provide planning and zoning services, economic development services, and building plan check and code enforcement services.

Community Services is comprised of two departments (Library Services and Recreation & Senior Services) providing library services, cultural and arts programs, recreation services, and senior social and transportation services.

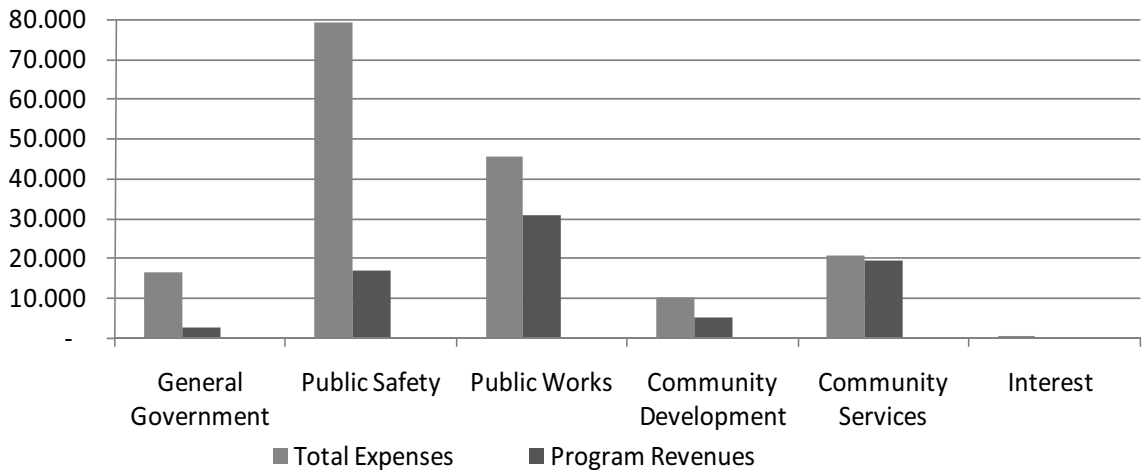
Business Enterprise Operations are overseen by one department (Utilities) providing water and wastewater services.

Each program's net cost (total cost less revenues generated by the activities) is presented in Tables 3 and 4. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**Table 3
Governmental Activities
(in thousands)**

	2008		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General government	\$ 15,557	\$ (12,376)	\$ 16,431	\$ (13,773)
Public safety	75,821	(57,155)	79,301	(62,513)
Public works	42,631	2,519	45,600	(14,666)
Community development	10,053	(4,456)	10,284	(5,431)
Community services	19,147	(4,801)	20,589	(1,045)
Interest	532	(533)	437	(437)
	<u>\$ 163,741</u>	<u>\$ (76,802)</u>	<u>\$ 172,642</u>	<u>\$ (97,865)</u>

**Table 4
Program Expenses and Revenue - Governmental Activities
Year Ended June 30, 2009
(in millions)**

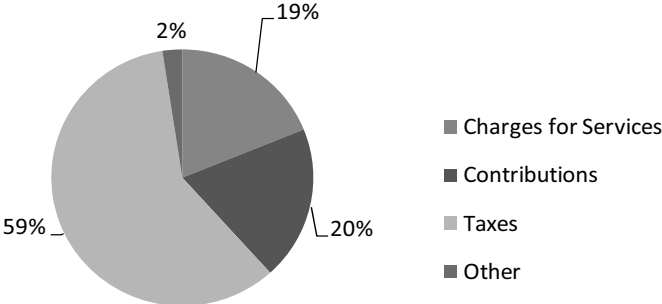


Of the \$97.9 million in program revenues that financed the governmental activities, \$62.5 million was utilized for public safety, \$13.8 million was utilized for general government, \$14.7 million was utilized for public works, \$5.4 million was utilized for community development, \$1.0 million was utilized for community services and \$437,207 was utilized for interest on long-term debt. The net cost of funding Public Works

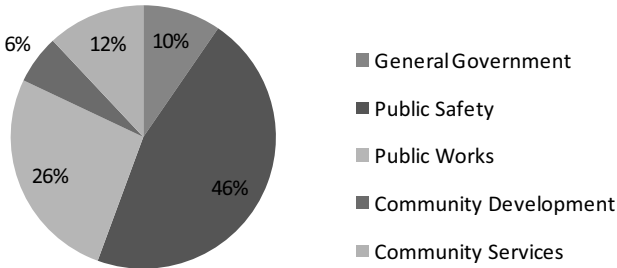
activities increased dramatically over 2008 due to a decrease of \$14.2 million (35.7%) in operating and capital contributions and an increase of \$3.0 million in expenses in various capital projects. Interest costs only represent 1/4 of 1% of total governmental activities.

**Table 5
Governmental Activities
Year Ended June 30, 2009**

Sources of Revenue



Functional Expenses



Major Governmental Activities in the current fiscal year included the following:

Revenues:

- Excluding transfers, total program and general revenues in the current year amounted to \$195 million. Of this amount, 38.3% represents program generated revenue (18.8% charges for services and 19.5% capital grants and contributions), while the remaining 61.7% represents general revenue sources (59.3% taxes and 2.4% from other sources).
- The City reported capital contributions of \$15.6 million in public works program revenues and \$9.1 million in community services program revenues for a total of \$24.6 million in capital contributions. The majority of these contributions are related to the donations associated with the construction of the new OASIS Senior Center, property owner contributions associated with the new assessment districts and the capital contributions of the two parcels of land noted above.
- The \$4.4 million decrease in General Revenues over the prior year is a combination of a few key factors:
 - In spite of the poor economy, the City, unlike most other cities, has enjoyed long-term stability in its number one revenue source at \$70.1 million, due to a constant demand for coastal property. Over the past ten years, assessed values have increased an average of 9.48% per year. Assessed property values increased only 5.91% in the current year versus 8.7% in the prior year. Property tax collections, in total, including unsecured property and prior year collections, increased \$2.7 million or 4.1% in the current year.
 - At nearly \$17.9 million and \$11.2 million respectively, sales taxes and transient occupancy taxes represent the number two and three top individual revenue sources for the City. Due to the depressed economic activity, sales taxes decreased \$3.9 million, or 17.9% from the prior year while transient occupancy taxes decreased \$1.6 million or 12.4% from the prior year.
 - Investment income decreased \$1.3 million or 31.3% over the prior year due to lower interest rates offset by an increase in fair value of investments in the current year. An increase in the fair value of investments usually occurs in a falling interest rate environment when the stated rate of return exceeds the current market rate.

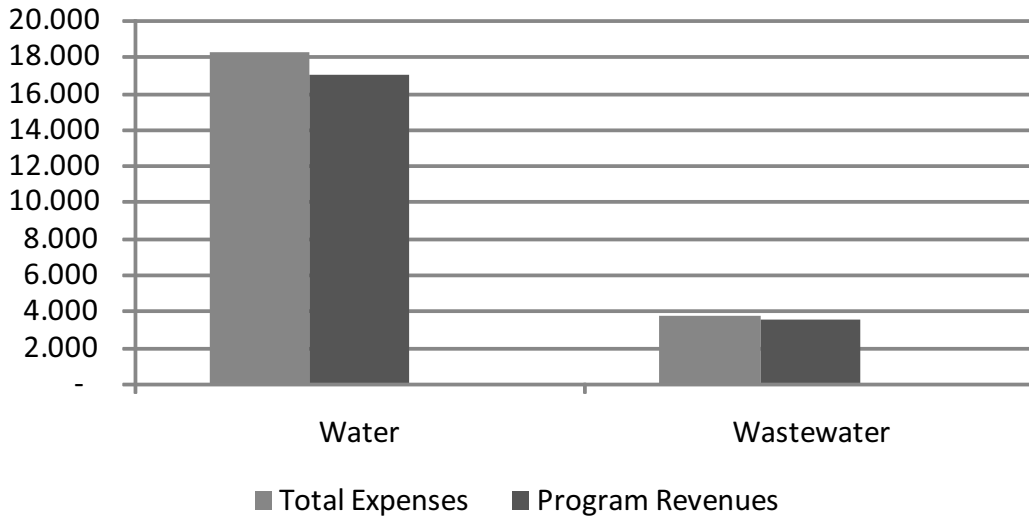
Expenses:

- In the current year, expenses for all governmental activities totaled \$172.6 million. Overall, an increase of \$8.9 million (5.4%) from the prior year, which can be attributed to the following factors:

- General Government expenses increased \$0.9 million (5.6%) when compared to the prior year due to anticipated costs related to reorganization and restructuring of a couple of divisions and the first time charge of annual OPEB cost to each department.
- Public Safety expenses are up \$3.5 million (4.6%) in the current year. The increase is due an increase in PERS rate, cost of living adjustments and the first time charge of annual OPEB cost to each department.
- Public Works expenses were up \$3.0 million (6.7%) when compared to prior year due to an increase in repair and maintenance of City Streets, infrastructure and facilities and the first time charge of annual OPEB cost to each department.
- Community Development expenses increased \$0.2 million (2.3%) in the current year, due to the first time charge of annual OPEB cost to each department.
- Community Service expenditures were up \$1.4 million (7.5%) due to a full year's operating costs associated with the Central Library which opened the prior year, small staffing changes and an increase in operating costs related to fee based classes due to an increase in registration for Summer Camps, as well as the first time charge of annual OPEB cost to each department.

Business-type Activities – Business-type activities are financed primarily by fees charged to external parties for goods and services. The City's two business-type activities, water and wastewater utilities, produced a \$1.0 million decrease in net assets. The decrease in net assets was comprised of an operating loss of \$1.2 million, non-operating revenues of \$346,807, and an off-setting (\$114,391) consolidation adjustment related to internal service fund activities.

Table 6
Program Expense & Revenue - Business-type Activities
Year Ended June 30, 2009
(in millions)



Major Business-type Activities in the current fiscal year included the following:

Water

Of the \$18.2 million in water related expenses, \$7.5 million (41.2%) is for the purchase of water, \$4.0 million (22.0%) is for maintenance, supplies, and depreciation of the water system, \$4.2 million (23.1%) covers employee related costs, \$1.7 million (9.3%) is for professional services, and the remaining \$0.8 million (4.4%) is collectively attributable to other miscellaneous expenses, interest on outstanding debt, and loss on removal of capital assets.

Wastewater

Of the \$3.8 million in wastewater related expenses, \$1.5 million (39.5%) is for maintenance, supplies, and depreciation of the wastewater system, \$1.5 million (40.4%) is for employee related costs, and the remaining \$755,518 (20.1%) is attributable to other individually insignificant expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to highlight available financial resources and to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Utilizing the financial resources measurement focus, the City's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund Balance – As of the end of the current fiscal year, the City's Governmental Funds reported combined fund balances of \$121 million, an increase of \$4.1 million from the prior year. The General Fund represented \$79.6 million or 65.7% of the combined fund balances of the Governmental Funds.

Reserved Fund Balance – The City has \$14.7 million in fund balance that is reserved to indicate it is not available to finance new activities because it has already been committed: 1) to fulfill contractual obligations and purchase orders (\$7.0 million), 2) for permanent endowment (\$4.6 million), 3) as a reserve for affordable housing (\$1.7 million), and 4) for a variety of other restrictions that make these resources unavailable for spending (\$1.4 million).

Unreserved Fund Balance – The remaining \$106.4 million is classified as unreserved fund balance, which is available for spending at the City Council's discretion but may be designated for special purposes. Of the \$106.4 million unreserved fund balance, City Council has designated \$18.6 million for contingencies, \$13.1 million for unspecified future appropriations, \$4.7 million for capital projects that were not completed during the fiscal year, and \$39.6 million designated for other special purposes including \$25 million for facilities identified for replacement in the City's facilities replacement plan. The remaining \$30.4 million is made up of smaller amounts designated across various funds.

Major activities in the Governmental Funds in the current fiscal year included the following:

- The General Fund ended the year with a \$79.6 million fund balance, a net increase of \$0.6 million after transferring \$22.2 million to other funds (\$20.3 million represented a routine transfer to subsidize the operations of the Tide and Submerged Land Fund, \$0.5 million transfer to the Contributions Fund and, \$1.4 million represented various nonrecurring transfers to other funds). The net increase in fund balance of \$0.6 million was substantially lower than last year's net change in fund balance of \$9.1 million do to the poor economy resulting in \$18.6 million reduced revenues. This was attributed to a significant drop of \$4.4 million in sales tax and sales tax in-lieu, \$1.6 million in Transient Occupancy Tax

and \$1.3 million in investment income and increase in fair value of investments. The decrease in above revenues did not result in a larger decrease in fund balance due healthy property taxes, a one- time developer contribution of \$1.5 million (Hoag) and management action to impose budget reductions and improve fiscal discipline.

- The activities of the Tide and Submerged Land Fund are routinely subsidized by the General Fund. At year end, the General Fund transferred sufficient resources (\$20.3 million) to cover the Tide and Submerged Land Fund's deficit and other outstanding commitments and designations of fund balance. The Tide and Submerged Land Fund ended the current year with \$0.6 million in fund balance.
- The Contributions Fund reported revenues of \$1.4 million and expenditures of approximately \$1.0 million related to a variety of grants and cooperative agreements associated with water quality projects, street projects and park improvement projects.

Proprietary Funds – The City's Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

Major activities in the Enterprise Funds in the current fiscal year included the following:

- Net assets in the Water Fund decreased \$0.8 million largely due to increase in cost of supplies. Net assets in Wastewater Fund decreased by \$114,427. Unrestricted net assets at year end were \$7.9 million for the Water Fund, and \$3.6 million in the Wastewater Fund.
- Other factors concerning the finances of these two funds have already been addressed above in the discussion of the City's business-type activities.

Major activities in the Internal Service Funds in the current fiscal year included the following:

- Net assets in the Internal Service Funds increased \$1.3 million in the current year. The increase was primarily due to lower than expected operating costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to Original Budget

Final budgeted revenues for the General Fund decreased \$0.4 million from the original budget during the year ended June 30, 2009. Significant factors contributing to this fluctuation are highlighted as follows:

- Final budgeted intergovernmental revenues increased \$0.6 million from the original budget and \$0.4 million in unexpected other revenues due to unexpected timing differences associated with the collection of these revenue source, combined with a \$1.3 million lower than anticipated license and permits revenue source due to the distressed economic activity.

Final budgeted expenditures for the General Fund decreased \$26.9 million from the original budget during the year ended June 30, 2009. Significant factors contributing to this fluctuation are highlighted as follows:

- Budgeted expenditures for general government increased \$0.5 million due to amendments for additional expenditures related to re-organization in the City Attorney's Office.
- Public safety and public works functions were decreased by \$18.3 million and \$3.0 million respectively. This budget reduction was primarily due to a routine allocation of expenditures from General Fund cost centers to the Tidelands Fund for police, fire and beach maintenance services utilized in support of tidelands operations.
- Final budgeted capital outlays from the General Fund decreased \$6.1 million from the original budget during the year ended June 30, 2009, primarily due to budgetary reductions to reflect project timing differences which are re-budgeted in the following fiscal year for 1) Prop 50 Buck Gully Stabilization, 2) River Avenue Pedestrian Coastal Access Improvements, 3) Back Bay View Park Enhancement 4) Semeniuk Slough Dredging Project, 5) Police Facilities Generator Replacement, as well as 6) various smaller budgetary decreases..
- During the current year, final transfers out budgeted for the General Fund varied from the original budget by approximately \$18.6 million primarily due to the expenditure allocation to the Tidelands Fund.

Variance with Final Budget

Actual revenues were \$6.5 million below final budgeted revenues for the year ended June 30, 2009 due to the poor economic climate. Significant factors contributing to this unfavorable variance are summarized as follows:

- A \$1.3 million favorable variance was realized due to higher than expected property taxes revenues.
- Lower than expected sales tax and sales in-lieu due to the lower economy approximated \$5.5 million.
- Transient Occupancy tax revenues were lower than expected at \$1.8 million.
- A \$0.5 million favorable variance was realized due to an increase in the fair value of investments measured at end of year.
- Licenses and permits and charges for services were lower than expected at a little over \$1.0 million.

Actual General Fund expenditures of \$128 million were significantly less than final budgetary estimates of \$135.5 million. Significant factors contributing to this \$7.4 million favorable variances are summarized as follows:

- A \$2.2 million favorable variance was realized from capital improvement projects that were deferred to next year.
- A total of \$5.2 million in favorable variances was realized in Public Safety, Public Works, Community Development, Community Services and General Government due to managerial action to reduce operating expenditures, increased fiscal discipline, personal turnover and temporary vacancies.

In spite of the \$6.5 million lower than expected revenues, conservative budgeting, managerial action, increased fiscal discipline, timing of expenditures and other favorable variances contributed to the \$0.6 million net increase in General Fund, fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2009, amounts to \$2.193 billion (net of accumulated depreciation). This investment is comprised of a broad range of capital assets including land, buildings, machinery and equipment, park facilities, road improvements, storm drains, piers, oil wells, sound walls and bridges. The total net increase (including additions and deletions) of \$13.6 million represents a 0.6% increase over last year. The \$13.6 million net increase is the result of additions of \$17.2 million, and deletions of \$3.6 million.

Table 7
Capital Assets at Year End
(net of depreciation, in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Land	\$ 1,807,381	\$ 1,815,781	\$ 2,016	\$ 2,016	\$ 1,809,397	\$ 1,817,797
Structures	54,641	54,515	94	89	54,735	54,604
Equipment	8,964	8,365	28	107	8,992	8,472
Infrastructure	194,541	192,966	106,503	105,515	301,044	298,481
Work in progress	5,307	13,167	313	915	5,620	14,082
Totals	\$ 2,070,834	\$ 2,084,794	\$ 108,954	\$ 108,642	\$ 2,179,788	\$ 2,193,436

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

- The City capitalized \$17.2 million in capital assets in the current year. Of the \$17.2 million, \$8.4 million was contributed by a private developer, \$7.3 million paid for through current year expenses and the remaining \$1.5 million represents additions from work in progress started in previous years.
- Of the \$17.2 million capitalized as governmental assets in the current year, \$1.4 million represents additions from work in progress started in previous years.

Of the (\$136,438) capitalized in the current year as business-type assets, \$1.2 million represented additions for infrastructure consisting of major repairs and upgrades to the water mains and water wells.

Additional information on the City's capital assets can be found in Note (5) of the Notes to the Financial Statements.

Long-term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$50.6 million for all governmental and business-type activities.

Table 8
Outstanding Debt at Year-End
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Certificates of participation	\$ 4,665	\$ 4,335	\$ -	\$ -	\$ 4,665	\$ 4,335
Note payable	1,298	1,120	-	-	1,298	1,120
Pre-annexation agreement	10,800	9,600	-	-	10,800	9,600
CDBG Loan	2,056	1,972	-	-	2,056	1,972
Purchase Installment Agreement	1,500	-	-	-	1,500	-
Revenue bonds	-	-	3,095	1,585	3,095	1,585
Claims and judgments	5,614	5,898	-	-	5,614	5,898
Workers' compensation payable	11,334	11,893	-	-	11,334	11,893
Compensated absences	9,113	9,784	-	-	9,113	9,784
Net OPEB Obligation	2,221	4,408	-	-	2,221	4,408
Totals	<u>\$ 48,601</u>	<u>\$ 49,010</u>	<u>\$ 3,095</u>	<u>\$ 1,585</u>	<u>\$ 51,696</u>	<u>\$ 50,595</u>

The City's total debt decreased \$1.1 million during the current fiscal year. The cumulative decrease is the net result of regular debt service payments, offsetting increases in claims and judgments payable of \$3.7 million, compensated absences payable of \$2.8 million, and \$5.4 million in net OPEB obligation. The net OPEB obligation of \$4.4 million resulted in the City's election not to fully fund the implicit subsidy associated with GASB 45 and the City's post employment Retiree Medical plan. Additional information on the City's long-term debt and OPEB Obligation can be found in Note (6) and Note (11) of the Notes to the Financial Statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

- Each January, the City Council establishes priorities for the coming year(s). The financial implications of these priorities are considered when the budget is developed. The 2009 priorities include an aggressive array of goals including minimizing the adverse impacts of John Wayne airport, improving organizational performance, maintaining a balanced budget, reviewing facility replacements needs, enforcing group homes regulations, the alignment of City regulations to the City's General Plan, the implementation of an effective traffic management plan, the schematic design of a new civic center, the development of additional park improvements, the implementation of various water quality projects and the development of a lower bay dredging strategy.
- After the date of this report's balance sheet but prior to the issuance of this report, it became clear that deteriorating revenues would present budget shortfalls in 2009-10. Management expects that the growth of property tax revenues will continue to decline in 2009-10 and 2010-11. Management also expects that Sales taxes and

transient occupancy tax revenues will continue to decline in 2009-10 before modestly rebounding in 2010-11. Management has also been advised by CalPERS that pension costs are likely to increase substantially by 2011-12 due to recent losses in the equities markets.

- As the depth of the recession began to unfold, management acted to reduce operating budgets across the board in 2008-09 and again in 2009-10. In reaction to the mounting adverse budget factors mentioned above, management initiated an Early Retirement Incentive Plan (ERIP) with intent to further trim the City's overall cost structure. A total of 51 people participated in the plan and this action is expected to save nearly \$3.1 million annually. Additionally, the City has initiated a second phase restructuring effort to affect additional long-term cost savings and improved efficiencies.
- With the adoption of the 2008 cost study and Fee Schedule, Council directed staff to implement a 3-year phasing to full cost recovery for several services with fees that exceeded \$100 and the increase resulting from the fee study that increased the charge by 100% or more. The second of the three phases was approved by Council on September 8, 2009. Although the third and final phasing of fees was scheduled for June of 2010, the City's recent budget challenges precipitated the need to implement the final phasing ahead of schedule. The final phasing for the fee based services to full cost recovery was implemented on December 8, 2009. .

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrative Services Department, 3300 Newport Boulevard, Newport Beach, CA 92663-3884, (949) 644-3126. The City's Budgets, Comprehensive Annual Financial Reports as well as other City financial information can be found on the City's website at: www.NewportBeachCA.gov/financialinfo.

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FINANCIAL SECTION

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

FINANCIAL SECTION

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CITY OF NEWPORT BEACH
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments (note 4)	\$ 158,886,013	\$ 9,232,552	\$ 168,118,565
Receivables:			
Accounts	8,539,107	4,585,201	13,124,308
Interest	1,457,076	-	1,457,076
Intergovernmental receivables	6,929,611	-	6,929,611
Cash with fiscal agent (note 4)	3,141,141	1,453,268	4,594,409
Internal balances	61,331	(61,331)	-
Investment in joint venture (note 15)	2,684,052	-	2,684,052
Prepaid items	756,887	25,000	781,887
Inventory	479,429	-	479,429
Capital assets, (note 5):			
Non-depreciable	1,828,948,445	2,931,603	1,831,880,048
Depreciable	402,845,037	156,499,811	559,344,848
Accumulated depreciation	(146,999,476)	(50,789,321)	(197,788,797)
 Total assets	 2,267,728,653	 123,876,783	 2,391,605,436
Liabilities:			
Accounts payable	6,550,159	2,085,543	8,635,702
Accrued salaries and benefits	4,164,978	159,517	4,324,495
Accrued interest payable	110,599	65,393	175,992
Deposits payable	3,150,496	35,663	3,186,159
Unearned revenue	2,618,216	-	2,618,216
Noncurrent liabilities (note 6):			
Due within one year	9,179,844	1,585,000	10,764,844
Due in more than one year	39,829,591	-	39,829,591
 Total liabilities	 65,603,883	 3,931,116	 69,534,999
Net Assets:			
Invested in capital assets, net of related debt	2,061,635,642	108,510,361	2,170,146,003
Restricted for:			
Community development	6,630,169	-	6,630,169
Public safety	425,558	-	425,558
Public works	24,887,385	-	24,887,385
Community services	5,904,067	-	5,904,067
Debt Service	565,778	-	565,778
Permanent Funds:			
Nonexpendable	4,629,781	-	4,629,781
Expendable	1,170,009	-	1,170,009
Unrestricted	96,276,381	11,435,306	107,711,687
 Total net assets	 \$ 2,202,124,770	 \$ 119,945,667	 \$ 2,322,070,437

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Statement of Activities
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 16,430,529	\$ 2,543,880	\$ 113,453	\$ -	\$ 2,657,333
Public safety	79,301,600	14,757,266	2,031,427	-	16,788,693
Public works	45,600,429	5,532,871	9,841,795	15,559,572	30,934,238
Community development	10,283,528	4,852,534	-	-	4,852,534
Community services	20,589,094	9,052,330	1,417,611	9,074,144	19,544,085
Interest on long-term debt	437,207	-	-	-	-
Total governmental activities	172,642,387	36,738,881	13,404,286	24,633,716	74,776,883
Business-type activities:					
Water	18,210,789	16,966,621	-	-	16,966,621
Wastewater	3,753,042	3,479,565	-	-	3,479,565
Total business-type activities	21,963,831	20,446,186	-	-	20,446,186
Total primary government	\$ 194,606,218	\$ 57,185,067	\$ 13,404,286	\$ 24,633,716	\$ 95,223,069

General revenues:

Taxes:

- Property tax
- Sales tax
- Sales tax in-lieu
- Transient occupancy tax
- Business license tax
- Franchise tax
- Other taxes

Intergovernmental (Unrestricted):

- Motor vehicle license tax
- Investment income
- Net increase in fair value of investments
- Other

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets
Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (13,773,196)	\$ -	\$ (13,773,196)
(62,512,907)	-	(62,512,907)
(14,666,191)	-	(14,666,191)
(5,430,994)	-	(5,430,994)
(1,045,009)	-	(1,045,009)
(437,207)	-	(437,207)
<u>(97,865,504)</u>	<u>-</u>	<u>(97,865,504)</u>
-	(1,244,168)	(1,244,168)
-	(273,477)	(273,477)
-	(1,517,645)	(1,517,645)
<u>\$ (97,865,504)</u>	<u>\$ (1,517,645)</u>	<u>\$ (99,383,149)</u>
70,126,680	-	70,126,680
17,925,956	-	17,925,956
7,503,113	-	7,503,113
11,170,956	-	11,170,956
4,273,642	-	4,273,642
3,961,634	-	3,961,634
230,115	-	230,115
356,237	-	356,237
1,764,827	374,893	2,139,720
1,096,848	135,789	1,232,637
1,862,977	-	1,862,977
120,272,985	510,682	120,783,667
22,407,481	(1,006,963)	21,400,518
<u>2,179,717,289</u>	<u>120,952,630</u>	<u>2,300,669,919</u>
<u>\$ 2,202,124,770</u>	<u>\$ 119,945,667</u>	<u>\$ 2,322,070,437</u>

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS
GOVERNMENTAL FUNDS

FINANCIAL SECTION

GOVERNMENTAL FUNDS

Major Funds

The **General Fund** is used to account for fiscal resources which are dedicated to governmental operations of the City, and not required to be accounted for in another fund.

The **Tide and Submerged Land Fund** is a Special Revenue Fund used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

The **Contributions Fund** is used to account for revenues received from other government agencies or private developers and expended for specific streets, highway, construction, or water quality projects.

Non-major Funds

Non-major governmental funds are those governmental funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.

CITY OF NEWPORT BEACH
Governmental Funds
Balance Sheet
June 30, 2009

Assets	General	Tide and Submerged Land	Contributions	Other Governmental Funds	Totals
Cash and investments	\$ 76,435,099	\$ 772,983	\$ 2,791,078	\$ 39,400,427	\$ 119,399,587
Receivables:					
Accounts	5,138,168	885,493	1,089,597	535,802	7,649,060
Interest	1,457,076	-	-	-	1,457,076
Intergovernmental receivables	4,798,249	-	1,545,308	586,054	6,929,611
Cash with fiscal agent	-	-	-	3,141,141	3,141,141
Due from other funds (note12)	3,686,684	-	-	-	3,686,684
Prepaid items	526,444	-	-	68,864	595,308
Inventory	219,698	-	-	-	219,698
Total assets	<u>\$ 92,261,418</u>	<u>\$ 1,658,476</u>	<u>\$ 5,425,983</u>	<u>\$ 43,732,288</u>	<u>\$ 143,078,165</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 3,478,489	\$ 822,219	\$ 164,914	\$ 1,485,755	\$ 5,951,377
Accrued payroll	4,083,477	38,125	-	-	4,121,602
Deposits payable	2,992,328	158,168	-	-	3,150,496
Unearned revenue	1,907,895	-	490,790	219,531	2,618,216
Unavailable revenue	188,265	-	2,151,546	539,323	2,879,134
Due to other funds (note 12)	-	-	-	3,224,497	3,224,497
Total liabilities	<u>12,650,454</u>	<u>1,018,512</u>	<u>2,807,250</u>	<u>5,469,106</u>	<u>21,945,322</u>
Fund balances:					
Reserved for encumbrances	3,474,339	351,012	641,469	2,505,461	6,972,281
Reserved for debt service	-	-	-	565,778	565,778
Reserved for permanent endowment	-	-	-	4,629,781	4,629,781
Reserved for affordable housing	1,686,724	-	-	-	1,686,724
Reserved for prepaid items	526,444	-	-	137,728	664,172
Reserved for inventories	219,698	-	-	-	219,698
Reserved for long-term receivable	-	-	-	-	-
Unreserved:					
Designated for special purposes	37,329,671	288,952	1,977,264	-	39,595,887
Designated, reported in:					
Special revenue funds	-	-	-	21,625,824	21,625,824
Capital projects funds	-	-	-	11,393,179	11,393,179
Permanent funds	-	-	-	1,170,009	1,170,009
Designated for contingencies	18,614,125	-	-	-	18,614,125
Designated for capital projects	4,661,307	-	-	-	4,661,307
Designated for appropriations	13,098,656	-	-	-	13,098,656
Undesignated, reported in:					
Special Revenue Funds	-	-	-	(42,849)	(42,849)
Capital projects funds	-	-	-	(3,721,729)	(3,721,729)
Total fund balances	<u>79,610,964</u>	<u>639,964</u>	<u>2,618,733</u>	<u>38,263,182</u>	<u>121,132,843</u>
Total liabilities and fund balances	<u>\$ 92,261,418</u>	<u>\$ 1,658,476</u>	<u>\$ 5,425,983</u>	<u>\$ 43,732,288</u>	<u>\$ 143,078,165</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2009

Fund balances of governmental funds	\$	121,132,843
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation have not been included as financial resources in governmental fund activity. Amount excludes capital assets from internal service funds which are added below.		2,077,985,878
Long term debt that have not been reported in the governmental fund activity. Amounts exclude long-term debt activity from internal service funds which have been added below:		
Certificates of participation payable		(4,335,000)
Note payable		(1,119,613)
Pre-annexation agreement		(9,600,000)
CDBG loan		(1,972,000)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.		(110,599)
Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.		2,879,134
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The assets (including capital assets) and liabilities of the internal service funds must be added to the statement of net assets.		14,518,744
Investment in joint ventures is not a current financial resource and therefore not reported in the governmental funds.		2,684,052
Internal balance created by the consolidation of internal service fund activities related to enterprise funds is not reported in the governmental funds.		<u>61,331</u>
Net assets of governmental activities	\$	<u><u>2,202,124,770</u></u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2009

	General	Tide and Submerged Land	Contributions	Other Governmental Funds	Totals
Revenues					
Taxes and assessments:					
Property tax	\$ 70,126,680	\$ -	\$ -	\$ -	\$ 70,126,680
Sales tax	17,925,956	-	-	-	17,925,956
Sales tax in-lieu	7,503,113	-	-	-	7,503,113
Transient occupancy tax	11,170,956	-	-	-	11,170,956
Other taxes	8,486,937	-	-	497,932	8,984,869
Intergovernmental	2,597,108	28,084	1,165,289	7,644,404	11,434,885
Licenses and permits	4,396,034	1,311,650	-	175,831	5,883,515
Charges for services	14,374,139	123,981	-	-	14,498,120
Fines and forfeitures	3,711,087	1,704	-	859,820	4,572,611
Investment income	1,697,103	174,585	134,463	1,239,526	3,245,677
Net increase in fair value of investments	1,096,848	-	50,543	324,944	1,472,335
Property income	6,552,603	7,479,739	-	-	14,032,342
Donations	261,357	-	83,882	6,414,901	6,760,140
Other	234,573	280	-	8,266,161	8,501,014
Total revenues	150,134,494	9,120,023	1,434,177	25,423,519	186,112,213
Expenditures					
Current:					
General government	15,478,258	89,396	-	-	15,567,654
Public safety	57,285,811	20,989,574	-	278,959	78,554,344
Public works	26,220,846	3,989,965	-	408,594	30,619,405
Community development	8,302,214	396,565	-	1,272,757	9,971,536
Community services	13,281,963	1,921,292	-	2,282,350	17,485,605
Capital outlay	5,910,047	2,845,548	1,016,199	16,230,545	26,002,339
Debt service (note 6):					
Principal	1,500,000	178,641	-	1,614,000	3,292,641
Interest and fiscal charges	71,250	58,421	-	353,237	482,908
Total expenditures	128,050,389	30,469,402	1,016,199	22,440,442	181,976,432
Excess (deficiency) of revenues over expenditures	22,084,105	(21,349,379)	417,978	2,983,077	4,135,781
Other financing sources (uses)					
Transfers in (note 13)	690,013	20,314,554	550,000	1,799,799	23,354,366
Transfers out (note 13)	(22,222,293)	-	-	(1,132,073)	(23,354,366)
Total other financing sources (uses)	(21,532,280)	20,314,554	550,000	667,726	-
Net change in fund balances	551,825	(1,034,825)	967,978	3,650,803	4,135,781
Fund balances, beginning	79,059,139	1,674,789	1,650,755	34,612,379	116,997,062
Fund balances, ending	\$ 79,610,964	\$ 639,964	\$ 2,618,733	\$ 38,263,182	\$ 121,132,843

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2009

Net change in fund balances - total governmental funds	\$	4,135,781
<p>Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the statement of activities because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		14,776,239
<p>Payment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		3,292,641
<p>Accrued Interest for debt service. This is the net change in accrued interest for the current period.</p>		45,701
<p>Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds. This is the net change in unearned revenue for the current period.</p>		(1,316,358)
<p>Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported in the statement of activities.</p>		1,270,633
<p>Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.</p>		88,453
<p>Internal balance created by the consolidation of internal service funds activities related to enterprise funds is reflected as a reduction of revenues in the statement of activities.</p>		<u>114,391</u>
Change in net assets of governmental activities	\$	<u><u>22,407,481</u></u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
Revenues				
Taxes and assessments:				
Property	\$ 68,834,854	\$ 68,834,854	\$ 70,126,680	\$ 1,291,826
Sales	22,635,634	22,635,634	17,925,956	(4,709,678)
Sales tax in-lieu	8,258,065	8,258,065	7,503,113	(754,952)
Transient occupancy	13,014,079	13,014,079	11,170,956	(1,843,123)
Other taxes	8,018,514	8,018,514	8,486,937	468,423
Intergovernmental	2,407,991	2,987,018	2,597,108	(389,910)
Licenses and permits	5,968,653	4,654,553	4,396,034	(258,519)
Charges for services	15,280,400	15,159,700	14,374,139	(785,561)
Fines and forfeitures	3,560,256	3,559,756	3,711,087	151,331
Investment income	2,268,000	2,200,000	1,697,103	(502,897)
Net increase in fair value of investments	-	-	1,096,848	1,096,848
Property income	6,117,202	6,117,202	6,552,603	435,401
Donations	112,500	165,632	261,357	95,725
Other	564,715	1,009,135	234,573	(774,562)
	<u>157,040,863</u>	<u>156,614,142</u>	<u>150,134,494</u>	<u>(6,479,648)</u>
Total revenues				
Expenditures				
General government:				
City council	1,192,209	1,250,334	1,188,990	61,344
City clerk	514,666	501,794	469,507	32,287
City attorney	1,519,339	2,014,073	2,097,159	(83,086)
City manager	1,766,292	1,810,784	1,779,540	31,244
Administrative services	8,300,454	8,201,874	7,889,562	312,312
Human resources	2,117,864	2,135,600	2,053,500	82,100
Total General government	<u>15,410,824</u>	<u>15,914,459</u>	<u>15,478,258</u>	<u>436,201</u>
Public safety:				
Police	45,350,802	37,631,910	36,646,654	985,256
Fire	31,719,460	21,103,782	20,639,157	464,625
Total Public safety	<u>77,070,262</u>	<u>58,735,692</u>	<u>57,285,811</u>	<u>1,449,881</u>
Public works:				
General services	23,278,717	20,775,294	19,690,353	1,084,941
Public works	5,678,355	5,201,951	5,075,801	126,150
Utilities	1,449,748	1,455,830	1,454,692	1,138
Total Public works	<u>30,406,820</u>	<u>27,433,075</u>	<u>26,220,846</u>	<u>1,212,229</u>

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
(continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Community development:				
Planning	3,985,078	4,898,875	4,713,078	185,797
Building	4,828,319	4,028,264	3,324,759	703,505
Code and Water Quality Enforcement	819,233	427,107	264,377	162,730
Total Community development	<u>9,632,630</u>	<u>9,354,246</u>	<u>8,302,214</u>	<u>1,052,032</u>
Community services:				
Library Services	6,857,928	7,087,294	6,521,718	565,576
Recreation and senior services	7,169,052	7,238,170	6,760,245	477,925
Total Community services	<u>14,026,980</u>	<u>14,325,464</u>	<u>13,281,963</u>	<u>1,043,501</u>
Capital outlay	<u>14,270,981</u>	<u>8,123,225</u>	<u>5,910,047</u>	<u>2,213,178</u>
Debt service:				
Principal	1,500,000	1,500,000	1,500,000	-
Interest and Fiscal Charges	71,250	71,250	71,250	-
Total Debt Service	<u>1,571,250</u>	<u>1,571,250</u>	<u>1,571,250</u>	<u>-</u>
Total expenditures	<u>162,389,747</u>	<u>135,457,411</u>	<u>128,050,389</u>	<u>7,407,022</u>
Excess (deficiency) of revenues over expenditures	<u>(5,348,884)</u>	<u>21,156,731</u>	<u>22,084,105</u>	<u>927,374</u>
Other financing sources (uses)				
Transfers in	-	240,000	690,013	450,013
Transfers out	<u>(3,270,713)</u>	<u>(21,872,292)</u>	<u>(22,222,293)</u>	<u>(350,001)</u>
Total other financing sources (uses)	<u>(3,270,713)</u>	<u>(21,632,292)</u>	<u>(21,532,280)</u>	<u>100,012</u>
Net change in fund balance	(8,619,597)	(475,561)	551,825	1,027,386
Fund balance, beginning	<u>79,059,139</u>	<u>79,059,139</u>	<u>79,059,139</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 70,439,542</u></u>	<u><u>\$ 78,583,578</u></u>	<u><u>\$ 79,610,964</u></u>	<u><u>\$ 1,027,386</u></u>

CITY OF NEWPORT BEACH
Tide and Submerged Land
Budgetary Comparison Statement
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 28,084	\$ 28,084
Licenses and permits	1,314,100	1,314,100	1,311,650	(2,450)
Charges for services	120,700	120,700	123,981	3,281
Fines and forfeitures	500	500	1,704	1,204
Investment income	68,000	68,000	174,585	106,585
Property income	8,843,302	8,843,302	7,479,739	(1,363,563)
Other	-	-	280	280
Total revenues	10,346,602	10,346,602	9,120,023	(1,226,579)
Expenditures				
General government	-	89,396	89,396	-
Public safety	-	20,989,574	20,989,574	-
Public works	696,482	4,031,928	3,989,965	41,963
Community services	2,035,450	2,264,102	1,921,292	342,810
Community development	-	396,565	396,565	-
Capital outlay	3,077,800	3,546,522	2,845,548	700,974
Debt service:				
Principal	178,641	178,641	178,641	-
Interest and fiscal charges	58,421	58,421	58,421	-
Total expenditures	6,046,794	31,555,149	30,469,402	1,085,747
Excess (deficiency) of revenues over expenditures	4,299,808	(21,208,547)	(21,349,379)	(140,832)
Other financing sources (uses)				
Transfers in	-	20,314,554	20,314,554	-
Transfers out	(4,811,660)	-	-	-
Total other financing sources (uses)	(4,811,660)	20,314,554	20,314,554	-
Net change in fund balance	(511,852)	(893,993)	(1,034,825)	(140,832)
Fund balance, beginning	1,674,789	1,674,789	1,674,789	-
Fund balance, ending	<u>\$ 1,162,937</u>	<u>\$ 780,796</u>	<u>\$ 639,964</u>	<u>\$ (140,832)</u>

CITY OF NEWPORT BEACH
Contributions Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 718,800	\$ 1,358,893	\$ 1,165,289	\$ (193,604)
Investment income	100,000	100,000	134,463	34,463
Net increase in fair value of investments	-	-	50,543	50,543
Donations	-	229,925	83,882	(146,043)
Total revenues	<u>818,800</u>	<u>1,688,818</u>	<u>1,434,177</u>	<u>(254,641)</u>
Expenditures:				
Capital outlay	<u>5,783,841</u>	<u>1,751,966</u>	<u>1,016,199</u>	<u>735,767</u>
Excess (deficiency) of revenues over expenditures	(4,965,041)	(63,148)	417,978	481,126
Other financing sources (uses):				
Transfers in	-	-	550,000	550,000
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(4,965,041)	(63,148)	967,978	1,031,126
Fund balance, beginning	<u>1,650,755</u>	<u>1,650,755</u>	<u>1,650,755</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (3,314,286)</u>	<u>\$ 1,587,607</u>	<u>\$ 2,618,733</u>	<u>\$ 1,031,126</u>

FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS
PROPRIETARY FUNDS

FINANCIAL SECTION

PROPRIETARY FUNDS

Business-type Activities

The ***Water Fund*** is a Major Fund used to account for the operations of the City's water utility, a self-supporting activity which is entirely financed through user charges.

The ***Wastewater Fund*** is a Major Fund used to account for the operations of the City's wastewater system, a self-supporting activity which is entirely financed through user charges.

Governmental Activities

The ***Internal Service Funds*** are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Net Assets
June 30, 2009

	Enterprise Funds			Governmental Activities Internal Service Funds
	Water	Wastewater	Total Enterprise Funds	
Assets				
Current assets:				
Cash and investments	\$ 6,270,034	\$ 2,962,518	\$ 9,232,552	\$ 39,486,426
Receivables:				
Accounts	3,828,721	756,480	4,585,201	890,047
Inventories	-	-	-	259,731
Prepaid items	25,000	-	25,000	161,579
Total current assets	10,123,755	3,718,998	13,842,753	40,797,783
Non-current assets:				
Cash with fiscal agent	1,453,268	-	1,453,268	-
Capital assets (note 5):				
Land	2,016,450	-	2,016,450	-
Structures	205,793	-	205,793	-
Equipment	291,888	-	291,888	22,691,452
Infrastructure	113,407,961	42,594,169	156,002,130	-
Work in progress	856,774	58,379	915,153	-
Less accumulated depreciation	(37,707,738)	(13,081,583)	(50,789,321)	(15,883,324)
Total capital assets (net of accumulated depreciation)	79,071,128	29,570,965	108,642,093	6,808,128
Total noncurrent assets	80,524,396	29,570,965	110,095,361	6,808,128
Total assets	90,648,151	33,289,963	123,938,114	47,605,911
Liabilities				
Current liabilities:				
Accounts payable	1,993,217	92,326	2,085,543	598,782
Accrued payroll	114,625	44,892	159,517	43,376
Deposits payable	65,369	24	65,393	-
Accrued interest payable	35,663	-	35,663	-
Bonds payable (note 6)	1,585,000	-	1,585,000	-
Due to general fund	-	-	-	462,187
Workers' compensation - current	-	-	-	2,973,250
General liability - current	-	-	-	2,446,253
Compensated absences - current	-	-	-	1,939,662
Total current liabilities	3,793,874	137,242	3,931,116	8,463,510
Non-current liabilities (note 6):				
Workers' compensation	-	-	-	8,919,750
General liability	-	-	-	3,451,484
Compensated absences	-	-	-	7,844,423
Net OPEB obligation	-	-	-	4,408,000
Total noncurrent liabilities	-	-	-	24,623,657
Total liabilities	3,793,874	137,242	3,931,116	33,087,167
Net Assets				
Invested in capital assets, net of related debt	78,939,396	29,570,965	108,510,361	6,808,128
Unrestricted	7,914,881	3,581,756	11,496,637	7,710,616
Total Net Assets	\$ 86,854,277	\$ 33,152,721	120,006,998	\$ 14,518,744
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(61,331)	
Net assets of business-type activities			\$ 119,945,667	

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2009

	<u>Enterprise Funds</u>		<u>Total Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
	<u>Water</u>	<u>Wastewater</u>		
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 16,878,661	\$ -	\$ 16,878,661	\$ -
Sewer service and connection fees	-	3,471,388	3,471,388	-
Retiree Reimbursements	-	-	-	1,043,956
Employee Contributions	-	-	-	376,538
Other	87,960	8,177	96,137	18,063,845
Total operating revenues	<u>16,966,621</u>	<u>3,479,565</u>	<u>20,446,186</u>	<u>19,484,339</u>
Operating expenses:				
Purchase of water	7,512,251	-	7,512,251	-
Salaries and benefits	4,174,246	1,515,122	5,689,368	1,520,219
Depreciation	1,524,328	566,216	2,090,544	1,846,971
Professional services	1,707,249	357,418	2,064,667	51,067
Maintenance and supplies	946,137	521,593	1,467,730	615,644
System maintenance	1,517,701	394,593	1,912,294	-
Fleet parts and supplies	-	-	-	481,805
Workers' compensation	-	-	-	3,216,337
Claims and judgments	-	-	-	3,589,622
Compensated absences	-	-	-	2,158,082
OPEB ARC - Cash subsidy	-	-	-	2,720,000
OPEB ARC - Implied subsidy	-	-	-	2,703,000
Other	579,643	369,068	948,711	962,128
Total operating expenses	<u>17,961,555</u>	<u>3,724,010</u>	<u>21,685,565</u>	<u>19,864,875</u>
Operating income (loss)	<u>(994,934)</u>	<u>(244,445)</u>	<u>(1,239,379)</u>	<u>(380,536)</u>
Nonoperating revenues (expenses):				
Investment income	284,300	90,593	374,893	1,158,180
Net increase in fair value of investments	96,364	39,425	135,789	504,028
(Loss) on removal of capital assets	(87,308)	-	(87,308)	(11,039)
Interest expense	(71,325)	-	(71,325)	-
Other fiscal charges	(5,242)	-	(5,242)	-
Total nonoperating revenues	<u>216,789</u>	<u>130,018</u>	<u>346,807</u>	<u>1,651,169</u>
Change in net assets	(778,145)	(114,427)	(892,572)	1,270,633
Net assets, beginning of year	87,632,422	33,267,148		13,248,111
Net assets, end of year	<u>\$ 86,854,277</u>	<u>\$ 33,152,721</u>		<u>\$ 14,518,744</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(114,391)	
Change in net assets of business-type activities			<u>\$ (1,006,963)</u>	

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Cash Flows
For the Year ended June 30, 2009

	<u>Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total Enterprise Funds</u>	<u>Activities Internal Service Funds</u>
Cash flows from operating activities:				
Cash received from customers or user departments	\$ 16,720,552	\$ 3,439,020	\$ 20,159,572	\$ 18,680,521
Cash payments to employees for services	(4,159,992)	(1,505,555)	(5,665,547)	(5,656,950)
Cash payments to suppliers for goods and services	(12,545,229)	(1,276,990)	(13,822,219)	(7,591,634)
Cash received (payments made) for other operating activities	(491,683)	(360,891)	(852,574)	733,134
Net cash provided by operating activities	<u>(476,352)</u>	<u>295,584</u>	<u>(180,768)</u>	<u>6,165,071</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	-	-	-	(825,707)
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(825,707)</u>
Cash flows from capital related financing activities:				
Acquisition of capital assets	(1,807,268)	(58,379)	(1,865,647)	(1,140,877)
Proceeds from sale of capital assets	-	-	-	100,035
Principal payments on long-term liabilities	(1,510,000)	-	(1,510,000)	-
Interest paid on long-term liabilities	(71,325)	-	(71,325)	-
Other fiscal charges	(5,242)	-	(5,242)	-
Net cash (used) for capital related financing activities	<u>(3,393,835)</u>	<u>(58,379)</u>	<u>(3,452,214)</u>	<u>(1,040,842)</u>
Cash flows from investing activities:				
Interest on investments	380,664	130,018	510,682	1,662,208
Net cash provided by investing activities	<u>380,664</u>	<u>130,018</u>	<u>510,682</u>	<u>1,662,208</u>
Net increase (decrease) in cash and cash equivalents	(3,489,523)	367,223	(3,122,300)	5,960,730
Cash and cash equivalents, beginning	11,212,825	2,595,295	13,808,120	33,525,696
Cash and cash equivalents, ending	<u>\$ 7,723,302</u>	<u>\$ 2,962,518</u>	<u>\$ 10,685,820</u>	<u>\$ 39,486,426</u>
Reconciliation of cash equivalents to the statement of net assets				
Cash and investments reported on statement of net assets	\$ 6,270,034	\$ 2,962,518	\$ 9,232,552	39,486,426
Cash and investments with fiscal agent reported on statement of net assets	1,453,268	-	1,453,268	-
Cash and cash equivalents	<u>\$ 7,723,302</u>	<u>\$ 2,962,518</u>	<u>\$ 10,685,820</u>	<u>\$ 39,486,426</u>
Reconciliation of operating income to net cash used for operating activities:				
Operating income (loss)	\$ (994,934)	\$ (244,445)	\$ (1,239,379)	\$ (380,536)
Adjustments to reconcile operating income to net cash used for operating activities:				
Depreciation	1,524,328	566,216	2,090,544	1,846,971
(Increase) decrease in accounts receivable	(151,039)	(32,368)	(183,407)	790,933
Decrease in inventories	-	-	-	89,867
Decrease in prepaid items	-	-	-	5,553
Increase (decrease) in accounts payable and accrued payroll	(814,417)	6,181	(808,236)	111,081
(Decrease) in accrued interest payable	(33,220)	-	(33,220)	-
(Decrease) in deposits payable	(7,070)	-	(7,070)	-
Increase in workers' compensation	-	-	-	559,000
Increase in general liability	-	-	-	284,212
Increase in compensated absences	-	-	-	670,990
Increase in net OPEB obligation	-	-	-	2,187,000
Total adjustments	<u>518,582</u>	<u>540,029</u>	<u>1,058,611</u>	<u>6,545,607</u>
Net cash used for operating activities	<u>\$ (476,352)</u>	<u>\$ 295,584</u>	<u>\$ (180,768)</u>	<u>\$ 6,165,071</u>
Non-cash investing, capital and financing activities:				
Net increase in fair value of investments	\$ 96,364	\$ 39,425	\$ 135,789	\$ 507,028
(Loss) on disposal of capital assets	(87,308)	-	(87,308)	(11,039)
Total of non-cash activities	<u>\$ 9,056</u>	<u>\$ 39,425</u>	<u>\$ 48,481</u>	<u>\$ 495,989</u>

See accompanying notes to basic financial statements

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FINANCIAL SECTION

FUND
FINANCIAL STATEMENTS
FIDUCIARY FUNDS

FINANCIAL SECTION

FIDUCIARY FUNDS

Agency Funds, a type of Fiduciary Funds, are used to account for assets held by the City as an agent for other government entities, private organizations, or individuals.

CITY OF NEWPORT BEACH
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2009

Assets	Totals
Cash and investments (note 4)	\$ 3,873,419
Cash with fiscal agent (note 4)	4,101,765
Prepaid expenses	2,194
Intergovernmental receivable	80,000
Total assets	<u>\$ 8,057,378</u>
Liabilities	
Due to bondholders	\$ 6,759,807
Due to others	259,607
Due to ILJAO	1,037,964
Total liabilities	<u>\$ 8,057,378</u>

See accompanying notes to basic financial statements

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FINANCIAL SECTION

NOTES TO THE
FINANCIAL STATEMENTS

FINANCIAL SECTION

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CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

(1) **Summary of Significant Accounting Policies**

The basic financial statements of the City of Newport Beach (the "City") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applicable to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. **Reporting Entity**

The City of Newport Beach was incorporated on September 1, 1906. The current City Charter was adopted in 1954. The City operates under a Council-Manager form of government and provides the following services: public safety (police, fire, and marine), highway and streets, cultural and recreation, public improvements, planning and zoning, utilities, and general administrative services.

The financial statements present the financial activity of the City of Newport Beach (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. This entity is legally separate from the City. However, the City of Newport Beach's elected officials have continuing full or partial accountability for fiscal matters of the component unit. The financial reporting entity consists of: (1) the City, (2) organizations for which the City is financially accountable, and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City.

Blended Component Unit

The financial statements of the City of Newport Beach include the financial activities of the Newport Beach Public Facilities Corporation (the "Corporation"). The Corporation was formed on March 9, 1992, for the purpose of assisting the City of Newport Beach in the financing of public improvements, including a public library. The Corporation is governed by a Board of Directors comprised of seven individuals appointed by the City Council of the City of Newport Beach. The Corporation's financial data and transactions are included in the debt service

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

fund. Separate financial statements are not prepared for the Corporation. The debt service fund is used solely to account for the activities of the Corporation and contains no other City debt financing activities.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). The City of Newport Beach has no discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be 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.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days.

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle license fee, transient occupancy taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the City.

Revenue recognition is subject to the *measurability* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables is deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Proprietary & Fiduciary Funds

The City's enterprise and internal service funds are proprietary funds. In the fund financial statements, proprietary and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

c. Fund Classifications

The City utilizes the following broad categories of funds:

Major Funds

Major funds are those funds which are either material or of particular importance.

Major Governmental Funds – Governmental funds are generally used to account for tax supported activities. The following governmental funds met the criteria of a major fund:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all activities, except those required to be accounted for in another fund.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Tide and Submerged Land

The Tide and Submerged Land Fund is used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

Contributions Fund

The Contributions Fund is used to account for revenues received from other government agencies or private developers and expended for specific street or highway construction projects.

Major Proprietary Funds – Proprietary funds are used to report an activity for which a fee is charged to external users to recover the cost of operation.

Water Fund

The Water Fund is an enterprise fund used to account for the activities associated with the transmission and distribution of potable water by the City to its users.

Wastewater Fund

The Wastewater Fund is an enterprise fund used to account for the activities associated with providing sewer services by the City to its users.

Internal Service Funds – The Internal Service Funds are used to account for the City's self-insured general liability and workers' compensation, compensated absences, retiree insurance, and the cost of maintaining and replacing the City's rolling stock fleet. City departments are the primary users of these services and are charged a fee on a cost reimbursement basis.

Fiduciary Funds – The Fiduciary Funds are used to account for assets held by the City as an agent for property owners with special assessments, local businesses in business improvements districts, and other individuals who have made miscellaneous special deposits with the City.

d. **Cash and Investments**

For purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments in the proprietary funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Investments

Investments are generally stated at fair value.

Cash and investments are pooled to maximize investment yields. The net change in fair value and interest earned on the investments is allocated to the respective funds based on each fund's average monthly cash and investments balance.

The City's investment in LAIF is \$20,381,833 at June 30, 2009. This investment value is based on information provided by the State Treasurer's Office. The carrying value of the City's position in the fund is materially consistent with the fair value of the fund shares. This pool is under the regulatory oversight of the State Treasurer's Office. The LAIF Board consists of five members as designated by Statute. The Chairman is the State Treasurer, or his designated representative. Two members qualified by training and experience in the field of investment of finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any County, City or local district or municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years, or at the pleasure of the appointing authority.

e. Intergovernmental Receivables

Intergovernmental receivables represent grant reimbursement requests, capital project billings, and pending transfers of taxes and fees collected by other government agencies. As of June 30, 2009, the balance of this account was \$6,929,611.

f. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out method. The City follows the consumption method for inventory control. The costs of governmental fund type inventories are recorded as expenditures when consumed.

g. Capital Assets

Capital assets, which include land, structures, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Equipment purchased in excess of \$5,000 is capitalized if it has an expected useful life of three years or more. Building, infrastructure, and improvements are capitalized if cost is in excess of

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

\$30,000. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized. The City chose to value and report on infrastructure assets in their entirety (e.g. Prior to 1980).

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Contributed capital assets are valued at their estimated fair market value at the date of contribution.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class as follows:

Structures	30-75 years
Equipment	3-15 years
Infrastructure	20-75 years

h. Claims and Judgments

The City accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. The City records the estimated loss liabilities in the Internal Service Fund. Included therein are claims incurred but not reported, which consists of (a) known loss events expected to be presented as claims later, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported. This is based upon historical actual results that have established a reliable pattern supplemented by specific information about current matters. Small dollar claims and judgments are recorded as expenditures when paid.

i. Property Taxes

The assessment, levy, and collection of property taxes are the responsibility of the County of Orange. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days are accrued as revenue. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1
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CITY OF NEWPORT BEACH
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Levy date	July 1
Due dates	November 1 – 1 st installment March 1 – 2 nd installment
Collection dates	December 10 – 1 st installment April 10 – 2 nd installment

j. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and limited amounts of earned but unused sick leave benefits, which will be paid to employees upon separation from City service. Beginning in fiscal year 1990, the City adopted a general leave plan to replace the traditional vacation and sick leave plan. The City uses a general leave plan which permits a maximum of three years' accrual for every employee, above which the excess is paid out as current compensation. All employees hired prior to January 1, 1990, were given the option of remaining in the traditional vacation and sick leave plan or enrolling in the general leave plan. All employees hired on or after January 1, 1990, are automatically enrolled in the general leave plan. Compensated absences are accrued in the Compensated Absence Internal Service Fund when employee services have been rendered and when it becomes probable that the City will compensate the employees for benefits through paid time off or cash payments at termination or retirement. Benefits that have been earned but are not yet available for use because employees have not met certain conditions are accrued to the extent it is probable that the employees will meet the conditions for compensation in the future.

k. Unearned Revenue

Unearned revenues are those where asset recognition has been met, but the revenue recognition criteria have not been met.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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(2) **Reconciliation of Government-wide and Fund Financial Statements**

a. **Explanation of Differences Between Governmental Funds Balance Sheet and the Statement of Net Assets**

The “total fund balances” of the City’s governmental funds \$121,132,843 differs from “net assets” of governmental activities \$2,202,124,770 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Related Items

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$2,209,102,030
Accumulated depreciation	<u>(131,116,152)</u>
Total capital assets, net*	<u>\$2,077,985,878</u>

*Amount excludes net capital assets of \$6,808,128 from Internal Service funds.

Long-term Debt Transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2009 were:

Certificates of participation	\$ 4,335,000
Note payable	1,119,613
Pre-annexation agreement	9,600,000
CDBG Loan	<u>1,972,000</u>
Total	<u>\$17,026,613</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Accrued Interest

Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable (see Note 6).

Accrued interest added	<u>\$110,599</u>
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Investment in Joint Venture

Investment in joint ventures is not a current financial resource and hence reported only in the statement of net assets.

Net equity in joint venture	<u>\$2,684,052</u>
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Unavailable Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.

Unavailable revenue	<u>\$2,879,134</u>
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities (such as equipment management and self-insurance authorities) to individual funds. The assets (including capital assets) and liabilities of the internal service funds are included in governmental activities in the statement of net assets, because they primarily serve governmental activities of the City.

Internal Service Funds	<u>\$14,518,744</u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

Investments in joint ventures are not a current financial resource and are not reported in the governmental funds. Therefore, it is added for the statement of net assets. Interfund balance created due to the consolidation of internal service activities to governmental and enterprise funds is not reported in the fund statements and must be added to the statement of net assets.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

**Explanation of Differences between Government Funds
Balance Sheet and the Statement of Net Assets**

Assets	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions
Cash and investments	\$ 119,399,587	\$ -	\$ -	\$ -
Receivables:				
Accounts	7,649,060	-	-	-
Notes	-	-	-	-
Interest	1,457,076	-	-	-
Intergovernmental receivables	6,929,611	-	-	-
Cash with fiscal agent	3,141,141	-	-	-
Interfund balances	3,686,684	-	-	-
Investment in joint venture	-	-	-	-
Prepaid items	595,308	-	-	-
Inventory	219,698	-	-	-
Capital assets	-	2,209,102,030	-	-
Accumulated depreciation	-	-	(131,116,152)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 143,078,165</u>	<u>\$ 2,209,102,030</u>	<u>\$ (131,116,152)</u>	<u>\$ -</u>
 Liabilities and Fund Balances / Net Assets				
Liabilities:				
Accounts payable	\$ 5,951,377	-	-	-
Accrued payroll	4,121,602	-	-	-
Accrued interest payable	-	-	-	-
Deposits payable	3,150,496	-	-	-
Claims payable	-	-	-	-
Workers' compensation payable	-	-	-	-
Compensated absences payable	-	-	-	-
Unearned revenue	2,618,216	-	-	-
Unavailable revenue	2,879,134	-	-	-
Due to other funds	3,224,497	-	-	-
Long-term liabilities	-	-	-	17,026,613
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>21,945,322</u>	<u>-</u>	<u>-</u>	<u>17,026,613</u>
Fund balances / net assets	<u>121,132,843</u>	<u>2,209,102,030</u>	<u>(131,116,152)</u>	<u>(17,026,613)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and and fund balances / net assets	<u>\$ 143,078,165</u>	<u>\$ 2,209,102,030</u>	<u>\$ (131,116,152)</u>	<u>\$ -</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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<u>Interest Payable</u>	<u>Investment in Joint Venture</u>	<u>Unavailable Revenue</u>	<u>Internal Service Funds</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
\$ -	\$ -	\$ -	\$ 39,486,426	\$ -	\$ 158,886,013
-	-	-	890,047	-	8,539,107
-	-	-	-	-	-
-	-	-	-	-	1,457,076
-	-	-	-	-	6,929,611
-	-	-	-	-	3,141,141
-	-	-	-	(3,625,353)	61,331
-	2,684,052	-	-	-	2,684,052
-	-	-	161,579	-	756,887
-	-	-	259,731	-	479,429
-	-	-	22,691,452	-	2,231,793,482
-	-	-	(15,883,324)	-	(146,999,476)
<u>\$ -</u>	<u>\$ 2,684,052</u>	<u>\$ -</u>	<u>\$ 47,605,911</u>	<u>\$ (3,625,353)</u>	<u>\$ 2,267,728,653</u>
\$ -	-	-	\$ 598,782	-	\$ 6,550,159
-	-	-	43,376	-	4,164,978
110,599	-	-	-	-	110,599
-	-	-	-	-	3,150,496
-	-	-	2,446,253	-	2,446,253
-	-	-	2,973,250	-	2,973,250
-	-	-	1,939,662	-	1,939,662
-	-	-	-	-	2,618,216
-	-	(2,879,134)	-	-	-
-	-	-	462,187	(3,686,684)	-
-	-	-	24,623,657	-	41,650,270
<u>110,599</u>	<u>-</u>	<u>(2,879,134)</u>	<u>33,087,167</u>	<u>(3,686,684)</u>	<u>65,603,883</u>
<u>(110,599)</u>	<u>2,684,052</u>	<u>2,879,134</u>	<u>14,518,744</u>	<u>61,331</u>	<u>2,202,124,770</u>
<u>\$ -</u>	<u>\$ 2,684,052</u>	<u>\$ -</u>	<u>\$ 47,605,911</u>	<u>\$ (3,625,353)</u>	<u>\$ 2,267,728,653</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

b. Explanation of Differences between Enterprise Funds and Government-wide Statement of Net Assets

Total net assets of the City's Enterprise Funds of \$120,006,998 differs from net assets of the business-type activities of \$119,945,667 reported in the government-wide statement of net assets. The difference, \$61,331, results from the consolidation of internal service fund activities related to the enterprise funds.

**Explanation of Differences between Enterprise Funds
and Government-wide Statement of Net Assets**

Assets	Total Enterprise Funds	Internal Service Funds	Government wide Statement of Net Assets
Cash and investments	\$ 9,232,552	\$ -	\$ 9,232,552
Receivables:			
Accounts	4,585,201	-	4,585,201
Cash with fiscal agent	1,453,268	-	1,453,268
Interfund balances	-	(61,331)	(61,331)
Prepaid items	25,000	-	25,000
Capital assets, net	<u>108,642,093</u>	<u>-</u>	<u>108,642,093</u>
 Total assets	 <u>\$ 123,938,114</u>	 <u>\$ (61,331)</u>	 <u>\$ 123,876,783</u>
 Liabilities and Fund Balances / Net Assets			
Liabilities:			
Accounts payable	\$ 2,085,543	\$ -	\$ 2,085,543
Accrued payroll	159,517	-	159,517
Accrued interest payable	35,663	-	35,663
Liabilities from restricted assets	65,393	-	65,393
Noncurrent liabilities:			
Due within one year	1,585,000	-	1,585,000
Due in more than one year	-	-	-
Total liabilities	<u>3,931,116</u>	<u>-</u>	<u>3,931,116</u>
 Net Assets			
Invested in capital assets, net of related debt	\$ 108,510,361	-	\$ 108,510,361
Unrestricted	<u>11,496,637</u>	<u>(61,331)</u>	<u>11,435,306</u>
	<u>\$ 120,006,998</u>	<u>\$ (61,331)</u>	<u>\$ 119,945,667</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

c. Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds \$4,135,781 differs from the “change in net assets” for governmental activities \$22,407,481 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the difference is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In governmental funds, significant maintenance projects are reclassified as functional expenses in the statement of net assets. Also, contributed capital is not recorded in governmental funds; therefore it is added for the statement of net assets.

Capital outlay	\$17,509,910
Net change to Internal Service Fund capital assets	(4,395,327)
Capital Contribution	<u>8,400,000</u>
Net change in capital related items	<u>\$21,514,583</u>
Depreciation expense	(\$8,151,807)
Deletions to accumulated depreciation	<u>1,413,463</u>
Net change in accumulated depreciation	<u>\$6,738,344</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Long-Term Debt Transactions

Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Issuance of debt is reported as an other financing source in governmental funds, thus increasing fund balance. For the City as a whole, however, the principal payments reduce the liabilities, and proceeds from long term debt increase liabilities in the statement of net assets.

Certificates of Participation	\$ 330,000
Note payable	178,641
Pre-annexation agreement	1,200,000
CDBG loan	84,000
Purchase agreement	<u>1,500,000</u>
Total principal payments made	<u>\$3,292,641</u>

Accrued Interest

Interest accrued on outstanding debt payable is not recorded as an expenditure in governmental funds, and, thus has been added to the statement of activities.

Net change in accrued interest	<u>\$45,701</u>
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Investment in Joint Venture

Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.

Net change in investment in joint venture	<u>\$88,453</u>
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Unavailable Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for current period's expenditures, and therefore is reported as unavailable revenue in the governmental funds.

Net change in unavailable revenue	<u>\$1,316,358</u>
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CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance activities, to individual funds. The adjustments for internal service funds “closes” those funds by reimbursing or charging additional amounts to participating departments in individual funds for costs over or under charged for those activities.

Net change in Internal Service Funds	<u>\$1,270,633</u>
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Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental and business-type activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated. Amounts involving fiduciary funds should be reported as external transactions.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

**Explanation of Differences between Governmental Fund
Operating Statements and the Statement of Activities**

	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions
Revenues:				
Taxes and assessments	\$ 115,711,574	\$ -	\$ -	\$ -
Intergovernmental	11,434,885	-	-	-
Licenses and permits	5,883,515	-	-	-
Charges for services	14,498,120	-	-	-
Fines and forfeitures	4,572,611	-	-	-
Investment income	3,245,677	-	-	-
Net increase in fair value of investments	1,472,335	-	-	-
Property income	14,032,342	-	-	-
Share of joint venture net gain	-	-	-	-
Donations	6,760,140	-	-	-
Contributed capital	-	8,400,000	-	-
Loss on sale of capital assets	-	-	-	-
Other	8,501,014	-	-	-
	<u>186,112,213</u>	<u>8,400,000</u>	<u>-</u>	<u>-</u>
Total revenues				
Expenditures:				
Current:				
General government	15,567,654	-	313,265	-
Public safety	78,554,344	1,140,876	(646,514)	-
Public works	30,619,405	3,254,451	5,598,925	-
Community development	9,971,536	-	110,144	-
Community services	17,485,605	-	1,362,524	-
Capital outlay	26,002,339	(17,509,910)	-	-
Debt service:				
Principal retirement	3,292,641	-	-	(3,292,641)
Interest and fiscal charges	482,908	-	-	-
	<u>181,976,432</u>	<u>(13,114,583)</u>	<u>6,738,344</u>	<u>(3,292,641)</u>
Total expenses				
Other financing sources (uses):				
Transfers in	23,354,366	-	-	-
Transfers out	(23,354,366)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances / net assets	4,135,781	21,514,583	(6,738,344)	3,292,641
Fund balances / net assets beginning of year	<u>116,997,062</u>	<u>2,187,587,447</u>	<u>(124,377,808)</u>	<u>(20,319,254)</u>
Fund balances / net assets end of year	<u>\$ 121,132,843</u>	<u>\$ 2,209,102,030</u>	<u>\$ (131,116,152)</u>	<u>\$ (17,026,613)</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

<u>Accrued Interest</u>	<u>Investment in Joint Venture</u>	<u>Unavailable Revenue</u>	<u>Internal Service Fund</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,711,574
-	-	(1,316,358)	-	-	10,118,527
-	-	-	-	-	5,883,515
-	-	-	-	114,391	14,612,511
-	-	-	-	-	4,572,611
-	-	-	-	-	3,245,677
-	-	-	1,158,180	-	2,630,515
-	-	-	504,028	-	14,536,370
-	88,453	-	-	-	88,453
-	-	-	-	-	6,760,140
-	-	-	-	-	8,400,000
-	-	-	(11,039)	-	(11,039)
-	-	-	-	-	8,501,014
-	88,453	(1,316,358)	1,651,169	114,391	195,049,868
-	-	-	149,263	400,347	16,430,529
-	-	-	76,045	176,848	79,301,599
-	-	-	(54,372)	6,182,021	45,600,430
-	-	-	81,865	119,983	10,283,528
-	-	-	127,735	1,613,230	20,589,094
-	-	-	-	(8,492,429)	-
(45,701)	-	-	-	-	437,207
(45,701)	-	-	380,536	-	172,642,387
-	-	-	-	(23,354,366)	-
-	-	-	-	23,354,366	-
-	-	-	-	-	-
45,701	88,453	(1,316,358)	1,270,633	114,391	22,407,481
(156,300)	2,595,599	4,195,492	13,248,111	(53,060)	2,179,717,289
\$ (110,599)	\$ 2,684,052	\$ 2,879,134	\$ 14,518,744	\$ 61,331	\$ 2,202,124,770

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

d. Explanation of Differences between Enterprise Funds Operating Statement and the Statement of Activities

The change in net assets for the City's enterprise funds (\$892,572) differs from the change in net assets of the business-type activities (\$1,006,963) reported in the government-wide statement of activities. The difference, (\$61,331), results from the consolidation of internal service fund activities related to the enterprise funds.

**Explanation of Differences between Enterprise Funds
Operating Statement and the Statement of Activities**

	Total Enterprise Funds	Internal Service Fund	Business-type activities Statement of Activities
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 20,350,049	\$ -	\$ 20,350,049
Other	96,137	-	96,137
Total operating revenues	<u>20,446,186</u>	<u>-</u>	<u>20,446,186</u>
Operating expenses:			
Purchase of Water	7,512,251	-	7,512,251
Salaries and wages	5,689,368	-	5,689,368
Depreciation	2,090,544	-	2,090,544
Professional Services	2,064,667	-	2,064,667
Maintenance and supplies	1,467,730	114,391	1,582,121
System maintenance	1,912,294	-	1,912,294
Other	948,711	-	948,711
Total operating expenses	<u>21,685,565</u>	<u>114,391</u>	<u>21,799,956</u>
Operating income	(1,239,379)	(114,391)	(1,353,770)
Nonoperating revenues (expenses):			
Investment income	374,893	-	374,893
Net decrease in fair value of investments	135,789	-	135,789
Loss on removal of capital assets	(87,308)	-	(87,308)
Interest expense	(71,325)	-	(71,325)
Other	(5,242)	-	(5,242)
Total nonoperating revenues (expenses)	<u>346,807</u>	<u>-</u>	<u>346,807</u>
Change in net assets	(892,572)	(114,391)	(1,006,963)
Net assets, beginning of year	<u>120,899,570</u>	<u>53,060</u>	<u>120,952,630</u>
Net assets, end of year	<u>\$ 120,006,998</u>	<u>\$ (61,331)</u>	<u>\$ 119,945,667</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

(3) Budgetary Control and Compliance

The City adheres to the following general procedures in establishing the budgetary data reflected in the financial statements:

- During April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at City Council meetings to obtain taxpayer comments. Prior to July 1, the budget is legally adopted through passage of an appropriation resolution.
- Budgets are adopted on an annual basis consistent with generally accepted accounting principles for General and Special Revenue Funds.
- The City of Newport Beach does not present budget information on Capital Projects Funds since the City approved project-length budgets. These project-length budgets authorize total expenditures over the duration of a construction project rather than year-by-year budgeting.
- The City of Newport Beach does not present budget information on Debt Service and Permanent Funds since the City is not required to and does not adopt an annual budget.
- The budget is formally integrated into the accounting system and employed as a management control device during the year.
- The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions which alter the total appropriations of any fund must be approved by City Council.
- At fiscal year-end, budget appropriations lapse. Budget appropriations for incomplete capital projects are re-budgeted in the following fiscal year by Council action and are included in the revisions noted above. Projects that are not started during the budget year are reevaluated in the following year.
- Encumbrances represent commitments related to unperformed contracts for goods and services. The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, encumbrance accounting for the expenditure of funds is recorded in order to indicate outstanding commitments and is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances and their related budgets are honored in the subsequent year to fulfill these commitments and are presented in the original adopted budget.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Expenditures exceeded appropriations in the following non-major governmental funds.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Justice Assistance Grant	\$ -	\$ 6,403	\$ (6,403)
Arterial Highway Rehabilitation	\$ 291,342	\$ 320,319	\$ (28,977)

The following funds reported deficit fund balances:

Special Revenue Funds

OTS DUI Grant	\$ 42,489
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Capital Projects

Marine Science Center	\$ 420,148
City Hall Improvements	\$ 1,750,813
Misc SAH Projects	\$ 417,721
Marina Park	\$ 857,392
Sunset Ridge Park	\$ 243,301
Police Facility	\$ 2,175
Lifeguard Headquarters	\$ 30,179

Internal Service Funds

Compensated Absences	\$ 6,606,339
Retiree Insurance	\$ 4,152,916

The City's intentions are to eliminate deficit fund balances through future grant funding, other future revenue sources, or interfund transfers.

(4) Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 168,118,565
Cash with fiscal agent	4,594,409

Fiduciary funds:

Cash and investments	3,873,419
Cash with fiscal agent	4,101,765

Total cash and investments	<u>\$ 180,688,158</u>
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Cash and investments as of June 30, 2009 consist of the following:

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Notes to Basic Financial Statements
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Cash on hand	\$	40,226
Deposits with financial institutions		(783,218)
Investments		181,431,150
Total cash and investments		\$ 180,688,158

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	15%	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	30%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	1 year	30%	10%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	30 days	10% of base value	None
Medium-Term Notes	4 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	5%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

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

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Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	30 days - 360 days	None	None
Commercial Paper	180 days - 270 days	None	10%
Money Market Mutual Funds	N/A	None	None
Investment Agreements	None	None	None
Certificates of Deposit	None	None	None
Demand Deposits	30 days - 360 days	None	None
Time Deposits	30 days - 360 days	None	None
Local Agency Bonds	None	None	None
Forward Delivery Agreement	None	None	None
Forward Purchase and Sale Agreement	None	None	None
Corporate Notes	None	None	None
Repurchase Agreements	None	None	None
Local Agency Investment Fund	N/A	None	None
Municipal Obligations	None	None	None
County Pooled Investment Funds	N/A	None	None

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Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

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

Investment Type	* Fair Value	Investment Maturities (In Years)				Total
		Less than 1	1 to 3	3 to 5	More than 5	
Money Market Funds	\$ 5,321,323	\$ 5,321,323	\$ -	\$ -	\$ -	\$ 5,321,323
U.S. Treasury Notes	21,542,294	1,133,585	20,408,709	-	-	21,542,294
U.S. Agencies	85,142,487	28,192,164	50,351,181	6,599,142	-	85,142,487
Corporate Notes	33,287,090	11,709,214	20,260,262	1,317,614	-	33,287,090
Municipal Bond	1,797,420	1,797,420	-	-	-	1,797,420
Commercial Paper	1,598,383	1,598,383	-	-	-	1,598,383
LAIF	20,381,833	20,381,833	-	-	-	20,381,833
Foreign Bonds	3,092,958	844,600	2,248,358	-	-	3,092,958
Mortgage -backed Securities	571,188	571,188	-	-	-	571,188
Cash with Fiscal Agent:						
Money Market Funds	7,515,598	7,515,598	-	-	-	7,515,598
Investment Agreements	1,180,576	-	-	-	1,180,576	1,180,576
<u>Total</u>	<u>\$ 181,431,150</u>	<u>\$ 79,065,308</u>	<u>\$ 93,268,510</u>	<u>\$ 7,916,756</u>	<u>\$ 1,180,576</u>	<u>\$ 181,431,150</u>

* Investment agreements are recorded at cost (not fair value) because these agreements represent nonparticipating contracts that are nonnegotiable and whose redemption terms do not consider market rates.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2009 the City did not have any investments (including investments held by fiscal agent) whose fair values were highly sensitive to interest rate fluctuations.

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Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	AAA	AA+	AA	AA-	A+	A	A-	A-1+	A-1	BBB	Not Rated
Money Market Funds	5,321,323	A	\$ -	\$ 100,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,220,433
U.S. Treasury Notes	21,542,294	N/A	12,392,030	2,625,574	-	-	-	-	-	-	-	-	-	6,524,690
U.S. Agencies	85,142,487	N/A	-	60,060,414	-	-	894,022	-	-	-	-	-	-	24,188,051
Corporate Notes	33,287,090	A	-	8,011,408	6,908,673	1,425,351	3,510,602	5,248,010	7,370,974	812,072	-	-	-	-
Municipal Bond	1,797,420	AA	-	-	-	-	-	-	805,360	-	-	-	992,060	-
Commercial Paper	1,598,383	A-1	-	-	-	-	-	-	-	-	798,562	799,821	-	-
Local Agency Investment Fund	20,381,833	N/A	-	-	-	-	-	-	-	-	-	-	-	20,381,833
Foreign Bonds	3,092,958	N/A	-	827,000	-	600,294	1,665,664	-	-	-	-	-	-	-
Mortgage-backed Securities	571,188	AAA	-	571,188	-	-	-	-	-	-	-	-	-	-
Cash with Fiscal Agent:														
Money Market Funds	7,515,598	A	-	7,515,598	-	-	-	-	-	-	-	-	-	-
Investment Agreements	1,180,576	N/A	-	-	-	1,180,576	-	-	-	-	-	-	-	-
	<u>\$ 181,431,150</u>		<u>\$ 12,392,030</u>	<u>\$ 79,712,072</u>	<u>\$ 6,908,673</u>	<u>\$ 3,206,221</u>	<u>\$ 6,070,288</u>	<u>\$ 5,248,010</u>	<u>\$ 8,176,334</u>	<u>\$ 812,072</u>	<u>\$ 798,562</u>	<u>\$ 799,821</u>	<u>\$ 992,060</u>	<u>\$ 56,315,007</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FFCB	Federal agency securities	\$ 14,210,531
FHLB	Federal agency securities	\$ 18,845,749
FHLMC	Federal agency securities	\$ 31,293,903
FNMA	Federal agency securities	\$ 20,828,402

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool

CITY OF NEWPORT BEACH
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held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. 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, 2009, none of the City's deposits with financial institutions in excess of federal depository amounts were held in uncollateralized accounts. As of June 30, 2009, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Funds	\$ 4,835,107
U.S. Treasury Notes	2,625,574
U.S. Agencies	35,663,772
Corporate Notes	12,162,146
Mortgage backed Securities	571,188
Foreign Bonds	3,092,958
Commercial Paper	1,598,383

For investments identified herein as restricted cash with fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

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(5) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Governmental Activities:

	Beginning Balance	Additions	Deletions	Balance June 30, 2009
Non-depreciable:				
Land and rights of way	\$ 1,807,381,269	\$ 8,400,000	\$ -	\$ 1,815,781,269
Work in progress	5,307,333	9,237,529	(1,377,686)	13,167,176
Depreciable:				
Structures	67,059,241	1,219,856	-	68,279,097
Equipment	26,860,316	1,667,335	(766,850)	27,760,801
Infrastructure	303,296,714	6,762,876	(3,254,451)	306,805,139
	<u>2,209,904,873</u>	<u>27,287,596</u>	<u>(5,398,987)</u>	<u>2,231,793,482</u>
Less accumulated depreciation for:				
Structures	(12,418,643)	(1,345,618)	-	(13,764,261)
Equipment	(17,896,022)	(2,224,188)	724,052	(19,396,158)
Infrastructure	(108,755,273)	(6,428,972)	1,345,188	(113,839,057)
	<u>(139,069,938)</u>	<u>(9,998,778)</u>	<u>2,069,240</u>	<u>(146,999,476)</u>
Net Capital Assets	<u>\$ 2,070,834,935</u>	<u>\$ 17,288,818</u>	<u>\$ (3,329,747)</u>	<u>\$ 2,084,794,006</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Business-type Activities:

	Beginning Balance	Additions	Deletions	Balance June 30, 2009
Non-depreciable:				
Land	\$ 2,016,450	\$ -	\$ -	\$ 2,016,450
Work in progress	312,949	690,663	(88,459)	915,153
Depreciable:				
Structures	205,793	-	-	205,793
Equipment	185,521	106,367	-	291,888
Infrastructure	154,975,054	1,157,076	(130,000)	156,002,130
	<u>157,695,767</u>	<u>1,954,106</u>	<u>(218,459)</u>	<u>159,431,414</u>
Less accumulated depreciation for:				
Structures	(112,175)	(5,145)	-	(117,320)
Equipment	(157,445)	(27,499)	-	(184,944)
Infrastructure	(48,471,849)	(2,057,900)	42,692	(50,487,057)
	<u>(48,741,469)</u>	<u>(2,090,544)</u>	<u>42,692</u>	<u>(50,789,321)</u>
Net	<u>\$ 108,954,298</u>	<u>(136,438)</u>	<u>\$ (175,767)</u>	<u>\$ 108,642,093</u>

Depreciation expense was charged in the following functions in the Statement of Activities:

	Governmental Activities	Business-type Activities
General government	\$ 313,265	\$ -
Public safety	1,268,732	-
Public works	6,944,113	-
Community development	110,144	-
Community service	1,362,524	-
Water	-	1,524,328
Wastewater	-	566,216
	<u>\$ 9,998,778</u>	<u>\$ 2,090,544</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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(6) Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of participation payable	\$ 4,665,000	\$ -	\$ (330,000)	\$ 4,335,000	\$ 345,000
Note payable	1,298,254	-	(178,641)	1,119,613	186,679
Pre-annexation agreement	10,800,000	-	(1,200,000)	9,600,000	1,200,000
CDBG Loan	2,056,000	-	(84,000)	1,972,000	89,000
Purchase Agreement Payable	1,500,000	-	(1,500,000)	-	-
Workers' compensations payable	11,334,000	3,216,337	(2,657,337)	11,893,000	2,973,250
Claims and judgements payable	5,613,525	3,678,834	(3,394,622)	5,897,737	2,446,253
Compensated absences	9,113,095	2,828,270	(2,157,280)	9,784,085	1,939,662
Net OPEB obligation	2,221,000	5,423,000	(3,236,000)	4,408,000	-
Total governmental activities	48,600,874	15,146,441	(14,737,880)	49,009,435	9,179,844
Business-type activities:					
Water Revenue Bonds payable	3,095,000	-	(1,510,000)	1,585,000	1,585,000
Total	\$ 51,695,874	\$ 15,146,441	\$ (16,247,880)	\$ 50,594,435	\$ 10,764,844

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Also, liabilities for workers' compensation, claims and judgments, compensated absences, and net OPEB obligation are typically liquidated from the Internal Service funds through resources collected from individual funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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Governmental Activities

- Certificates of Participation

In Fiscal Year 1998-99, the Newport Beach Public Facilities Corporation issued \$7,330,000 of Refunding Certificates of Participation to advance refund the 1992 Certificates of Participation used to finance the construction of the Central Library. The refunding was undertaken to reduce total debt service payments over the next twenty years by \$690,228 and resulted in an economic gain of \$495,745. The Refunded Certificates were executed and delivered pursuant to the Prior Trust Agreement. The City has previously entered into a project lease with the Newport Beach Public Facilities Corporation to lease certain property, facilities, improvements, and equipment.

The lease payments made by the City are held by a trustee who makes semi-annual payments on the Certificates of Participation. The lease payments began May 15, 1994, and are in amounts sufficient to cover the payment of principal and interest of the Certificates. The 1998 Certificates consist of \$2,995,000 of Serial Certificates with interest rates from 3.6% to 4.55% and \$4,335,000 of Term Certificates with interest rates from 5.05% to 5.15%. Interest on the Certificates is payable semiannually on June 1 and December 1 of each year. Future principal payments range from \$345,000 to \$535,000 through June 1, 2019. Principal payments are payable annually on June 1 of each year. At June 30, 2009, the City has a required cash reserve balance for debt service of \$565,778, which is recorded as a restricted asset and reservation of fund balance in the Debt Service Fund. The outstanding balance at June 30, 2009, amounted to \$4,335,000.

The annual amortization requirements of the Certificates of Participation are as follows:

Year Ending June 30	Principal	Interest	Total
2010	345,000	220,448	565,448
2011	360,000	203,025	563,025
2012	380,000	184,845	564,845
2013	400,000	165,655	565,655
2014	420,000	145,455	565,455
2015-2019	2,430,000	386,435	2,816,435
	<u>\$ 4,335,000</u>	<u>\$ 1,305,863</u>	<u>\$ 5,640,863</u>

- Note Payable

Note payable consists of a note to the California Department of Boating and Waterways in 1987 for a loan in the amount of \$3,300,000. The note is payable in thirty annual principal and interest installments of \$237,062 at 4.5% rate of interest

CITY OF NEWPORT BEACH
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beginning August 1, 1987. The outstanding balance at June 30, 2009, amounted to \$1,119,613.

The annual amortization requirements for the Note Payable are as follows:

Year Ending June 30	Principal	Interest	Total
2010	186,679	50,383	237,062
2011	195,080	41,982	237,062
2012	203,859	33,203	237,062
2013	213,032	24,030	237,062
2014	222,609	14,443	237,052
2015-2016	98,354	6,688	105,042
	<u>\$ 1,119,613</u>	<u>\$ 170,729</u>	<u>\$ 1,290,342</u>

- Newport Coast Pre-Annexation Agreement Payable

In conjunction with the January 1, 2002, annexation of Newport Coast, the City entered into an agreement payable with the Newport Coast Committee for a total of \$18,000,000 to reduce property owner assessments used to finance certain road and street improvements. The principal-only agreement which began in the 2003 fiscal year, is payable over a period of fifteen years in equal installments of \$1,200,000. The outstanding balance at June 30, 2009, amounted to \$9,600,000.

- CDBG Loan

In fiscal year 2003, the City received \$2,400,000 in Section 108 loan proceeds to assist with the funding for the Balboa Village Improvement Program. The loan is collateralized by future Community Development Block Grant allocations with an average interest rate of 6.5%. Future principal payments range from \$89,000 to \$208,000 through June 30, 2023. The outstanding balance at June 30, 2009, amounted to \$1,972,000.

The annual amortization requirements for the CDBG Loan are as follows:

Year Ending June 30	Principal	Interest	Total
2010	89,000	108,535	197,535
2011	95,000	104,345	199,345
2012	102,000	99,653	201,653
2013	108,000	94,485	202,485
2014	116,000	88,722	204,722
2015-2019	706,000	334,880	1,040,880
2020-2023	756,000	95,595	851,595
	<u>\$ 1,972,000</u>	<u>\$ 926,215</u>	<u>\$ 2,898,215</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
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- Purchase Agreement Payable

In Fiscal Year 2007, the City entered into an agreement with the California Department of Transportation (CalTrans) for the purchase of a 15.05-acre parcel of land at the corner of Superior Avenue and Coast Highway. The purchase price was \$5 million, to be paid in three installments with a 4.75% interest. The loan has been paid off and there is no outstanding balance at June 30, 2009.

- Claims and Judgments

The City retains the risk of loss for general liability and workers' compensation claims as described in note (8). These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2009, is dependent on future developments, based upon information from the City's attorneys, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2009, for general liability amounted to \$5,897,737 and for workers' compensation was \$11,893,000.

- Compensated Absences

The City's policies relating to compensated absences are described in Note (1). This liability, to be paid in future years from available and future resources, at June 30, 2009, is \$9,784,085.

- Net OPEB Obligation (NOO)

The net OPEB obligation is the difference between the ARC and the actual contributions made. The City has elected to fund the cash subsidy portion \$2.72 million of the ARC. As for the implied subsidy \$4.408 million, the City has elected to fund it on a pay-as-you-go basis, thus resulting in net OPEB obligation of \$4.408 million.

Business-type activities

- Water Revenue Bonds

In Fiscal Year 1998-99, the City issued \$14,225,000 of Refunding Water Revenue Bonds to refund the 1994 Water Revenue Bonds used to finance the construction and acquisition of water storage and transmission facilities. The refunding was undertaken to reduce total debt service payments over a ten-year period by \$481,153 and resulted in an economic gain of \$418,469. The bonds are secured by a pledge of net revenues of the water fund. The 1998 Serial Bonds bear interest ranging from 3.6% to 4.5%. At June 30, 2009, the City has a required cash reserve balance of \$1,453,768 which is recorded as cash with fiscal agent. Ten annual

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principal payments are payable on August 1, and semiannual interest payments are payable on February 1 and August 1. At June 30, 2009, the outstanding principal balance was \$1,585,000. The City's rate covenant requires a coverage ratio of at least 125%. For the year ended June 30, 2009, the rate covenant was 52%.

The annual amortization requirements for the Water Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 1,585,000	\$ -	\$ 1,585,000

(7) Limited Obligation Bonds

Special Assessment Districts Bonds

The City has issued certain Assessment District and Community Facilities District Bonds. Although the City collects and disburses funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds, and therefore the bonded indebtedness is not shown in the financial statements of the City. The City holds reserve funds on behalf of bondholders; the assets are recorded in the Special Assessment Agency Fund. Bonds outstanding at June 30, 2009, for each district under the Bond Acts of 1911 and 1915, and other special assessments, are as follows:

<u>Assessment District</u>	<u>Original Issue</u>	<u>Bonds Outstanding June 30, 2009</u>
No. 68 Newport Shores	3,813,562	2,860,000
No. 69 West Newport	4,978,498	3,660,000
No. 70 Bay Shores	1,380,996	955,000
No. 71 Balboa Boulevard	796,942	260,000
No. 74 Island Avenue	222,629	130,000
No. 75 Balboa Business	821,204	615,000
No. 78 Little Balboa Island	1,348,196	720,000
No. 79 Beacon Bay	1,215,134	665,000
No. 82 Corona del Mar	274,967	170,000
No. 86 Balboa Peninsula	300,174	175,000
No. 92 Coast Highway	1,425,000	1,425,000
No. 99-2 Ocean Front	1,953,952	1,953,952
No. 101 Central Balboa	2,467,597	2,467,597
No. 95-1 CIOSA Refunding Series A	15,495,000	9,390,000

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Other Limited Obligation Bonds

The City has issued revenue bonds for the purpose of advancing the net proceeds of the bonds to Hoag Memorial Hospital Presbyterian for the purposes of financing the acquisition, construction and equipping of health facilities located within the City.

The bonds are limited obligations of the City payable from payments required to be made by Hoag Memorial Hospital. The City is not obligated to pay the principal or interest of the bonds except from payments made by Hoag, and neither the faith and credit nor the taxing power of the City is pledged to the payment of the principal and interest on the bonds.

Bonds outstanding at June 30, 2009, are as follows:

Series 2008C	\$70,095,000
Series 2008D	\$80,000,000
Series 2008E	\$90,000,000
Series 2009A	\$66,835,000
Series 2009B	\$36,605,000
Series 2009C	\$36,605,000
Series 2009D	\$35,490,000
Series 2009E	\$35,490,000

The revenue bonds are subject to, at the option of Hoag Memorial Hospital Presbyterian, optional and mandatory tender for purchase. If no tender or purchase is made, varying redemption payments on the 2008 Series bonds commence on December 1, 2012, and are required to be made through December 1, 2028. For the 2009 Series bonds, varying redemption payments commence on December 1, 2014, and are required to be made through December 1, 2038.

(8) Risk Management – General Liability and Workers' Compensation

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance with independent third parties for loss risks associated with real and personal property, and automotive liability. The City purchases fidelity bonds for employees in key positions. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. For general liability, the City has excess insurance coverage of \$26 million per occurrence with a self-insured retention (SIR) of \$500,000 per occurrence.

For workers' compensation and employer's liability insurance, the City has excess insurance coverage of \$1,000,000 per occurrence with a \$1,000,000 SIR. This coverage provides for work-related accidents and diseases.

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The Insurance Reserve fund was established to account for costs associated with general liability and workers' compensation. The Insurance Reserve fund is accounted for as an internal service fund where assets are set aside for risk management, administration, claim settlements and benefit distribution. A premium is charged to each fund that accounts for part-time or full-time employees. The total charge allocated to each of the funds is calculated using trends in actual experience after considering unexpected and unusual claims.

Fund Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The total liability claims payable include \$17,790,737 which represents the discounted present value at June 30, 2009; the claims were discounted using an interest rate of five percent.

	<u>General Liability</u>		<u>Workers' Compensation</u>	
	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>
Unpaid claims, beginning of fiscal year	\$ 4,837,048	\$ 5,613,525	\$ 11,442,000	\$ 11,334,000
Incurring claims (including IBNR)	3,371,513	3,589,622	2,339,836	3,216,337
Claim payments	<u>(2,595,036)</u>	<u>(3,305,410)</u>	<u>(2,447,836)</u>	<u>(2,657,337)</u>
Unpaid claims, end of fiscal year	<u>\$ 5,613,525</u>	<u>\$ 5,897,737</u>	<u>\$ 11,334,000</u>	<u>\$ 11,893,000</u>

For the past three years, no payment on any claim or judgment has exceeded the amount of applicable insurance.

(9) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries. Therefore, all employee assets held in Section 457 plans are not the property of the City and are not subject to the claims of the City's general creditors. The assets under the plan, which are not included in the accompanying financial statements, totaled \$54,472,396 at June 30, 2009.

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(10) Pension Plan

Plan Description - Defined Benefit Plan

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contribution required of City safety employees on their behalf and for their account. In January 2008, non-safety employees modified their PERS benefits and agreed to contribute 1% of the required 8% of annual salary for the participant contribution and 2.42% of the City's employer contribution which is discussed below. Benefit provisions and all other requirements are established by State statutes and City contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2008 to June 30, 2009 has been determined by an actuarial valuation of the plan as of June 30, 2005. The contribution rate indicated for the period is 9.055% for non-safety employees and 29.67% for safety employees of annual covered payroll. Without the cost sharing agreement with non-safety employees, the contribution rate would be 11.475% for non-safety employees. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2009, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2008 to June 30, 2009.

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Annual Pension Cost

For 2009, the City's annual pension cost of \$18,405,078 for PERS was equal to the City's required and actual contributions. A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
<i>Valuation Date</i>	June 30, 2006	June 30, 2006
<i>Actuarial Cost Method</i>	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
<i>Amortization Method</i>	Level Percent of Payroll	Level Percent of Payroll
<i>Average Remaining Period</i>	27 Years as of the Valuation Date	31 Years as of the Valuation Date
<i>Asset Valuation Method</i>	15-Year Smoothed Market	15-Year Smoothed Market
<i>Actuarial Assumptions:</i>		
<i>Investment Rate of Return</i>	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
<i>Projected Salary Increases</i>	3.25% to 14.45% depending on age, service, and type of employment	3.25% to 13.15% depending on age, service, and type of employment
<i>Inflation Rate</i>	3.00%	3.00%
<i>Payroll Growth</i>	3.25%	3.25%
<i>Individual Salary Growth</i>	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

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THREE-YEAR TREND INFORMATION FOR PERS (\$ Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	\$16,207	100%	\$0
6/30/08	\$16,454	100%	\$0
6/30/09	\$18,405	100%	\$0

The Schedule of Funding Progress, below, shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The Schedule of Funding Progress, below, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing overtime, relative to the actuarial accrued liability for benefits.

SCHEDULE OF FUNDING PROGRESS FOR PERS (\$ Amount in Thousands)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status		Annual Covered Payroll	UAAL as a % of Payroll
				AVA (B/A)	Market Value		
	(A)	(B)	(A - B)			(C)	[(A-B) / C]
06/30/2006							
Misc.	\$ 183,637	\$ 163,158	\$ 20,479	88.8%	94.2%	\$ 37,224	55.016%
Safety	296,420	231,701	64,719	78.2%	83.1%	26,053	248.413%
Total	<u>\$ 480,057</u>	<u>\$ 394,859</u>	<u>\$ 85,198</u>	<u>82.3%</u>	<u>87.4%</u>	<u>\$ 63,277</u>	<u>134.643%</u>
06/30/2007							
Misc.	\$ 192,178	\$ 178,524	\$ 13,654	92.9%	107.7%	\$ 36,795	37.108%
Safety	308,552	250,062	58,490	81.0%	94.7%	25,035	233.633%
Total	<u>\$ 500,730</u>	<u>\$ 428,586</u>	<u>\$ 72,144</u>	<u>85.6%</u>	<u>99.7%</u>	<u>\$ 61,830</u>	<u>116.681%</u>
06/30/2008							
Misc.	\$ 217,378	\$ 195,954	\$ 21,424	90.1%	91.9%	\$ 41,148	52.066%
Safety	336,061	264,634	71,427	78.7%	81.0%	28,056	254.587%
Total	<u>\$ 553,439</u>	<u>\$ 460,588</u>	<u>\$ 92,851</u>	<u>83.2%</u>	<u>85.3%</u>	<u>\$ 69,204</u>	<u>134.170%</u>

More current information regarding actuarial data is not yet available from PERS.

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Plan Description - Defined Contribution Plan

Pursuant to City Council Resolution No. 91-106, the City entered into a defined contribution plan administrated by the private administrator known as Public Agency Retirement System ("PARS") for all of its part-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council resolved to match the employees' contributions of 3.75%. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2009, the City's covered payroll for employees participating in the plan was \$2,919,260. Employees made contributions of \$109,472 (3.75% of current covered payroll), which was matched by the employer in the same amount. Assets of the plan totaled \$1,485,659 at June 30, 2009.

(11) Post Employment Health Care Benefits (OPEB)

The following description of the City of Newport Beach Medical Expense Reimbursement Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

Plan Description

Effective January 2006, the City and employee associations agreed to major changes in the Post Employment Healthcare Plan. All employees and eligible retirees will participate in a Health Reimbursement Arrangement ("HRA") sponsored by the City, held in trust and managed by ING (Trustee), under IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002).

All employees hired after January 1, 2006, and certain employees hired prior to this date, as well as employees who elected to fully convert (Fully Converted) to a defined contribution formula, participate in a program that requires mandatory employee and employer contributions. However, once these contributions have been made to the employee's account, the City has no further funding obligation to the Plan on their behalf.

Certain employees hired prior to January 1, 2006, had the option to retain a hybrid of the former defined benefit Plan, or to fully convert to the new Plan. Employees electing to retain a hybrid of the former defined benefit formula (Hybrid) participate in a program requiring mandatory defined contributions by employees and employer, as well as a defined benefit consisting of an ongoing contribution, from the City to the participant's HRA account, each month after retirement. Additionally, these employees are eligible to receive health care benefits under the City's group health care plans. However, in order to receive these benefits these employees are required to pay the City \$100 per month,

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up until their retirement, to offset the unfunded portion of post employment health benefits existing at the inception of the Plan.

Employees who retired prior to January 1, 2006, continue to receive an ongoing defined benefit consisting of a contribution made by the City to the participant's HRA account each month. The defined benefit portion of the plan is closed to new participants.

The City of Newport Beach is the sole employer for the Plan. Total participants involved in the plan were 1,194 as of June 30, 2009, consisting of 521 miscellaneous employees, 273 safety employees, and 400 retirees and their beneficiaries.

Benefits Provided

The City provides post-employment medical, dental and vision benefits to its retirees, the same benefits as those afforded to active employees, with the general exception that once a retiree becomes eligible for Medicare (that is, reaches age 65), he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payor. Employees become eligible to retire and receive City-paid healthcare benefits upon attaining age 50 (safety) or age 55 (miscellaneous) and 5 years of covered PERS service or upon disability before age 50. The payment of benefits, for the purpose of reimbursing eligible health care expenses, cease upon the earliest of the following: (1) the date of the participant's, their spouse's, or qualified dependant's death; (2) the date the balance of any fully converted participant account reaches zero, if no further contributions will be made to said account; or (3) the date of termination of the Plan.

Plan Contributions

Contributions to the Plan are based on the participant's status as "Fully Converted" or "Hybrid" as described above. All employees contribute 1% of their annual salary. Fully Converted employees also receive a contribution from the City of \$1.50 per month for each year of service and age, after five years of employment. Additionally, Fully Converted employees who previously participated in the defined benefit program receive a one-time contribution from the City upon retirement. This contribution consists of \$100 per month for every month paid into the defined benefit program, up to a maximum of 180 months. Further, the City contributes a percentage of any flexible leave bank conversions. The percentage contributed to the HRA account is based on the bargaining unit each employee is associated with.

Hybrid employees receive a one-time contribution of \$75 per month for every month paid into the defined benefit program, up to a maximum of 180 months. For Hybrid employees, the City also contributes a percentage of any flexible leave bank conversions. The percentage contributed to the HRA account is based on the bargaining unit each employee is associated with. Upon retirement, Hybrid employees receive a defined benefit consisting of a monthly contribution, made by the City, to the participant's HRA account of approximately \$400.

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Employees who retired prior to January 1, 2006, continue to receive a defined benefit consisting of a monthly contribution, made by the City, to the participant's HRA account each month of approximately \$400 (approximately \$425 for certain retired Police employees). The defined benefit component of the plan is closed to new participants; however, an actuarial valuation is utilized to determine the accrued liability and funding requirements associated with this component of the plan.

Actuarial Valuation, Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

Valuation Date:	June 30, 2008
Actuarial Cost Method:	Entry Age Normal Cost Method (same as CalPERS)
Amortization Method:	Level percent of payroll over fixed 20 years
Amortization Period:	Level contribution amount over fixed 20 years
Projected Salary Increases:	3.25% per year
Discount Rate:	7.75 % for cash subsidy, pre-funding through CalPERS OPEB Trust 5% for implied subsidy, no pre-funding, benefits paid from the City's General fund

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Implied Subsidy

Because one of the two health plans offered by the City is a non-community-rated plan and retirees are offered the same premium rates as active employees, GASB 45 requires that an implied subsidy (the difference between expected claims and premiums paid for retirees) be valued for the life of the retiree and accrued as a cost of the retiree health care plan. The City has elected to fund the implied subsidy on a pay-as-you-go basis since employer contributions to active and retiree medical plans are fixed, and significant uncertainty exists whether additional cash flows will occur in the future as a result of the implied subsidy.

Two-Year Annual Required Contribution (ARC) Trend

The 2008-09 Annual Required Contribution (ARC) includes the Normal Cost plus a 20-year amortization of the Unfunded AAL (in 000's):

	<u>Beginning Balance</u>	<u>ARC</u>	<u>Actual Contribution</u>	<u>Current Year OPEB Obligation</u>	<u>Percentage Contributed</u>	<u>Annual Covered Payroll</u>	<u>ARC As a % of Payroll</u>	<u>Ending Balance</u>
Cash Subsidy	\$ -	\$ 2,720	\$ 2,720	\$ -	100%	\$ 56,527	4.8%	\$ -
Implied Subsidy	2,221	2,703	516	2,187	19.1%	56,527	4.8%	4,408
Net OPEB Obligation	<u>\$ 2,221</u>	<u>\$ 5,423</u>	<u>\$ 3,236</u>	<u>\$ 2,187</u>	<u>59.7%</u>	<u>\$ 56,527</u>	<u>9.6%</u>	<u>\$ 4,408</u>

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Two-Year Net OPEB Obligation (NOO) Trend

The NOO is the historical difference between the ARC and actual contributions. If the City always contributes the entire ARC, then the NOO would equal zero. Benefit payments are considered contributions. Contributions in excess of benefit payments must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for the purpose of GASB 45.

The June 30, 2009, NOO is determined as follows (in 000's):

<u>Fiscal Year</u>	<u>July 1, NOO</u>	<u>AOC</u>	<u>Prefunding Contributions & Benefit Payments</u>	<u>June 30, NOO</u>
2007/08				
Cash Subsidy	\$ 6,200 ¹	\$ 2,629	\$ (8,829) ²	\$ -
Implied Subsidy	-	2,648	(427) ³	2,221
Total	<u>\$ 6,200</u>	<u>\$ 5,277</u>	<u>\$ (9,256)</u>	<u>\$ 2,221</u>
2008/09				
Cash Subsidy	\$ -	\$ 2,720	\$ (2,720)	\$ -
Implied Subsidy	2,221	2,703	(516) ⁴	4,408
Total	<u>\$ 2,221</u>	<u>\$ 5,423</u>	<u>\$ (3,236)</u>	<u>\$ 4,408</u>

1 - Based on a prior period adjustment to the cash subsidy component of the NOO

2 - 2007-2008 AOC and \$6.2 million payment on retroactive NOO

3 - 2007-2008 estimated implied subsidy

4 - 2008-2009 estimated implied subsidy

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when the City has a Net OPEB Obligation (NOO) at the beginning of the year. In that case, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The 2008-09 AOC is determined as follows (in 000's):

	<u>ARC</u>	<u>Interest on NOO</u>	<u>Amortization of NOO</u>	<u>Total AOC</u>	<u>AOC as % of Payroll</u>
Cash Subsidy	\$ 2,720	\$ -	\$ -	\$ 2,720	4.8%
Implied Subsidy	2,734	111	(142)	2,703	4.8%
Total	<u>\$ 5,454</u>	<u>\$ 111</u>	<u>\$ (142)</u>	<u>\$ 5,423</u>	<u>9.6%</u>

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Two-Year Funding Status Trend

The schedule below shows the actuarial accrued liability (AAL), actuarial value of assets, funded status, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll as of the most recent valuation date.

<u>Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
06/30/2006						
Cash Subsidy	\$29,639	\$ -	\$29,639	0.0%	\$54,748	54.1%
Implied Subsidy	26,409	-	26,409	0.0%	\$54,748	48.2%
Total	<u>\$56,048</u>	<u>\$ -</u>	<u>\$56,048</u>	<u>0.0%</u>	<u>\$54,748</u>	<u>102.4%</u>
06/30/2008						
Cash Subsidy	\$28,842	\$ 8,785	\$20,057	30.5%	\$56,527	35.5%
Implied Subsidy	20,173	-	20,173	0.0%	\$56,527	35.7%
Total	<u>\$49,015</u>	<u>\$8,785</u>	<u>\$40,230</u>	<u>0.0%</u>	<u>\$56,527</u>	<u>71.2%</u>

(12) Interfund Receivables and Payables

At June 30, 2009, interfund receivables and payable were as follows:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 3,686,684	\$ -
Internal Service Funds	-	462,187
Nonmajor Funds	-	3,224,497
Total	<u>\$ 3,686,684</u>	<u>\$ 3,686,684</u>

The above balances are primarily due to reclassification of negative cash balance in the city wide cash pool.

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(13) Interfund Transfers

Interfund transfers at June 30, 2009, consisted of the following:

		Transfers In				
		General Fund	Tide and Submerged Land	Contributions Fund	Non-Major Funds	Total
Transfers Out	General Fund	\$ -	\$ 20,314,554	\$ 550,000	1,357,739	\$ 22,222,293
	Non-Major Funds	\$ 690,013	-	-	442,060	1,132,073
	Total	\$ 690,013	\$ 20,314,554	\$ 550,000	\$ 1,799,799	\$ 23,354,366

The City typically uses transfers to fund ongoing subsidies. The general fund transferred \$20,314,554 to subsidize for the maintenance and operation of the Tide and Submerged Land Fund. As required by the pre-annexation agreement, interest accrued in the amount of \$439,355 in the Newport Coast Annexation fund, is due to and was subsequently transferred to the General Fund.

(14) Reserved and Designated Fund Balances

The City has set up "reserves" of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" also may be established to indicate tentative plans for financial resource utilization in a future period.

The following provides explanations as to the nature and purpose of each reserve and designation.

Reserved for encumbrances

Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts that are legally committed but not expended by fiscal year end.

Reserved for debt service

This account sets aside a portion of fund balance to meet the annual debt service requirements.

Reserved for permanent endowment

This account reflects a permanent endowment established for the maintenance and dredging of Upper Newport Bay.

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Reserved for affordable housing

This account reflects amounts collected from developers to build affordable housing to all income levels in compliance with State planning laws.

Reserved for prepaid items

This account reflects prepaid items which are not available, spendable resources.

Reserved for inventories

This account reflects the value of inventories purchased by the City but not yet issued to the operating departments.

Reserved for long-term receivable

This account reflects the value of the note receivable which is not an available and spendable resource.

Designated for special purposes

This account reflects funds that have been designated for special projects which vary in nature.

Designated for contingencies

Contingency designations represent funds for unexpected emergencies.

Designated for capital projects

This account reflects unspent appropriations committed to capital projects in the prior year.

Designation for appropriations

This account reflects unspent appropriations that may be utilized to augment the operating budget.

(15) Joint Venture Agreements

Bonita Canyon Public Facilities Financing Authority

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, Irvine Unified School District, and Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their boundaries. The Authority issued \$45,000,000 of special tax bonds that will be repaid by special assessments; the City is not obligated in any manner to repay the bonds. The Authority paid the City \$30,577,712 (81.7%) to pay for the costs of acquiring and constructing public facilities including parks and road improvements. At June 30, 2009, the contributions from property owners are held in trust as cash with fiscal agent totaling \$1,005,565. The City does not make any annual contributions to this joint venture. The

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City does not include the Authority as a component unit, as the City is not financially accountable for the Authority's activities and the Authority is not fiscally dependent on the City. The City's equity interest in this joint venture is not readily determinable. Complete separate financial statements can be obtained at the Newport Mesa Unified School District, 2985 Bear Street, Suite 8M, Costa Mesa, California.

Air Borne Law Enforcement

The City is a participant in a joint venture agreement with the City of Costa Mesa for the operation of the Air Borne Law Enforcement program (ABLE). The oversight Board consists of the Chiefs of Police of Costa Mesa and Newport Beach and one appointee for each Member Agency for a total of four Board Members. The cities have a 50% interest in the venture, with each city having provided an initial investment of two helicopters and related equipment. The City of Newport Beach's cost of participating in the ABLE program is recorded in the General Fund, which provides for the maintenance and operation of the program as well as replacement of capital equipment used in the operation of the program. Annually, the amounts paid by the City to this joint venture are approximately \$1,000,000. Operation costs are offset by fees collected from surrounding cities that may subscribe to regular patrol or request assistance on an as-needed basis. Shared equally between the cities of Newport Beach and Costa Mesa, the City's share of net income from subscribers and other cities amounts to \$70,378 for fiscal year 2008-09. The City's 50% interest in the net equity of this joint venture at June 30, 2009, amounts to \$2,539,841. Complete separate financial statements can be obtained at the City of Costa Mesa at 77 Fair Drive, Costa Mesa, California.

Metro Cities Fire Authority

The City of Newport Beach is a member of a joint venture agreement with the cities of Anaheim, Fountain Valley, Fullerton, Garden Grove, Huntington Beach, and Orange for the operation of a communication network to provide fire suppression, emergency medical assistance, and rescue services. The oversight board consists of one voting member and one alternate appointed by the governing body of each member agency. The City of Newport Beach's costs are based each fiscal year upon the number of recorded incidents attributable to the City divided by the recorded incidents attributable to all members during the year and, are recorded in the General Fund as an expenditure for service. Upon termination of the agreement, the proceeds from the sale of the property and assets of the joint venture will be paid to each member agency pursuant to their fair share percentage. Annually, the amounts paid by the City to this joint venture are approximately \$529,488. The City's 10.83% interest in the net equity of this joint venture at June 30, 2009, amounts to \$144,211. Complete separate financial statements can be obtained at the Metro Cities Fire Authority offices at 201 S. Anaheim Boulevard, Suite 302, Anaheim, California.

Integrated Law and Justice Agency of Orange County

The City is a participant in a joint venture agreement with the several other public agencies of Orange County for the operation of the Integrated Law and Justice Agency

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of Orange County (ILJAOC). The Integrated Law and Justice Agency of Orange County went into effect fiscal year 2007. The ILJAOC consists of 23 member agencies with an oversight board consisting of 12 members from the participating member agencies. The City acts as a treasurer for the ILJAOC and as such the activities of the ILJAOC are recorded in an Agency Fund. Annually, each member agency pays a percentage of the operating and replacement costs for the ILJAOC. The City's annual contribution and interest in the net equity of this joint venture at June 30, 2009, was immaterial. Complete separate financial statements can be obtained at the City of Newport Beach, 3300 Newport Boulevard, Newport Beach, California.

(16) Commitments and Contingencies

Claims and Judgments

Numerous claims and suits have been filed against the City in the normal course of business. The estimated liability under such claims, based upon information received from the City Attorney, contracted attorneys and the Risk Manager, has been estimated and recorded as accrued claims and judgments payable (See Note 6).

Circulation Improvement and Open Space Agreement

The City entered into a Circulation Improvement and Open Space Agreement (CIOSA) with a developer whereby the City received a loan of \$14,395,572 to be used only for certain transportation and circulation improvements. The City agreed to match the contribution (without interest) by pledging 50% of future Fair Share Fees (developer impact fees) which are recorded in the Circulation and Transportation Special Revenue Fund. During the year ended June 30, 2009, the City received \$859,820 of Fair Share Fees, and \$429,910 was paid to the CIOSA Construction capital projects fund. Through June 30, 2009, \$3,975,365 of Fair Share Fees has been paid. No additional liability has been recorded, because any future repayment is uncertain; any amounts not contributed by February 20, 2016, will be forgiven.

Newport Coast Pre-Annexation Agreement

In Fiscal Year 2001-02, the City entered into a Pre-Annexation Agreement with the Newport Coast Committee that stipulated certain terms and conditions for the annexation of property collectively known as Newport Coast.

In conjunction with the annexation, the City also agreed to sell the water service rights for the annexed area to Irvine Ranch Water District for \$25.0 million.

Among other basic provisions, the Pre-Annexation Agreement stipulates specific requirements for the use of proceeds from the sale of the water rights to Irvine Ranch Water District. The City has entered into an agreement to reimburse Newport Coast residents \$18.0 million of the \$25.0 million for certain public road and street improvements previously financed by property owner assessments. The assessment

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

debt relief will be provided to Newport Coast residents in equal installments of \$1.2 million over 15 years. The remaining \$7.0 million was used in locating, planning, and constructing a Community Center within the annexed area.

Contractual commitments

Construction and contractual commitments for major construction projects are as follows:

	Total Project Budget	Project To Date Expenditures	Unexpended Commitments
Oasis Senior Center Rebuild	\$19,440,842	\$2,219,776	\$12,406,841
Civic Center	7,099,486	1,694,415	5,465,839
Kings Road/Kings Place Pavement Reconstruction	800,000	71,839	703,244
Sunset Ridge Park	851,083	274,194	586,329
Bay Knolls and Mariners Community Slurry Seal	830,000	13,225	523,565

(17) Subsequent Events

Limited Obligation Bond Issue

Subsequent to year end the City has issued certain limited obligation, 1915 Act assessment district improvement bonds listed as follows:

	<u>District Name</u>	<u>Par Value</u>	<u>Issue Date</u>
Assessment District 103	Peninsula Point	\$3,295,700	October 2, 2009

The bonds are issued in serial maturities over fifteen years ranging from 1.5% to 4.1%. The proceeds of these bonds, together with certain investment earnings, and certain monies will be used to finance the cost of the undergrounding power, telephone and cable facilities. Bond proceeds will also be used to establish a debt service reserve fund and to pay the costs of issuance of the Bonds. The aggregate assessed value levied in the district exceeds \$168 million. Although the City will be collecting and disbursing funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Sale of Proposition 1A Receivable

The emergency suspension of Proposition 1A was passed by the Legislature and signed by the Governor as ABX4 14 and ABX4 15 as part of the 2009-10 budget package on July 28, 2009. Under the provision, the State will borrow 8% of the amount of property tax revenue apportioned to cities, counties and special districts. The state will be

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

required to repay those obligations plus interest by June 30, 2013. The City of Newport Beach share of the State borrowing amounts to nearly \$6.2 million.

Authorized under ABX4 14 and ABX4 15, the Proposition 1A Securitization Program was instituted by California Communities to enable Local Agencies to sell their respective Proposition 1A Receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A Receivables, issued bonds ("Prop 1A Bonds") and will provide each local agency with the cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies will equal 100% of the amount of the property tax reduction. All transaction costs of issuance and interest will be paid by the State of California. The City has no obligation on the bonds and no credit exposure to the State.

Early Retirement Incentive Program (ERIP)

In October, 2009, the City Council approved Resolution 2009-73 authorizing an Early Retirement Incentive Program (ERIP) to eligible employees, under the condition the program would meet the immediate and future fiscal, managerial and operational goals of the City to help mitigate declining General Fund revenues and institute long-term structural changes to avert future budget shortfalls and ensure that the City remains financially sound. There were 166 employees who met the following eligibility requirements:

- Full-time, miscellaneous (non- safety) employee
- 50 years of age or older as of January 31, 2010
- Eligible to retire from PERS with at least five years of service
- Have at least three years of service with the City as of January 31, 2010
- Would actually retire from the PERS system
- Not the City Manger, City Clerk, or the City Attorney

A total of 51 people participated and were approved by the Council for the Early Retirement Incentive Program through the Public Agency Retirement Systems ("PARS") Supplemental Retirement Program ("SRP"). The Supplemental Retirement Plan offered through PARS allowed the City to set the payment, eligibility, and refilling based on the City's needs, as well as allowing the expense to be known and quantifiable. The benefit to the participating employee is paid via a 15-year annuity of 7% of Final Pay up to \$75,000 and 6% of amount of Final Pay over \$75,000, and it complements and is in addition to an employee's CalPERS retirement benefit.

The total estimated cost to fund the ERIP benefit approximates \$950,000 for the first five years. After considering the costs of implementing the ERIP plan and the estimated reduction to the City payroll, the net savings are expected to reach nearly \$3.1 million annually.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2009

Financial Markets

A number of financial institutions have reported financial difficulties as an indirect result of delinquencies associated with home mortgages. The full ramifications of this are not determinable at this time and it's not possible to determine with certainty all of the institutions that might be impacted by current market conditions.

FINANCIAL SECTION

FINANCIAL SECTION

**SUPPLEMENTARY
INFORMATION**

NON-MAJOR GOVERNMENTAL FUNDS

NON-MAJOR GOVERNMENTAL FUNDS

Non-major Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specified purposes. The City of Newport Beach Special Revenue Funds are as follows:

The ***State Gas Tax Fund*** accounts for all State Gas Tax related revenues and expenditures, including street repair, construction, and maintenance. State law requires that these funds be used exclusively for maintenance of the street and highway system.

The ***Asset Forfeiture Fund*** was established to account for all revenues resulting from the seizure of assets in conjunction with criminal cases (primarily drug trafficking). It is the City's policy that all such funds shall be used for enhancement of law enforcement programs.

The ***Office of the Traffic Safety DUI Grant Fund (OTS)*** is used to account for federal funding of the Selective Traffic Enforcement Program (STEP). These funds are used exclusively for DUI enforcement.

The ***Justice Assistance Grant Fund (JAG)*** is used to account for federal support of law enforcement activities.

The ***Circulation and Transportation Fund*** is used to account for fair share revenues collected from developers and restricted for capital improvement projects meeting the circulation element of the City's General Plan.

The ***Building Excise Tax Fund*** is used to account for revenues received from builders or developers on building or remodeling projects within the City. Expenditures from this fund are used exclusively for public safety, libraries, parks, beaches, or recreational activities.

The ***Combined Transportation Fund*** is used to account for the revenues and expenditures of funds received from the Orange County Combined Transportation Funding Program. Expenditures from this fund are used exclusively for transportation related purposes.

The ***Arterial Highway Rehabilitation Fund*** is used to account for federal funds available through the Federal Highway Administration Arterial Highway Rehabilitation Program to share the cost of rehabilitating certain arterial roadways in the City.

The ***Community Development Block Grant Fund*** is used to account for revenues and expenditures relating to the City's Community Development Block Grant program. These funds are received from the Federal Department of Housing and Urban Development and must be expended exclusively on programs for low or moderate income individuals/families.

The ***Air Quality Management District Fund*** is used to account for revenues received from the South Coast Air Quality Management District restricted for the use of reducing air pollution.

The ***Environmental Liability Fund*** is used to account for solid waste fees restricted for mitigation of future environmental liability relating to the handling of solid waste.

The ***Supplemental Law Enforcement Services Fund (SLESF)*** is used to account for revenues received from the county to be used exclusively for front line law enforcement services.

The **Traffic Congestion Relief Fund** is used to account for all revenues received from the State Treasury related to Assembly Bill 2928. State law requires that these funds be used exclusively for maintenance or reconstruction costs on public streets and roads.

The **Newport Coast Annexation Fund** is used to account for revenues and expenditures related to the Newport Coast Annexation Agreement.

The **Prop 1 B Fund** is used to account for all revenues and expenditures related to the Prop 1 B fund. State law requires that these funds be used exclusively for all transportation related projects, including state highway safety and rehabilitation projects, local street and road improvements, congestion relief, traffic reduction and traffic safety.

Non-major Debt Service Funds

Debt Service Funds are used to account for debt service transactions including revenue collections and payments of principal and interest on long-term obligations of the City. The City of Newport Beach Debt Service Fund is as follows:

The **Library COP Fund** is used to account for the debt service transactions related to the Certificates of Participation used to finance the construction of the Central Library.

Non-major Capital Projects Funds

Capital Projects Funds are used to account for resources used for the acquisition and construction of capital facilities by the City, except those financed by Enterprise Funds. The City of Newport Beach Capital Projects Funds are as follows:

The **Assessment District Fund** is used to account for the receipt and expenditure of funds received from 1911 Act and 1915 Act Assessment Districts for capital improvement projects.

The **CIOSA Construction Fund** is used to account for the receipt and expenditure of funds for the Circulation Improvement and Open Space Agreement (CIOSA). The improvements include street and frontage improvements.

The **Bonita Canyon Development Fund** is used to account for the receipt and expenditure of funds for the Bonita Canyon Public Facilities Agreement. The improvements include certain public parks and recreation facilities, and street improvements and facilities.

The **Oil Spill Remediation Fund** is used to account for the receipt of the settlement proceeds from the American Trader Company. These funds must be used on projects affecting the areas damaged by the spill.

The **Fire Station 7 Fund** is used to account for the property acquisition, design and construction of a new fire station which will replace a temporary fire station that provides service in the northern part of the city.

The **Marine Science Center Fund** is used to account for the design and construction of a new Marine Science Center.

The **City Hall Improvement Fund** is used to account for the design and construction of a new Civic Center Complex.

The **Mariners Library Fund** is a Special Revenue Fund used to account for revenues and expenditures of funds for the Mariners Library Capital Project.

The **Oasis Senior Center Fund** is used to account for revenues and expenditures associated with the development and construction of the Oasis Senior Center.

The **Misc. Santa Ana Heights Projects Fund** is used to account for various grants and projects associated with providing public works, parks and recreation opportunities within the part of the City known as Santa Ana Heights.

The **Marina Park Fund** is used to account for the design and construction of the Marina Park.

The **Sunset Ridge Park Fund** is used to account for the design and construction of the Sunset Ridge Park.

The **Police Facility Fund** is used to account for expenditures for the future space needs expected of the existing facility buildings, including detailed facility planning and budgetary guidelines for possible building rehabilitation and/or expansion projects.

The **LG Headquarters Fund** is used to account for expenditures for the future space needs expected of the existing headquarters buildings, including detailed facility planning and budgetary guidelines for possible building rehabilitation and/or expansion projects.

Non-major Permanent Funds

Permanent Funds are used to report resources that are legally restricted for the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. The City of Newport Beach Permanent Fund is as follows:

The **Bay Dredging Fund** is used to account for the receipt of permanent endowments intended to fund the ongoing cost of maintaining and dredging of the Upper Newport Bay.

The **Ackerman Fund** is used to account for the receipt of permanent endowments intended as follows: 75% of the fund's investment proceeds will be used for the purchase of High Tech Library Equipment while the remaining 25% will be used for Scholarships for needy students.

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CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue				
	State Gas Tax	Asset Forfeiture	OTS DUI Grant	JAG	Circulation and Transportation
Assets					
Cash and investments	\$ 2,765,000	\$ 229,869	\$ -	\$ -	\$ 2,046,113
Receivables:					
Accounts	-	1,918	-	-	-
Intergovernmental receivables	-	55,209	-	-	-
Cash with fiscal agent	-	-	-	-	-
Prepaid items	-	-	-	-	-
	-	-	-	-	-
Total Assets	<u>\$ 2,765,000</u>	<u>\$ 286,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,046,113</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 447	\$ -	\$ -	\$ -	\$ 28,285
Unearned revenue	-	-	-	-	-
Unavailable revenue	-	-	-	-	-
Due to other funds	-	-	42,849	-	-
	-	-	-	-	-
Total Liabilities	<u>447</u>	<u>-</u>	<u>42,849</u>	<u>-</u>	<u>28,285</u>
Fund balances:					
Reserved for encumbrances	542,837	-	-	-	250,620
Reserved for debt service	-	-	-	-	-
Reserved for permanent endowment	-	-	-	-	-
Reserved for prepaid items	-	-	-	-	-
Unreserved:					
Designated for special purposes	2,221,716	286,996	-	-	1,767,208
Undesignated	-	-	(42,849)	-	-
	-	-	-	-	-
Total fund balances	<u>2,764,553</u>	<u>286,996</u>	<u>(42,849)</u>	<u>-</u>	<u>2,017,828</u>
Total liabilities and fund balances	<u>\$ 2,765,000</u>	<u>\$ 286,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,046,113</u>

Special Revenue

Building Excise Tax	Combined Transportation	Arterial Highway Rehabilitation	Community Development Block Grant	Air Quality Management District	Environmental Liability
\$ 277,417	\$ 3,974,325	\$ -	\$ -	\$ 465,418	\$ 3,034,533
-	-	-	-	-	5,826
-	325,018	-	32,013	-	-
-	-	-	-	-	-
-	-	-	-	-	68,864
<u>\$ 277,417</u>	<u>\$ 4,299,343</u>	<u>\$ -</u>	<u>\$ 32,013</u>	<u>\$ 465,418</u>	<u>\$ 3,109,223</u>
\$ 14,882	\$ 120,036	\$ -	\$ 22,130	\$ 3,045	\$ 17,978
-	219,531	-	-	-	-
-	142,682	-	-	-	-
-	-	-	9,883	-	-
<u>14,882</u>	<u>482,249</u>	<u>-</u>	<u>32,013</u>	<u>3,045</u>	<u>17,978</u>
14,448	1,424,406	-	-	-	3,609
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	137,728
248,087	2,392,688	-	-	462,373	2,949,908
-	-	-	-	-	-
<u>262,535</u>	<u>3,817,094</u>	<u>-</u>	<u>-</u>	<u>462,373</u>	<u>3,091,245</u>
<u>\$ 277,417</u>	<u>\$ 4,299,343</u>	<u>\$ -</u>	<u>\$ 32,013</u>	<u>\$ 465,418</u>	<u>\$ 3,109,223</u>

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009
(continued)

	Special Revenue			
	Supplemental Law Enforcement	Traffic Congestion Relief	Newport Coast Annexation	Prop 1B Transportation
Assets				
Cash and investments	\$ -	\$ 241,817	\$ 9,600,000	\$ 1,303,377
Receivables:				
Accounts	-	-	-	-
Intergovernmental receivables	-	173,814	-	-
Cash with fiscal agent	-	-	-	-
Prepaid items	-	-	-	-
	-	-	-	-
Total Assets	\$ -	\$ 415,631	\$ 9,600,000	\$ 1,303,377
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 22,160	\$ -	\$ -
Unearned revenue	-	-	-	-
Unavailable revenue	-	-	-	-
Due to other funds	-	-	-	-
	-	-	-	-
Total Liabilities	-	22,160	-	-
Fund balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Reserved for prepaid items	-	-	-	-
Unreserved:				
Designated for special purposes	-	393,471	9,600,000	1,303,377
Undesignated	-	-	-	-
	-	-	-	-
Total fund balances	-	393,471	9,600,000	1,303,377
Total liabilities and fund balances	\$ -	\$ 415,631	\$ 9,600,000	\$ 1,303,377

Debt Service	Capital Projects				
Library COP	Assessment District	CIOSA Construction	Bonita Canyon Development	Oil Spill Remediation	Fire Station 7
\$ -	\$ 1,665,194	\$ 1,935,818	\$ -	\$ -	\$ 52,318
-	41,417	-	-	-	-
-	-	-	-	-	-
565,778	1,569,798	-	1,005,565	-	-
-	-	-	-	-	-
<u>\$ 565,778</u>	<u>\$ 3,276,409</u>	<u>\$ 1,935,818</u>	<u>\$ 1,005,565</u>	<u>\$ -</u>	<u>\$ 52,318</u>
\$ -	\$ 65,704	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	27,603	-	-
-	65,704	-	27,603	-	-
-	259,052	10,489	-	-	-
565,778	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,951,653	1,925,329	977,962	-	52,318
-	-	-	-	-	-
565,778	3,210,705	1,935,818	977,962	-	52,318
<u>\$ 565,778</u>	<u>\$ 3,276,409</u>	<u>\$ 1,935,818</u>	<u>\$ 1,005,565</u>	<u>\$ -</u>	<u>\$ 52,318</u>

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009
(continued)

	Capital Projects			
	Marine Science Center	City Hall Improvements	Mariners Library	Oasis Senior Center
Assets				
Cash and investments	\$ -	\$ -	\$ -	\$ 6,009,088
Receivables:				
Accounts	90,000	-	-	-
Intergovernmental receivables	-	-	-	-
Cash with fiscal agent	-	-	-	-
Prepaid items	-	-	-	-
	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,009,088</u>
Total Assets				
	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,009,088</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,435	\$ 523,725	\$ -	\$ 523,171
Unearned revenue	-	-	-	-
Unavailable revenue	-	-	-	-
Due to other funds	506,713	1,227,088	-	-
	<u>510,148</u>	<u>1,750,813</u>	<u>-</u>	<u>523,171</u>
Total Liabilities				
	<u>510,148</u>	<u>1,750,813</u>	<u>-</u>	<u>523,171</u>
Fund balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Reserved for prepaid items	-	-	-	-
Unreserved:				
Designated for special purposes	-	-	-	5,485,917
Undesignated	(420,148)	(1,750,813)	-	-
	<u>(420,148)</u>	<u>(1,750,813)</u>	<u>-</u>	<u>5,485,917</u>
Total fund balances				
	<u>(420,148)</u>	<u>(1,750,813)</u>	<u>-</u>	<u>5,485,917</u>
Total liabilities and fund balances	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,009,088</u>

<u>Misc SAH Projects</u>	<u>Marina Park</u>	<u>Sunset Ridge Park</u>	<u>Police Facility</u>	<u>Lifeguard Headquarters</u>
\$ -	\$ -	\$ -	\$ -	\$ -
396,641	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 396,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 190	\$ 51,375	\$ 74,842	\$ -	\$ 14,000
-	-	-	-	-
396,641	-	-	-	-
<u>417,531</u>	<u>806,017</u>	<u>168,459</u>	<u>2,175</u>	<u>16,179</u>
<u>814,362</u>	<u>857,392</u>	<u>243,301</u>	<u>2,175</u>	<u>30,179</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>(417,721)</u>	<u>(857,392)</u>	<u>(243,301)</u>	<u>(2,175)</u>	<u>(30,179)</u>
<u>(417,721)</u>	<u>(857,392)</u>	<u>(243,301)</u>	<u>(2,175)</u>	<u>(30,179)</u>
<u>\$ 396,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009
(continued)

	<u>Permanent Fund</u>		Total Other Governmental Funds
	<u>Bay Dredging</u>	<u>Ackerman Donation</u>	
Assets			
Cash and investments	\$ 4,658,653	\$ 1,141,487	\$ 39,400,427
Receivables:			
Accounts	-	-	535,802
Intergovernmental receivables	-	-	586,054
Cash with fiscal agent	-	-	3,141,141
Prepaid items	-	-	68,864
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,658,653</u>	<u>\$ 1,141,487</u>	<u>\$ 43,732,288</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 350	\$ 1,485,755
Unearned revenue	-	-	219,531
Unavailable revenue	-	-	539,323
Due to other funds	-	-	3,224,497
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>350</u>	<u>5,469,106</u>
 Fund balances:			
Reserved for encumbrances	-	-	2,505,461
Reserved for debt service	-	-	565,778
Reserved for permanent endowment	3,857,000	772,781	4,629,781
Reserved for prepaid items	-	-	137,728
Unreserved:			
Designated for special purposes	801,653	368,356	34,189,012
Undesignated	-	-	(3,764,578)
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>4,658,653</u>	<u>1,141,137</u>	<u>38,263,182</u>
Total liabilities and fund balances	<u>\$ 4,658,653</u>	<u>\$ 1,141,487</u>	<u>\$ 43,732,288</u>

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CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2009

	Special Revenue			
	State Gas Tax	Asset Forfeiture	OTS DUI Grant	JAG
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,731,934	105,045	239,948	13,825
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	83,831	6,191	-	-
Net increase in fair value of investments	31,511	1,893	-	-
Donations	-	-	-	-
Other	-	-	-	-
Total revenues	1,847,276	113,129	239,948	13,825
Expenditures:				
Current:				
Public safety	-	25,329	165,564	6,403
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	1,865,666	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	1,865,666	25,329	165,564	6,403
Excess (deficiency) of revenues over expenditures	(18,390)	87,800	74,384	7,422
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(160,000)	-	-	-
Total other financing sources (uses)	(160,000)	-	-	-
Net change in fund balances	(178,390)	87,800	74,384	7,422
Fund balances (deficit), beginning	2,942,943	199,196	(117,233)	(7,422)
Fund balances (deficit), ending	<u>\$ 2,764,553</u>	<u>\$ 286,996</u>	<u>\$ (42,849)</u>	<u>\$ -</u>

Special Revenue

Circulation and Transportation	Building Excise Tax	Combined Transportation	Arterial Highway Rehabilitation	Community Development Block Grant	Air Quality Management District	Environmental Liability
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 497,932
-	-	1,730,412	670,918	551,715	98,737	-
-	175,831	-	-	-	-	-
859,820	-	-	-	-	-	-
76,637	7,256	123,062	-	-	12,920	87,991
28,807	2,728	46,257	-	-	4,857	32,930
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>965,264</u>	<u>185,815</u>	<u>1,899,731</u>	<u>670,918</u>	<u>551,715</u>	<u>116,514</u>	<u>618,853</u>
-	-	-	-	-	-	-
-	-	-	-	-	16,705	123,878
-	-	-	-	124,479	-	-
-	-	-	-	-	-	-
587,483	182,508	1,710,197	309,661	164,809	-	67,382
-	-	-	-	84,000	-	-
-	-	-	-	112,253	-	-
<u>587,483</u>	<u>182,508</u>	<u>1,710,197</u>	<u>309,661</u>	<u>485,541</u>	<u>16,705</u>	<u>191,260</u>
<u>377,781</u>	<u>3,307</u>	<u>189,534</u>	<u>361,257</u>	<u>66,174</u>	<u>99,809</u>	<u>427,593</u>
-	-	-	-	9,355	-	-
<u>(509,910)</u>	<u>-</u>	<u>-</u>	<u>(10,658)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(509,910)</u>	<u>-</u>	<u>-</u>	<u>(10,658)</u>	<u>9,355</u>	<u>-</u>	<u>-</u>
(132,129)	3,307	189,534	350,599	75,529	99,809	427,593
<u>2,149,957</u>	<u>259,228</u>	<u>3,627,560</u>	<u>(350,599)</u>	<u>(75,529)</u>	<u>362,564</u>	<u>2,663,652</u>
<u>\$ 2,017,828</u>	<u>\$ 262,535</u>	<u>\$ 3,817,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,373</u>	<u>\$ 3,091,245</u>

(continued)

CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2009
(continued)

	Special Revenue			
	Supplemental Law Enforcement	Traffic Congestion Relief	Newport Coast Annexation	Prop 1B Transportation
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	81,004	718,852	-	1,252,014
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	659	3,247	381,234	37,266
Net increase in fair value of investments	-	1,221	58,121	14,008
Donations	-	-	-	-
Other	-	-	-	-
	<u>81,663</u>	<u>723,320</u>	<u>439,355</u>	<u>1,303,288</u>
Expenditures:				
Current:				
Public safety	81,663	-	-	-
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	-	333,884	-	1,354,500
Debt service:				
Principal	-	-	1,200,000	-
Interest and fiscal charges	-	-	-	-
	<u>81,663</u>	<u>333,884</u>	<u>1,200,000</u>	<u>1,354,500</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>389,436</u>	<u>(760,645)</u>	<u>(51,212)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(439,355)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(439,355)</u>	<u>-</u>
Net change in fund balances	-	389,436	(1,200,000)	(51,212)
Fund balances, beginning	<u>-</u>	<u>4,035</u>	<u>10,800,000</u>	<u>1,354,589</u>
Fund balances (deficit), ending	<u>\$ -</u>	<u>\$ 393,471</u>	<u>\$ 9,600,000</u>	<u>\$ 1,303,377</u>

Debt Service**Capital Projects**

<u>Library COP</u>	<u>Assessment District</u>	<u>CIOSA Construction</u>	<u>Bonita Canyon Development</u>	<u>Oil Spill Remediation</u>	<u>Fire Station 7</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
22,023	2,286	75,889	3,322	700	2,318
-	12,183	28,525	-	-	-
-	-	-	-	-	-
-	8,073,604	-	190,500	-	-
<u>22,023</u>	<u>8,088,073</u>	<u>104,414</u>	<u>193,822</u>	<u>700</u>	<u>2,318</u>
-	-	-	-	-	-
-	-	268,011	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	6,708,317	997,208	-	10,051	27,620
330,000	-	-	-	-	-
240,984	-	-	-	-	-
<u>570,984</u>	<u>6,708,317</u>	<u>1,265,219</u>	<u>-</u>	<u>10,051</u>	<u>27,620</u>
<u>(548,961)</u>	<u>1,379,756</u>	<u>(1,160,805)</u>	<u>193,822</u>	<u>(9,351)</u>	<u>(25,302)</u>
548,750	764,634	429,910	-	-	-
-	-	-	-	(12,150)	-
<u>548,750</u>	<u>764,634</u>	<u>429,910</u>	<u>-</u>	<u>(12,150)</u>	<u>-</u>
(211)	2,144,390	(730,895)	193,822	(21,501)	(25,302)
565,989	1,066,315	2,666,713	784,140	21,501	77,620
<u>\$ 565,778</u>	<u>\$ 3,210,705</u>	<u>\$ 1,935,818</u>	<u>\$ 977,962</u>	<u>\$ -</u>	<u>\$ 52,318</u>

(continued)

CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2009
(continued)

Capital Projects

	<u>Marine Science Center</u>	<u>City Hall Improvement</u>	<u>Mariners Library</u>	<u>Oasis Senior Center</u>
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	450,000	-	-	-
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment income	-	-	-	119,886
Net increase in fair value of investments	-	-	-	-
Donations	22,313	-	-	6,392,588
Other	2,057	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	474,370	-	-	6,512,474
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	2,282,350
Capital outlay	216,843	1,694,416	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	216,843	1,694,416	-	2,282,350
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	257,527	(1,694,416)	-	4,230,124
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses):				
Transfers in	47,150	-	-	-
Transfers out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	47,150	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	304,677	(1,694,416)	-	4,230,124
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning	(724,825)	(56,397)	-	1,255,793
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances (deficit), ending	\$ (420,148)	\$ (1,750,813)	\$ -	\$ 5,485,917
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Capital Projects

<u>Misc SAH Projects</u>	<u>Marina Park</u>	<u>Sunset Ridge Park</u>	<u>Police Facility</u>	<u>Lifeguard Headquarters</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
135,715	717,558	243,301	2,175	30,179
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
135,715	717,558	243,301	2,175	30,179
<u>(135,715)</u>	<u>(717,558)</u>	<u>(243,301)</u>	<u>(2,175)</u>	<u>(30,179)</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(135,715)	(717,558)	(243,301)	(2,175)	(30,179)
<u>(282,006)</u>	<u>(139,834)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (417,721)</u>	<u>\$ (857,392)</u>	<u>\$ (243,301)</u>	<u>\$ (2,175)</u>	<u>\$ (30,179)</u>

(continued)

CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2009
(continued)

	Permanent Funds		Total Other Governmental Funds
	Bay Dredging	Ackerman Donation	
Revenues:			
Other taxes	\$ -	\$ -	\$ 497,932
Intergovernmental	-	-	7,644,404
Licenses, permits and fees	-	-	175,831
Fines and forfeitures	-	-	859,820
Investment income	142,243	50,565	1,239,526
Net increase in fair value of investments	61,903	-	324,944
Donations	-	-	6,414,901
Other	-	-	8,266,161
Total revenues	204,146	50,565	25,423,519
Expenditures:			
Current:			
Public safety	-	-	278,959
Public works	-	-	408,594
Community development	-	19,350	1,272,757
Community services	-	-	2,282,350
Capital outlay	-	-	16,230,545
Debt service:			
Principal	-	-	1,614,000
Interest and fiscal charges	-	-	353,237
	-	19,350	22,440,442
Excess (deficiency) of revenues over expenditures	204,146	31,215	2,983,077
Other financing sources (uses):			
Transfers in	-	-	1,799,799
Transfers out	-	-	(1,132,073)
Total other financing sources (uses)	-	-	667,726
Net change in fund balances	204,146	31,215	3,650,803
Fund balances, beginning	4,454,507	1,109,922	34,612,379
Fund balances (deficit), ending	<u>\$ 4,658,653</u>	<u>\$ 1,141,137</u>	<u>\$ 38,263,182</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
State Gas Tax Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,507,500	\$ 1,507,500	\$ 1,731,934	\$ 224,434
Investment income	145,000	145,000	83,831	(61,169)
Net increase in fair value of investments	-	-	31,511	31,511
Total revenues	<u>1,652,500</u>	<u>1,652,500</u>	<u>1,847,276</u>	<u>194,776</u>
Expenditures:				
Capital outlay	<u>4,561,003</u>	<u>3,187,829</u>	<u>1,865,666</u>	<u>1,322,163</u>
Total Expenditures	<u>4,561,003</u>	<u>3,187,829</u>	<u>1,865,666</u>	<u>(1,322,163)</u>
Excess (deficiency) of revenues over expenditures	(2,908,503)	(1,535,329)	(18,390)	1,516,939
Other financing uses:				
Transfers out	<u>(160,000)</u>	<u>(160,000)</u>	<u>(160,000)</u>	-
Net change in fund balance	(3,068,503)	(1,695,329)	(178,390)	1,516,939
Fund balance, beginning	<u>2,942,943</u>	<u>2,942,943</u>	<u>2,942,943</u>	-
Fund balance (deficit), ending	<u>\$ (125,560)</u>	<u>\$ 1,247,614</u>	<u>2,764,553</u>	<u>\$ 1,516,939</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Asset Forfeiture Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 105,045	\$ 65,045
Investment income	3,210	3,210	6,191	2,981
Net increase in fair value of investments	-	-	1,893	1,893
Total revenues	<u>43,210</u>	<u>43,210</u>	<u>113,129</u>	<u>69,919</u>
Expenditures				
Public safety	<u>66,310</u>	<u>117,822</u>	<u>25,329</u>	<u>92,493</u>
Net change in fund balance	(23,100)	(74,612)	87,800	162,412
Fund balance, beginning	<u>199,196</u>	<u>199,196</u>	<u>199,196</u>	<u>-</u>
Fund balance, ending	<u>\$ 176,096</u>	<u>\$ 124,584</u>	<u>\$ 286,996</u>	<u>\$ 162,412</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
OTS DUI Grant Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 345,591	\$ 345,591	\$ 239,948	\$ (105,643)
Total revenues	345,591	345,591	239,948	(105,643)
Expenditures				
Public safety	229,731	229,731	165,564	64,167
Net change in fund balance	115,860	115,860	74,384	(41,476)
Fund balance (deficit), beginning	(117,233)	(117,233)	(117,233)	-
Fund balance (deficit), ending	<u>\$ (1,373)</u>	<u>\$ (1,373)</u>	<u>\$ (42,849)</u>	<u>\$ (41,476)</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
JAG Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 13,825	\$ 13,825
Total revenues	-	-	13,825	13,825
Expenditures				
Public safety	-	-	6,403	(6,403)
Net change in fund balance	-	-	7,422	7,422
Fund balance (deficit), beginning	(7,422)	(7,422)	(7,422)	-
Fund balance (deficit), ending	<u>\$ (7,422)</u>	<u>\$ (7,422)</u>	<u>\$ -</u>	<u>\$ 7,422</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Circulation and Transportation Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses, permits and fees	\$ 859,820	\$ 859,820	\$ 859,820	\$ -
Investment income	75,000	75,000	76,637	1,637
Net increase in fair value of investments	-	-	28,807	28,807
Total revenues	<u>934,820</u>	<u>934,820</u>	<u>965,264</u>	<u>30,444</u>
Expenditures:				
Capital outlay	<u>1,936,066</u>	<u>1,026,485</u>	<u>587,483</u>	<u>439,002</u>
Excess (deficiency) of revenues over expenditures	(1,001,246)	(91,665)	377,781	469,446
Other financing uses:				
Transfers out	<u>(80,000)</u>	<u>(510,000)</u>	<u>(509,910)</u>	<u>90</u>
Net change in fund balance	(1,081,246)	(601,665)	(132,129)	469,536
Fund balance, beginning	<u>2,149,957</u>	<u>2,149,957</u>	<u>2,149,957</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 1,068,711</u></u>	<u><u>\$ 1,548,292</u></u>	<u><u>\$ 2,017,828</u></u>	<u><u>\$ 469,536</u></u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Building Excise Tax Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses, permits and fees	\$ 125,000	\$ 125,000	\$ 175,831	\$ 50,831
Investment income	1,000	1,000	7,256	6,256
Net increase in fair value of investments	-	-	2,728	2,728
	<u>126,000</u>	<u>126,000</u>	<u>185,815</u>	<u>59,815</u>
Expenditures:				
Capital outlay	<u>335,921</u>	<u>335,921</u>	<u>182,508</u>	<u>153,413</u>
	<u>(209,921)</u>	<u>(209,921)</u>	<u>3,307</u>	<u>213,228</u>
Fund balance, beginning	<u>259,228</u>	<u>259,228</u>	<u>259,228</u>	<u>-</u>
Fund balance, ending	<u>\$ 49,307</u>	<u>\$ 49,307</u>	<u>\$ 262,535</u>	<u>\$ 213,228</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Combined Transportation Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 2,067,348	\$ 2,100,348	\$ 1,730,412	\$ (369,936)
Investment income	75,000	75,000	123,062	48,062
Net increase in fair value of investments	-	-	46,257	46,257
Total revenues	<u>2,142,348</u>	<u>2,175,348</u>	<u>1,899,731</u>	<u>(275,617)</u>
Expenditures:				
Capital outlay	<u>5,853,490</u>	<u>3,447,264</u>	<u>1,710,197</u>	<u>1,737,067</u>
Net change in fund balance	(3,711,142)	(1,271,916)	189,534	1,461,450
Fund balance, beginning	<u>3,627,560</u>	<u>3,627,560</u>	<u>3,627,560</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (83,582)</u>	<u>\$ 2,355,644</u>	<u>\$ 3,817,094</u>	<u>\$ 1,461,450</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Arterial Highway Rehabilitation Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 400,000	\$ 691,342	\$ 670,918	\$ (20,424)
Total revenues	400,000	691,342	670,918	(20,424)
Expenditures:				
Capital outlay	291,342	291,342	309,661	(18,319)
Excess (deficiency) of revenues over expenditures	108,658	400,000	361,257	(38,743)
Other financing uses:				
Transfers out	-	-	(10,658)	(10,658)
Net change in fund balance	108,658	400,000	350,599	(49,401)
Fund balance (deficit), beginning	<u>(350,599)</u>	<u>(350,599)</u>	<u>(350,599)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (241,941)</u>	<u>\$ 49,401</u>	<u>\$ -</u>	<u>\$ (49,401)</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 452,262	\$ 452,262	\$ 551,715	\$ 99,453
Total revenues	452,262	452,262	551,715	99,453
Expenditures:				
Community development	142,806	142,806	124,479	18,327
Capital outlay	164,812	261,415	164,809	96,606
Debt service:				
Principal	84,000	84,000	84,000	-
Interest and fiscal charges	112,253	112,253	112,253	-
Total expenditures	503,871	600,474	485,541	114,933
Excess (deficiency) of revenues over expenditures	(51,609)	(148,212)	66,174	214,386
Other financing sources:				
Transfers In	-	-	9,355	9,355
Transfers (Out)	(15,450)	(15,450)	-	15,450
Total other financing (uses)	(15,450)	(15,450)	9,355	24,805
Net change in fund balance	(67,059)	(163,662)	75,529	239,191
Fund balance (deficit), beginning	(75,529)	(75,529)	(75,529)	-
Fund balance (deficit), ending	\$ (142,588)	\$ (239,191)	\$ -	\$ 239,191

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Air Quality Management District Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 98,737	\$ (1,263)
Investment income	12,000	12,000	12,920	920
Net increase in fair value of investments	<u>-</u>	<u>-</u>	<u>4,857</u>	<u>4,857</u>
Total revenues	<u>112,000</u>	<u>112,000</u>	<u>116,514</u>	<u>4,514</u>
Expenditures:				
Public works	<u>26,415</u>	<u>26,415</u>	<u>16,705</u>	<u>9,710</u>
Net change in fund balance	85,585	85,585	99,809	14,224
Fund balance, beginning	<u>362,564</u>	<u>362,564</u>	<u>362,564</u>	<u>-</u>
Fund balance, ending	<u>\$ 448,149</u>	<u>\$ 448,149</u>	<u>\$ 462,373</u>	<u>\$ 14,224</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Environmental Liability Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 425,000	\$ 425,000	\$ 497,932	\$ 72,932
Investment income	140,000	140,000	87,991	(52,009)
Net increase in fair value of investments	-	-	32,930	32,930
Total revenues	<u>565,000</u>	<u>565,000</u>	<u>618,853</u>	<u>53,853</u>
Expenditures:				
Public works	\$ 70,000	\$ 128,400	\$ 123,878	\$ 4,522
Capital outlay	27,780	68,680	67,382	1,298
Total expenditures	<u>97,780</u>	<u>197,080</u>	<u>191,260</u>	<u>5,820</u>
Net change in fund balance	467,220	367,920	427,593	59,673
Fund balance, beginning	<u>2,663,652</u>	<u>2,663,652</u>	<u>2,663,652</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 3,130,872</u></u>	<u><u>\$ 3,031,572</u></u>	<u><u>\$ 3,091,245</u></u>	<u><u>\$ 59,673</u></u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Supplemental Law Enforcement Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 160,000	\$ 160,000	\$ 81,004	\$ (78,996)
Investment income	2,000	2,000	659	(1,341)
Total revenues	<u>162,000</u>	<u>162,000</u>	<u>81,663</u>	<u>(80,337)</u>
Expenditures:				
Public safety	<u>162,000</u>	<u>162,000</u>	<u>81,663</u>	<u>80,337</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Traffic Congestion Special Revenue Fund
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,138,717	\$ 1,138,717	\$ 718,852	\$ (419,865)
Investment income	30,000	30,000	3,247	(26,753)
Net increase in fair value of investments	-	-	1,221	1,221
Total revenues	<u>1,168,717</u>	<u>1,168,717</u>	<u>723,320</u>	<u>(445,397)</u>
Expenditures:				
Capital outlay	<u>926,000</u>	<u>343,200</u>	<u>333,884</u>	<u>9,316</u>
Net change in fund balance	242,717	825,517	389,436	(436,081)
Fund balance, beginning	<u>4,035</u>	<u>4,035</u>	<u>4,035</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 246,752</u></u>	<u><u>\$ 829,552</u></u>	<u><u>\$ 393,471</u></u>	<u><u>\$ (436,081)</u></u>

CITY OF NEWPORT BEACH
Newport Coast Annexation
Budgetary Comparison Statement
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Investment income	450,000	450,000	381,234	(68,766)
Net increase in fair value of investments	-	-	58,121	58,121
Total revenues	<u>450,000</u>	<u>450,000</u>	<u>439,355</u>	<u>(10,645)</u>
Expenditures				
Debt service:				
Principal	1,200,000	1,200,000	1,200,000	-
Total expenditures	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(750,000)</u>	<u>(750,000)</u>	<u>(760,645)</u>	<u>(10,645)</u>
Other financing uses				
Transfers in	-	-	-	-
Transfers out	(200,000)	(200,000)	(439,355)	(239,355)
Total other financing (uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>(439,355)</u>	<u>(239,355)</u>
Net change in fund balance	<u>(950,000)</u>	<u>(950,000)</u>	<u>(1,200,000)</u>	<u>(250,000)</u>
Fund balance, beginning	<u>10,800,000</u>	<u>10,800,000</u>	<u>10,800,000</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 9,850,000</u></u>	<u><u>\$ 9,850,000</u></u>	<u><u>\$ 9,600,000</u></u>	<u><u>\$ (250,000)</u></u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Proposition 1B Transportation Special Revenue Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,354,500	\$ 1,354,500	\$ 1,252,014	\$ (102,486)
Investment income	-	-	37,266	37,266
Net increase in fair value of investments	-	-	14,008	14,008
Total revenues	<u>1,354,500</u>	<u>1,354,500</u>	<u>1,303,288</u>	<u>(51,212)</u>
Expenditures:				
Capital outlay	<u>1,354,500</u>	<u>1,354,500</u>	<u>1,354,500</u>	<u>-</u>
Net change in fund balance	-	-	(51,212)	(51,212)
Fund balance, beginning	<u>1,354,589</u>	<u>1,354,589</u>	<u>1,354,589</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 1,354,589</u></u>	<u><u>\$ 1,354,589</u></u>	<u><u>\$ 1,303,377</u></u>	<u><u>\$ (51,212)</u></u>

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FINANCIAL SECTION

FINANCIAL SECTION

**SUPPLEMENTARY
INFORMATION**

INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

The City of Newport Beach Internal Service Funds are listed below:

The ***Insurance Reserve Fund*** is used to account for the City's self-insured general liability and workers' compensation program.

The ***Compensated Absences Fund*** is used to account for the City's accumulated liability for compensated absences.

The ***Retiree Insurance Fund*** is used to account for the cost of providing post-employment Health Care Benefit.

The ***Equipment Fund*** is used to account for the cost of maintaining and replacing the City's rolling stock fleet and the rental of the fleet to operating departments.

CITY OF NEWPORT BEACH
All Internal Service Funds
Combining Statement of Net Assets
June 30, 2009

Assets	<u>Insurance Reserve</u>	<u>Compensated Absence</u>	<u>Retiree Insurance</u>	<u>Equipment Maintenance</u>	<u>Total Internal Service Funds</u>
Current assets:					
Cash and investments	\$ 20,882,363	\$ 3,177,746	\$ -	\$ 15,426,317	\$ 39,486,426
Receivables:			-		
Accounts	307,642	-	569,147	13,258	890,047
Inventories	-	-	-	259,731	259,731
Prepaid items	-	-	161,579	-	161,579
Total current assets	<u>21,190,005</u>	<u>3,177,746</u>	<u>730,726</u>	<u>15,699,306</u>	<u>40,797,783</u>
Non-current assets:					
Capital assets:					
Equipment	-	-	-	22,691,452	22,691,452
Less accumulated depreciation	-	-	-	<u>(15,883,324)</u>	<u>(15,883,324)</u>
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,808,128</u>	<u>6,808,128</u>
Total assets	<u>21,190,005</u>	<u>3,177,746</u>	<u>730,726</u>	<u>22,507,434</u>	<u>47,605,911</u>
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 482,462	\$ -	\$ 13,455	\$ 102,865	\$ 598,782
Accrued payroll	-	-	-	43,376	43,376
Due to general fund	-	-	462,187	-	462,187
Workers' compensation - current	2,973,250	-	-	-	2,973,250
General liability - current	2,446,253	-	-	-	2,446,253
Compensated absences - current	-	1,939,662	-	-	1,939,662
Total current liabilities	<u>5,901,965</u>	<u>1,939,662</u>	<u>475,642</u>	<u>146,241</u>	<u>8,463,510</u>
Non-current liabilities:					
Workers' compensation	8,919,750	-	-	-	8,919,750
General liability	3,451,484	-	-	-	3,451,484
Compensated absences	-	7,844,423	-	-	7,844,423
Net OPEB obligation	-	-	4,408,000	-	4,408,000
Total Noncurrent liabilities	<u>12,371,234</u>	<u>7,844,423</u>	<u>4,408,000</u>	<u>-</u>	<u>24,623,657</u>
Total liabilities	<u>18,273,199</u>	<u>9,784,085</u>	<u>4,883,642</u>	<u>146,241</u>	<u>33,087,167</u>
Net Assets					
Invested in capital assets, net of related debt	-	-	-	6,808,128	6,808,128
Unrestricted	<u>2,916,806</u>	<u>(6,606,339)</u>	<u>(4,152,916)</u>	<u>15,553,065</u>	<u>7,710,616</u>
Total net assets	<u>\$ 2,916,806</u>	<u>\$ (6,606,339)</u>	<u>\$ (4,152,916)</u>	<u>\$ 22,361,193</u>	<u>\$ 14,518,744</u>

CITY OF NEWPORT BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended June 30, 2009

	<u>Insurance Reserve</u>	<u>Compensated Absence</u>	<u>Retiree Insurance</u>	<u>Equipment Maintenance</u>	<u>Total Internal Service Funds</u>
Operating revenues:					
Charges for services	\$ 6,528,118	\$ 2,266,002	\$ 2,720,000	\$ 6,193,129	\$ 17,707,249
Retiree reimbursements	-	-	1,043,956	-	1,043,956
Employee contributions	-	-	376,538	-	376,538
Other	307,814	-	47,849	933	356,596
Total operating revenues	<u>6,835,932</u>	<u>2,266,002</u>	<u>4,188,343</u>	<u>6,194,062</u>	<u>19,484,339</u>
Operating expenses:					
Salaries and wages	-	-	-	1,520,219	1,520,219
Depreciation	-	-	-	1,846,971	1,846,971
Professional services	-	-	-	51,067	51,067
Maintenance and supplies	-	-	-	615,644	615,644
Fleet parts and supplies	-	-	-	481,805	481,805
Workers' compensation	3,216,337	-	-	-	3,216,337
Claims and judgments	3,589,622	-	-	-	3,589,622
Compensated absences	-	2,158,082	-	-	2,158,082
OPEB ARC- Cash subsidy	-	-	2,720,000	-	2,720,000
OPEB ARC- Implied subsidy	-	-	2,703,000	-	2,703,000
Other	-	-	962,128	-	962,128
Total operating expenses	<u>6,805,959</u>	<u>2,158,082</u>	<u>6,385,128</u>	<u>4,515,706</u>	<u>19,864,875</u>
Operating income (loss)	<u>29,973</u>	<u>107,920</u>	<u>(2,196,785)</u>	<u>1,678,356</u>	<u>(380,536)</u>
Nonoperating revenues (expenses):					
Investment income	629,676	86,254	-	442,250	1,158,180
Net Increase in fair value of investments	274,028	37,538	-	192,462	504,028
(Loss) on sale of capital assets	-	-	-	(11,039)	(11,039)
Total nonoperating revenues	<u>903,704</u>	<u>123,792</u>	<u>-</u>	<u>623,673</u>	<u>1,651,169</u>
Change in net assets	<u>933,677</u>	<u>231,712</u>	<u>(2,196,785)</u>	<u>2,302,029</u>	<u>1,270,633</u>
Net assets (accumulated deficit), beginning	<u>1,983,129</u>	<u>(6,838,051)</u>	<u>(1,956,131)</u>	<u>20,059,164</u>	<u>13,248,111</u>
Net assets, (accumulated deficit), ending	<u>\$ 2,916,806</u>	<u>\$ (6,606,339)</u>	<u>\$ (4,152,916)</u>	<u>\$ 22,361,193</u>	<u>\$ 14,518,744</u>

CITY OF NEWPORT BEACH
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2009

	Insurance Reserve	Compensated Absences	Retiree Insurance	Equipment Maintenance	Total Internal Service Funds
Cash flows from operating activities					
Receipts from user departments	\$ 6,220,476	\$ 2,266,002	\$ 3,763,956	\$ 6,430,087	\$ 18,680,521
Payments to employees	(2,657,337)	(1,487,092)	-	(1,512,521)	(5,656,950)
Payments to suppliers	(2,978,819)	-	(3,362,636)	(1,250,179)	(7,591,634)
Other operating cash receipts	307,814	-	424,387	933	733,134
Net cash provided (used) for operating activities	<u>892,134</u>	<u>778,910</u>	<u>825,707</u>	<u>3,668,320</u>	<u>6,165,071</u>
Cash flows from noncapital financing activities:					
Cash received from other funds	-	-	(825,707)	-	(825,707)
Net cash provided (used) by noncapital financing	<u>-</u>	<u>-</u>	<u>(825,707)</u>	<u>-</u>	<u>(825,707)</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	-	-	-	(1,140,877)	(1,140,877)
Proceeds from sale of capital assets	-	-	-	100,035	100,035
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,040,842)</u>	<u>(1,040,842)</u>
Cash flows from investing activities:					
Interest on investments	903,704	123,792	-	634,712	1,662,208
Net cash provided for investing activities	<u>903,704</u>	<u>123,792</u>	<u>-</u>	<u>634,712</u>	<u>1,662,208</u>
Net increase (decrease) in cash and cash equivalents	1,795,838	902,702	-	3,262,190	5,960,730
Cash and cash equivalents, beginning	19,086,525	2,275,044	-	12,164,127	33,525,696
Cash and cash equivalents, ending	<u>\$ 20,882,363</u>	<u>\$ 3,177,746</u>	<u>\$ -</u>	<u>\$ 15,426,317</u>	<u>\$ 39,486,426</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Cash flows from operating activities					
Operating income (loss)	<u>\$ 29,973</u>	<u>\$ 107,920</u>	<u>\$ (2,196,785)</u>	<u>\$ 1,678,356</u>	<u>\$ (380,536)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	-	-	-	1,846,971	1,846,971
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(307,642)	-	861,617	236,958	790,933
Decrease in inventories	-	-	-	89,867	89,867
Decrease in prepaid items	-	-	5,553	-	5,553
Increase (decrease) in accounts payable and accrued payroll	326,591	-	(31,678)	(183,832)	111,081
Increase in workers' compensation	559,000	-	-	-	559,000
Increase in general liability	284,212	-	-	-	284,212
Increase in compensated absences	-	670,990	-	-	670,990
Increase in net OPEB obligation	-	-	2,187,000	-	2,187,000
Total adjustments	<u>862,161</u>	<u>670,990</u>	<u>3,022,492</u>	<u>1,989,964</u>	<u>6,545,607</u>
Net cash provided (used) by operating activities	<u>\$ 892,134</u>	<u>\$ 778,910</u>	<u>\$ 825,707</u>	<u>\$ 3,668,320</u>	<u>\$ 6,165,071</u>
Non-cash investing, capital, and financing activities:					
Net increase in fair value of investments	274,028	37,538	-	195,462	507,028
(Loss) on sale of capital assets	-	-	-	(11,039)	(11,039)
Total of non-cash activities	<u>\$ 274,028</u>	<u>\$ 37,538</u>	<u>\$ -</u>	<u>\$ 184,423</u>	<u>\$ 495,989</u>

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FINANCIAL SECTION

FINANCIAL SECTION

SUPPLEMENTARY
INFORMATION
FIDUCIARY FUNDS

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity, or as an agent for other government entities, private organizations, or individuals.

The City of Newport Beach Fiduciary Funds are listed below:

The ***Special Assessment District Fund*** is used to account for funds received from affected property owners and payable to holders of 1911 Act, 1915 Act and other special assessment bonds.

The ***Business Improvement District Fund*** is used to account for monies collected from local business districts for district property improvements and business enhancement.

The ***Integrated Law and Justice Agency for Orange County (ILJAOC) Fund*** is used to account for monies collected from member agencies for the operation of ILJAOC.

CITY OF NEWPORT BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2009

Assets	Special Assessment District Fund	Business Improvement Fund	ILJAOC Fund	Totals
Cash and investments	\$ 2,658,042	\$ 229,398	\$ 985,979	\$ 3,873,419
Cash with fiscal agent	4,101,765	-	-	4,101,765
Prepaid expenses	-	-	2,194	2,194
Intergovernmental receivable	-	-	80,000	80,000
Total assets	<u>\$ 6,759,807</u>	<u>\$ 229,398</u>	<u>\$ 1,068,173</u>	<u>\$ 8,057,378</u>
 Liabilities				
Due to bondholders	\$ 6,759,807	\$ -	\$ -	\$ 6,759,807
Due to others	-	229,398	30,209	259,607
Due to ILJAOC	-	-	1,037,964	1,037,964
Total liabilities	<u>\$ 6,759,807</u>	<u>\$ 229,398</u>	<u>\$ 1,068,173</u>	<u>\$ 8,057,378</u>

CITY OF NEWPORT BEACH
Statement of Changes in Fiduciary Net Assets
All Agency Funds
For the Year Ended June 30, 2009

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>
Special Assessment:				
Assets				
Cash and investments	\$ 1,998,664	\$ 4,395,646	\$ (3,736,268)	\$ 2,658,042
Cash with fiscal agent	<u>4,337,777</u>	<u>2,853,559</u>	<u>(3,089,571)</u>	<u>4,101,765</u>
Total Assets	<u>\$ 6,336,441</u>	<u>\$ 7,249,205</u>	<u>\$ (6,825,839)</u>	<u>\$ 6,759,807</u>
Liabilities				
Due to bondholders	<u>\$ 6,336,441</u>	<u>\$ 7,249,205</u>	<u>\$ (6,825,839)</u>	<u>\$ 6,759,807</u>
 Business Improvement District:				
Assets				
Cash and investments	<u>\$ 120,869</u>	<u>\$ 515,589</u>	<u>\$ (407,060)</u>	<u>\$ 229,398</u>
Liabilities				
Due to others	<u>\$ 120,869</u>	<u>\$ 515,589</u>	<u>\$ (407,060)</u>	<u>\$ 229,398</u>
 ILJAOC:				
Assets				
Cash and investments	\$ 424,153	\$ 869,346	\$ (307,520)	\$ 985,979
Prepaid expenses	-	2,194	-	2,194
Intergovernmental receivable	<u>124,363</u>	<u>-</u>	<u>(44,363)</u>	<u>80,000</u>
Total Assets	<u>\$ 548,516</u>	<u>\$ 871,540</u>	<u>\$ (351,883)</u>	<u>\$ 1,068,173</u>
Liabilities				
Due to others	\$ 99,583	\$ -	\$ (69,374)	\$ 30,209
Due to ILJAOC	<u>448,933</u>	<u>589,031</u>	<u>-</u>	<u>1,037,964</u>
Total Liabilities	<u>\$ 548,516</u>	<u>\$ 589,031</u>	<u>\$ (69,374)</u>	<u>\$ 1,068,173</u>
 Totals - All Agency Funds:				
Assets				
Cash and investments	\$ 2,543,686	\$ 5,780,581	\$ (4,450,848)	\$ 3,873,419
Cash with fiscal agent	4,337,777	2,853,559	(3,089,571)	4,101,765
Prepaid expenses	-	2,194	-	2,194
Intergovernmental receivable	<u>124,363</u>	<u>-</u>	<u>(44,363)</u>	<u>80,000</u>
Total Assets	<u>\$ 7,005,826</u>	<u>\$ 8,636,334</u>	<u>\$ (7,584,782)</u>	<u>\$ 8,057,378</u>
Liabilities				
Due to bondholders	\$ 6,336,441	\$ 7,249,205	\$ (6,825,839)	\$ 6,759,807
Due to others	220,452	515,589	(476,434)	259,607
Due to ILJAOC	<u>448,933</u>	<u>589,031</u>	<u>-</u>	<u>1,037,964</u>
Total Liabilities	<u>\$ 7,005,826</u>	<u>\$ 8,353,825</u>	<u>\$ (7,302,273)</u>	<u>\$ 8,057,378</u>

STATISTICAL SECTION

STATISTICAL SECTION

FINANCIAL TRENDS

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules contain trend information illustrating how the City's financial performance and well-being has changed over time:

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balance of Governmental Funds

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF NEWPORT BEACH
Net Assets by Component
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2002	2003	2004	2005 ¹	2006	2007	2008	2009
Governmental activities:								
Invested in capital assets, net of related debt	\$ 1,391,677,813	\$ 1,412,372,465	\$ 1,512,651,096	\$ 1,915,348,883	\$ 2,005,643,651	\$ 2,027,026,053	\$ 2,050,925,370	\$ 2,060,959,265
Restricted	38,689,956	37,650,692	45,494,082	54,285,743	51,901,103	35,017,831	40,988,923	44,574,005
Unrestricted	41,095,786	49,322,283	46,772,913	61,894,956	56,662,229	75,989,169	87,802,996	96,592,345
Total governmental activities	\$ 1,471,463,555	\$ 1,499,345,440	\$ 1,604,918,091	\$ 2,031,529,582	\$ 2,114,206,983	\$ 2,138,033,053	\$ 2,179,717,289	\$ 2,202,125,615
Business-type activities:								
Invested in capital assets, net of related debt	\$ 87,470,314	\$ 91,912,205	\$ 94,206,704	\$ 99,641,411	\$ 104,602,266	\$ 107,231,308	\$ 107,313,603	\$ 108,510,361
Restricted	-	-	-	-	-	-	-	-
Unrestricted	26,123,500	24,227,579	21,493,528	19,665,535	16,907,367	15,808,357	13,639,027	11,435,263
Total business-type activities	\$ 113,593,814	\$ 116,139,784	\$ 115,700,232	\$ 119,306,946	\$ 121,509,633	\$ 123,039,665	\$ 120,952,630	\$ 119,945,624
Primary government:								
Invested in capital assets, net of related debt	\$ 1,479,148,127	\$ 1,504,284,670	\$ 1,606,857,800	\$ 2,014,990,294	\$ 2,110,245,917	\$ 2,134,257,361	\$ 2,158,238,973	\$ 2,169,469,626
Restricted	38,689,956	37,650,692	45,494,082	54,285,743	51,901,103	35,017,831	40,988,923	44,574,005
Unrestricted	67,219,286	73,549,862	68,266,441	81,560,491	73,569,596	91,797,526	101,442,023	108,027,608
Total primary government	\$ 1,585,057,369	\$ 1,615,485,224	\$ 1,720,618,323	\$ 2,150,836,528	\$ 2,235,716,616	\$ 2,261,072,718	\$ 2,300,669,919	\$ 2,322,071,239

¹ 2005 data varies from trend because of increased capital assets related to PCH Relinquishment

The City of Newport Beach implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

CITY OF NEWPORT BEACH
Changes in Net Assets
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Expenses:								
Governmental activities:								
General government	\$ 12,792,860	\$ 10,799,630	\$ 11,428,379	\$ 11,378,609	\$ 14,509,827	\$ 14,166,168	\$ 15,556,657	\$ 16,430,400
Public safety	47,168,918	56,521,871	58,178,633	63,214,291	67,789,121	69,795,386	75,821,082	79,301,191
Public works	30,320,516	32,089,038	38,127,832	46,359,871	33,870,359	39,179,844	42,631,401	45,600,292
Community development	4,471,397	5,782,215	6,229,785	6,437,006	8,157,925	9,020,868	10,052,871	10,283,464
Community services	11,044,086	10,404,285	14,741,504	13,073,215	13,803,755	23,304,053	19,146,588	20,589,031
Interest on long-term debt	517,102	673,944	542,126	508,869	479,529	523,401	532,569	437,207
Total governmental activities expenses	<u>106,314,879</u>	<u>116,270,983</u>	<u>129,248,259</u>	<u>140,971,861</u>	<u>138,610,516</u>	<u>155,989,720</u>	<u>163,741,168</u>	<u>172,641,585</u>
Business-type activities:								
Water	14,806,514	14,540,036	17,185,034	14,467,233	16,228,213	17,399,900	20,148,517	18,210,821
Wastewater	2,588,833	3,115,136	3,363,954	2,740,908	3,143,629	3,259,837	3,423,592	3,753,053
Total business-type activities expenses	<u>17,395,347</u>	<u>17,655,172</u>	<u>20,548,988</u>	<u>17,208,141</u>	<u>19,371,842</u>	<u>20,659,737</u>	<u>23,572,109</u>	<u>21,963,874</u>
Total primary government expenses	<u>123,710,226</u>	<u>133,926,155</u>	<u>149,797,247</u>	<u>158,180,002</u>	<u>157,982,358</u>	<u>176,649,457</u>	<u>187,313,277</u>	<u>194,605,459</u>
Program revenues:								
Governmental activities:								
Charges for services:								
General government	2,270,082	3,008,162	2,109,141	2,412,769	2,623,272	2,944,100	3,055,982	2,543,880
Public safety	10,549,410	11,603,584	15,739,912	16,264,493	13,669,509	15,756,327	16,649,400	14,757,266
Public works	5,436,948	5,009,048	5,481,464	6,031,248	5,133,728	5,482,167	5,616,118	5,532,871
Community development	3,236,483	4,022,904	5,196,276	5,129,858	5,667,289	5,682,636	5,597,309	4,852,534
Community services	2,533,899	6,039,226	3,846,566	3,952,862	9,433,278	9,054,504	9,203,513	9,052,330
Operating Grants and Contributions:	7,891,059	8,750,565	10,681,329	17,480,834	12,772,599	16,172,023	15,778,851	13,404,286
Capital Grants and Contributions:	1,562,458	4,146,728	674,815	20,205,948 ¹	69,473,891 ²	6,904,716	31,037,915 ³	24,633,716
Total governmental activities program revenues	<u>33,480,339</u>	<u>42,580,217</u>	<u>43,729,503</u>	<u>71,478,012</u>	<u>118,773,566</u>	<u>61,996,473</u>	<u>86,939,088</u>	<u>74,776,883</u>
Business-type activities:								
Charges for services:								
Water	16,665,724	16,489,284	18,430,000	17,573,196	17,923,523	17,918,968	17,270,511	16,966,621
Wastewater	2,945,804	2,768,941	2,882,793	2,900,672	3,311,089	3,535,050	3,552,780	3,479,565
Total business-type activities program revenues	<u>19,611,528</u>	<u>19,258,225</u>	<u>21,312,793</u>	<u>20,473,868</u>	<u>21,234,612</u>	<u>21,454,018</u>	<u>20,823,291</u>	<u>20,446,186</u>
Total primary government program revenues	<u>53,091,867</u>	<u>61,838,442</u>	<u>65,042,296</u>	<u>91,951,880</u>	<u>140,008,178</u>	<u>83,450,491</u>	<u>107,762,379</u>	<u>95,223,069</u>
Net revenues (expenses):								
Governmental activities	(72,834,540)	(73,690,766)	(85,518,756)	(69,493,849)	(19,836,950)	(93,993,247)	(76,802,080)	(97,864,702)
Business-type activities	2,216,181	1,603,053	763,805	3,265,727	1,862,770	794,281	(2,748,818)	(1,517,688)
Total net revenues (expenses)	<u>\$ (70,618,359)</u>	<u>\$ (72,087,713)</u>	<u>\$ (84,754,951)</u>	<u>\$ (66,228,122)</u>	<u>\$ (17,974,180)</u>	<u>\$ (93,198,966)</u>	<u>\$ (79,550,898)</u>	<u>\$ (99,382,390)</u>

¹ 2005 data varies from trend because of increased capital assets related to PCH Relinquishment.

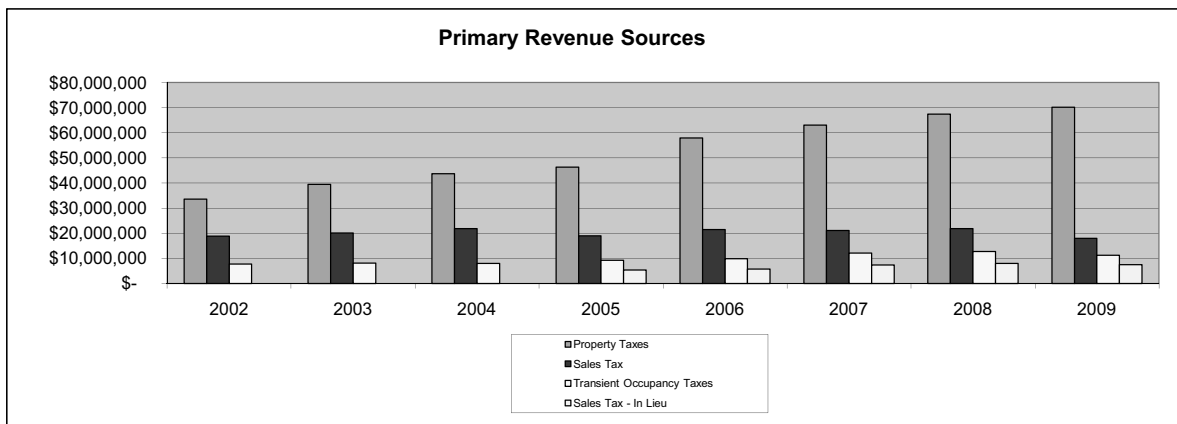
² 2006 data varies from trend because of increased capital assets related mostly to Bristol St. Relinquishment, Newport Coast Community Center, and Fire Station # 7.

³ 2008 data varies from trend because of increased capital assets related to Santa Ana Heights Annexation.

The City of Newport Beach implemented GASB 34 for the fiscal year ended June 30, 2002.
Information prior to the implementation of GASB 34 is not available.

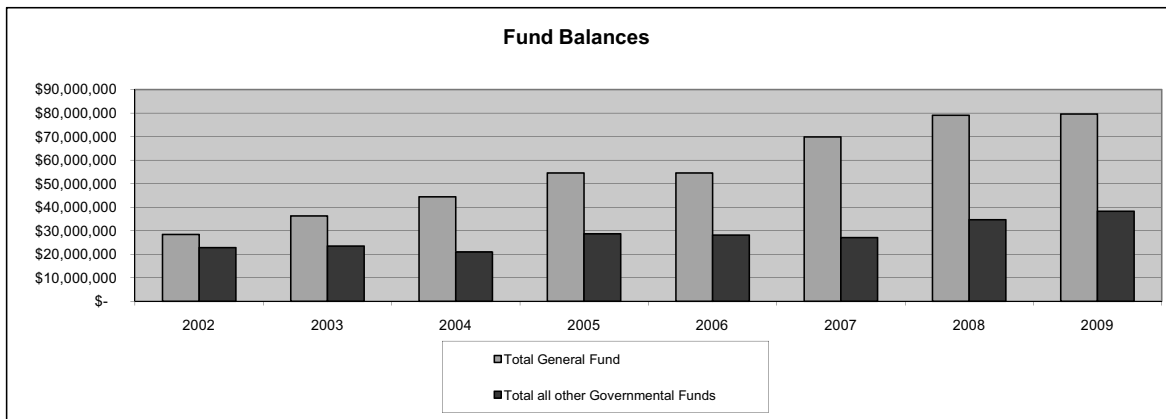
CITY OF NEWPORT BEACH
Changes in Net Assets
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
General revenues and other changes in net assets:								
Governmental activities:								
Taxes:								
Property taxes	\$ 33,583,659	\$ 39,474,864	\$ 43,631,829	\$ 46,303,366	\$ 57,888,545	\$ 63,003,057	\$ 67,388,838	\$ 70,126,680
Sales tax	18,796,571	20,133,598	21,843,884	18,977,828	21,465,557	21,088,118	21,855,242	17,925,956
Sales tax in-lieu	-	-	-	5,339,827	5,720,028	7,348,253	8,017,539	7,503,113
Transient occupancy taxes	7,690,655	8,055,266	8,045,132	9,215,862	9,832,729	12,059,008	12,751,518	11,170,956
Business license	2,470,857	2,030,845	2,830,127	3,458,165	3,848,381	3,770,172	4,119,108	4,273,642
Franchise taxes	2,735,641	2,465,584	2,765,519	3,029,476	3,162,588	4,613,932	3,853,119	3,961,634
Motor vehicle license fees	4,380,070	3,970,103	3,624,917	6,395,860	300,751	391,559	304,920	356,237
Motor vehicle fines	711,693	742,957	-	-	-	-	-	-
Other taxes	341,820	314,725	266,642	240,534	508,331	515,128	373,350	230,115
Investment income	2,171,474	2,111,451	584,415	1,209,074	1,939,941	3,175,582	3,655,314	1,764,827
Net increase in fair value of investments	1,093,913	318,686	(360,586)	(258,125)	(715,615)	(545,533)	508,485	1,096,848
Gain on sale of assets	160,236	130,954	-	-	-	-	-	-
Other	12,570	1,294,628	214,536	761,111	776,907	2,232,070	1,858,883	1,863,020
Property income	3,771,556	-	-	-	-	-	-	-
Share of joint venture net income	2,120,582	389,418	146,819	100,325	(513,791)	253,207	-	-
Capital contributions	836,206,102	17,836,792	102,713,421	213,779,060	-	-	-	-
Sale of service rights	25,000,000	-	-	-	-	-	-	-
Transfers	-	33,277	57,783	-	40,000	-	-	-
Total governmental activities	941,247,399	99,303,148	186,364,438	308,552,363	104,254,352	117,904,553	124,686,316	120,273,028
Business-type activities:								
Investment income	888,779	505,619	203,041	424,157	549,012	792,936	588,870	374,893
Net increase in fair value of investments	428,199	440,697	(87,078)	(87,921)	(169,095)	(57,185)	72,913	135,789
Property income	27,100	29,880	29,280	26,970	-	-	-	-
Capital contributions	-	-	215,331	-	-	-	-	-
Transfers	-	(33,277)	(57,783)	-	(40,000)	-	-	-
Total business-type activities	1,344,078	942,919	302,791	363,206	339,917	735,751	661,783	510,682
Total primary government	942,591,477	100,246,067	186,667,229	308,915,569	104,594,269	118,640,304	125,348,099	120,783,710
Changes in net assets								
Governmental activities	868,412,859	25,612,382	100,845,682	239,058,514	84,417,402	23,911,306	47,884,236	22,408,326
Business-type activities	3,560,259	2,545,972	1,066,596	3,628,933	2,202,687	1,530,032	(2,087,035)	(1,007,006)
Total primary government	\$ 871,973,118	\$ 28,158,354	\$ 101,912,278	\$ 242,687,447	\$ 86,620,089	\$ 25,441,338	\$ 45,797,201	\$ 21,401,320



CITY OF NEWPORT BEACH
Fund Balances of Governmental Funds
Last Eight Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
General fund:								
Reserved	\$ 3,165,787	\$ 4,393,418	\$ 6,678,579	\$ 4,673,198	\$ 9,374,722	\$ 7,233,703	\$ 6,807,094	\$ 5,907,205
Unreserved	25,171,551	31,929,366	37,765,801	49,814,197	45,212,339	62,679,499	72,252,045	73,703,759
Total general fund	<u>\$ 28,337,338</u>	<u>\$ 36,322,784</u>	<u>\$ 44,444,380</u>	<u>\$ 54,487,395</u>	<u>\$ 54,587,061</u>	<u>\$ 69,913,202</u>	<u>\$ 79,059,139</u>	<u>\$ 79,610,964</u>
Tide and submerged land fund:								
Reserved	\$ 294,876	\$ 457,777	\$ 340,208	\$ 552,713	\$ 538,965	\$ 642,985	\$ 1,415,088	\$ 351,012
Unreserved	238,822	356,075	120,328	194,174	27,633	143,946	259,701	288,952
Total tide and submerged land fund	<u>\$ 533,698</u>	<u>\$ 813,852</u>	<u>\$ 460,536</u>	<u>\$ 746,887</u>	<u>\$ 566,598</u>	<u>\$ 786,931</u>	<u>\$ 1,674,789</u>	<u>\$ 639,964</u>
Mariners library fund:								
Reserved	\$ -	\$ 382,900	\$ 142,016	\$ 1,029,047	\$ -	\$ -	\$ -	\$ -
Unreserved	-	596,800	824,438	-	(1,750,160)	(2,061,268)	-	-
Total Mariners library fund	<u>\$ -</u>	<u>\$ 979,700</u>	<u>\$ 966,454</u>	<u>\$ 1,029,047</u>	<u>\$ (1,750,160)</u>	<u>\$ (2,061,268)</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions fund								
Reserved	\$ 7,501	\$ -	\$ -	\$ 1,155,638	\$ 3,223,047	\$ 1,656,459	\$ 856,506	\$ 641,469
Unreserved	-	(457,464)	(956,689)	1,042,147	-	-	794,249	1,977,264
Total Contributions fund	<u>\$ 7,501</u>	<u>\$ (457,464)</u>	<u>\$ (956,689)</u>	<u>\$ 2,197,785</u>	<u>\$ 3,223,047</u>	<u>\$ 1,656,459</u>	<u>\$ 1,650,755</u>	<u>\$ 2,618,733</u>
All other governmental funds:								
Reserved	\$ 4,669,957	\$ 4,693,197	\$ 3,973,823	\$ 12,230,132	\$ 18,157,202	\$ 8,958,652	\$ 9,788,771	\$ 26,535,293
Unreserved, reported in:								
Special revenue funds	11,057,395	18,789,098	16,895,613	10,099,453	7,506,021	18,684,221	20,617,006	21,582,975
Capital projects funds	7,120,032	-	-	6,076,969	2,077,124	(1,196,933)	3,271,954	(11,025,095)
Permanent funds	15	-	-	285,506	404,771	660,029	934,648	1,170,009
Total all other governmental funds	<u>\$ 22,847,399</u>	<u>\$ 23,482,295</u>	<u>\$ 20,869,436</u>	<u>\$ 28,692,060</u>	<u>\$ 28,145,118</u>	<u>\$ 27,105,969</u>	<u>\$ 34,612,379</u>	<u>\$ 38,263,182</u>



The City of Newport Beach has elected to show only eight years of data for this schedule.

CITY OF NEWPORT BEACH
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Revenues:								
Taxes	\$ 65,878,471	\$ 72,864,836	\$ 79,874,751	\$ 91,606,863 ¹	\$ 102,737,810	\$ 112,230,054	\$ 118,758,201	\$ 115,711,574
Intergovernmental	26,227,740	10,379,792	16,108,023	19,513,589	14,842,994	18,866,929	21,005,429	11,434,885
Licenses and permits	3,350,958	4,397,520	5,429,632	4,968,234	5,708,965	4,574,659	6,474,789	5,883,515
Charges for services	10,338,569	11,156,294	11,516,782	13,104,478	13,135,366	14,452,723	15,073,178	14,498,120
Fines and forfeitures	3,384,164	3,448,826	3,605,963	3,422,735	3,841,843	4,126,351	4,662,442	4,572,611
Investment income	2,758,557	1,941,046	887,513	2,356,747	3,847,982	5,431,137	5,463,066	3,245,677
Net increase (decrease) in fair value of investments	1,268,972	1,468,682	(360,586)	(493,879)	(1,325,211)	(626,881)	720,488	1,472,335
Property income	10,130,165	10,947,021	11,857,671	12,337,339	13,625,142	13,965,815	15,217,803	14,032,342
Donations	746,774	1,819,159	2,704,367	1,087,826	883,405	1,379,461	2,159,637	6,760,140
Contributions from property owners	-	-	-	14,779,013	-	-	-	-
Other	1,782,696	2,590,504	478,200	980,446	1,042,882	1,967,465	4,205,095	8,501,014
Total revenues	125,867,066	121,013,680	132,102,316	163,663,391	158,341,178	176,367,713	193,740,128	186,112,213
Expenditures								
Current:								
General government	12,292,008	9,689,275	11,024,256	10,920,667	12,531,200	13,706,061	14,508,103	15,560,823
Public safety	47,841,176	53,035,377	56,849,718	59,482,134	65,262,069	68,843,947	73,486,413	78,561,175
Public works	19,418,067	21,259,782	22,780,896	24,365,996	26,430,751	28,352,293	30,108,941	30,619,405
Community development	4,586,192	5,457,498	5,723,031	6,144,917	7,900,503	7,753,035	8,703,841	9,971,536
Community services	9,418,041	9,382,608	10,827,346	10,351,414	12,730,727	13,988,589	14,478,146	17,485,605
Capital outlay	38,613,906	14,684,897	15,188,550	33,486,048	24,811,237	45,615,169	20,524,638	26,002,338
Debt service:								
Principal retirement	1,291,099	1,822,913	1,668,350	1,688,801	1,715,542	3,736,587	3,263,948	3,292,641
Interest and fiscal charges	466,974	529,808	520,228	499,077	480,909	458,035	577,299	482,908
Total expenditures	133,927,463	115,862,158	124,582,375	146,939,054	151,862,938	182,453,716	165,651,329	181,976,431
Excess (deficiency) of revenues over (under) expenditures	(8,060,397)	5,151,522	7,519,941	16,724,337	6,478,240	(6,086,003)	28,088,799	4,135,782
Other financing sources (uses):								
Transfers in	10,927,460	14,376,167	16,553,395	20,601,957	25,194,920	20,271,396	27,583,922	23,354,366
Transfers out	(11,669,089)	(14,342,890)	(18,495,612)	(20,612,176)	(31,177,725)	(22,521,396)	(36,076,952)	(23,354,366)
Proceeds from issuance of debt	18,000,000	2,630,736	-	-	-	5,000,000	-	-
Total other financing sources (uses)	17,258,371	2,664,013	(1,942,217)	(10,219)	(5,982,805)	2,750,000	(8,493,030)	0
Net change in fund balances	\$ 9,197,974	\$ 7,815,535	\$ 5,577,724	\$ 16,714,118	\$ 495,435	\$ (3,336,003)	\$ 19,595,769	\$ 4,135,782
Debt service as a percentage of noncapital expenditures								
	1.6%	2.2%	1.8%	1.7%	1.7%	2.8%	2.5%	2.3%

¹ Adjusted to include Property Tax-in lieu of VLF which was previously reported as intergovernmental revenue

The City of Newport Beach has elected to show only eight years of data for this schedule.

REVENUE CAPACITY

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules present factors affecting the City's ability to generate its own revenue and its most significant local revenue source, the property tax:

- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies and Collections

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF NEWPORT BEACH
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	City			Taxable Assessed Value	Total Direct Tax Rate
	Public Utility	Secured	Unsecured		
2000	324,960	13,091,299,313	1,295,776,000	14,387,400,273	1.000%
2001	2,000	15,087,602,671	915,394,966	16,002,999,637	1.000%
2002	2,000	16,515,797,641	913,075,074	17,428,874,715	1.000%
2003	16,531,505	21,339,270,499	1,085,951,066	22,425,221,565	1.000%
2004	16,531,505	23,219,166,299	1,372,432,950	24,591,599,249	1.000%
2005	53,310	25,193,662,254	1,484,019,033	26,677,681,287	1.000%
2006	53,310	28,136,607,566	1,914,106,993	30,050,714,559	1.000%
2007	53,310	31,423,473,042	1,569,867,249	32,993,340,291	1.000%
2008	53,310	34,188,568,583	1,668,015,342	35,856,583,925	1.000%
2009	699,230	36,436,106,070	1,538,539,482	37,974,645,552	1.000%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: County of Orange Auditor-Controller's Office

CITY OF NEWPORT BEACH
Direct and Overlapping Property Tax Rates
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
City Direct Rates:										
City basic rate	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Total City Direct Rate	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Overlapping Rates:										
Water Districts	0.009	0.009	0.008	0.007	0.006	0.005	0.005	0.005	0.004	0.004
School Districts	0.0000	0.0000	0.0069	0.0067	0.0122	0.0343	0.0349	0.0315	0.0308	0.0302
Total Direct Rate	<u>\$ 1.009</u>	<u>\$ 1.009</u>	<u>\$ 1.015</u>	<u>\$ 1.013</u>	<u>\$ 1.018</u>	<u>\$ 1.040</u>	<u>\$ 1.040</u>	<u>\$ 1.036</u>	<u>\$ 1.035</u>	<u>\$ 1.034</u>

NOTE:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of other debt obligations.

Source: Orange County Auditor Controller's Office

CITY OF NEWPORT BEACH
Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2009			2000		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Irvine Company	\$ 1,198,690,765	1	3.16%	\$ 864,045,460	1	6.01%
Irvine Apartment Communities LP	357,260,080	2	0.94%	252,082,303	3	1.75%
4000 MacArthur LP	143,770,581	3	0.38%	N/A		0.00%
Newport Bluffs LLC	135,435,013	4	0.36%	N/A		0.00%
Balboa Bay Club Inc.	127,595,495	5	0.34%	N/A		0.00%
Jazz Semiconductor Inc	125,900,087	6	0.33%	N/A		0.00%
100 Bayview LLC	121,735,889	7	0.32%	N/A		0.00%
UDR Newport Beach North LP	115,457,240	8	0.30%	N/A		0.00%
Coronado South Apartments LP	112,371,413	9	0.30%	N/A		0.00%
HHR Newport Beach LLC	85,182,642	10	0.22%	N/A		0.00%
	<u>\$ 2,523,399,205</u>		<u>6.64%</u>	<u>\$ 1,116,127,763</u>		<u>7.76%</u>

Source: HdL, Coren and Cone Co.

CITY OF NEWPORT BEACH
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2000	24,667,494	24,207,104	98.13%	1,398,573	25,605,677	103.80%
2001	27,405,295	26,856,091	98.00%	886,625	27,742,716	101.23%
2002	31,298,541 ¹	30,651,143	97.93%	102,001	30,753,144	98.26%
2003	37,092,528	36,351,026	98.00%	529,986	36,881,012	99.43%
2004	42,469,238	41,420,410	97.53%	670,685	42,091,095	99.11%
2005	45,111,328	54,063,951	119.85% ²	483,804	54,547,755 ²	120.92%
2006	47,286,816	45,558,039	96.34%	728,365	46,286,404	97.88%
2007	70,194,492	68,820,402	98.04%	808,765	69,629,167	99.19%
2008	69,315,117	68,242,326	98.45%	846,904	69,089,231	99.67%
2009	71,006,357	70,879,909	99.82%	(294,366)	70,585,543	99.41%

¹ Includes estimated levy for Newport Coast properties that were annexed on January 1, 2002.

² Collections include nearly \$10 million of Property Tax in lieu of Sales Tax and Vehicle License Fees not included in the levy.

Source: Orange County Auditor Controller's Office

DEBT CAPACITY

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules exhibit the City's levels of outstanding debt over time, to help readers assess the affordability of the current level of outstanding debt, and the City's ability to issue additional debt:

- Ratios of Outstanding Debt by Type
- Ratios of General Bonded Debt Outstanding
- Direct and Overlapping Debt
- Legal Debt Margin Information
- Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF NEWPORT BEACH
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities					
	Certificates of Participation	Note Payable	Pre-Annexation Agreement	CDBG Loan	Capital Leases	Purchase Agreement Payable
2000	6,845,000	2,469,399	N/A	N/A	1,798,655	N/A
2001	6,610,000	2,350,930	N/A	N/A	914,830	N/A
2002	6,365,000	2,219,660	18,000,000	N/A	1,150,927	N/A
2003	6,110,000	2,082,483	16,800,000	2,400,000	1,293,586	N/A
2004	5,845,000	1,939,133	15,600,000	2,340,000	862,975	N/A
2005	5,570,000	1,789,332	14,400,000	2,276,000	420,773	N/A
2006	5,280,000	1,632,789	13,200,000	2,207,000	166,056	N/A
2007	4,980,000	1,469,202	12,000,000	2,134,000	49,490	3,000,000
2008	4,665,000	1,298,254	10,800,000	2,056,000	-	1,500,000
2009	4,335,000	1,119,613	9,600,000	1,972,000	-	N/A

Note: This excludes claims and judgements and employee compensated absence liabilities. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ These ratios are calculated using personal income and population for the prior calendar year.

Total Governmental Activities	Business-type Activities		Total Primary Government	Percentage of Personal Income ¹	Debt Per Capita ¹
	Water Revenue Bonds	Total Business- type Activities			
11,113,054	13,200,000	13,200,000	24,313,054	0.57%	335
9,875,760	12,095,000	12,095,000	21,970,760	0.47%	297
27,735,587	10,950,000	10,950,000	38,685,587	0.88%	552
28,686,069	9,765,000	9,765,000	38,451,069	0.79%	508
26,587,108	8,535,000	8,535,000	35,122,108	0.66%	442
24,456,105	7,255,000	7,255,000	31,711,105	0.58%	392
22,485,845	5,925,000	5,925,000	28,410,845	0.50%	342
23,632,692	4,540,000	4,540,000	28,172,692	0.44%	338
20,319,254	3,095,000	3,095,000	23,414,254	0.36%	278
17,026,613	1,585,000	1,585,000	18,611,613	0.25%	216

CITY OF NEWPORT BEACH
Outstanding Debt Serviced by the General Fund
Last Ten Fiscal Years
(In Thousands, except Per Capita)

<u>Fiscal Year Ended June 30</u>	<u>Certificates of Participation</u>	<u>Purchase Agreement Payable</u>	<u>Total</u>	<u>Percent of Assessed Value ¹</u>	<u>Per Capita</u>
2000	7,070	N/A	7,070	0.05%	97
2001	6,845	N/A	6,845	0.05%	93
2002	6,610	N/A	6,610	0.04%	94
2003	6,365	N/A	6,365	0.04%	84
2004	6,110	N/A	6,110	0.03%	77
2005	5,845	N/A	5,845	0.02%	72
2006	5,570	N/A	5,570	0.02%	67
2007	5,280	3,000	8,280	0.03%	99
2008	4,980	1,500	6,480	0.02%	77
2009	4,335	N/A	4,335	0.01%	50

¹ Assessed value was used because the actual value of taxable property is not readily available in the State of California.

CITY OF NEWPORT BEACH
Direct and Overlapping Debt
June 30, 2009

City Assessed Valuation:	\$ 37,974,645,552
Redevelopment Agency Incremental Valuation:	871,021,950
Adjusted Assessed Valuation:	\$ 37,103,623,602

	Percentage Applicable ¹	Outstanding Debt 6/30/09	Estimated Share of Overlapping Debt
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	2.011%	293,425,000	5,900,777
Coast Community College District	34.732%	341,668,867	118,668,431
Rancho Santiago Community College District	3.790%	316,405,071	11,991,752
Laguna Beach Unified School District	14.584%	34,315,000	5,004,500
Laguna Beach U.S.D. Community Facilities District No. 98-1	100.000%	9,745,000	9,745,000
Newport Mesa Unified School District	71.707%	166,073,480	119,086,310
Newport Mesa U.S.D. Community Facilities District No. 90-1	100.000%	14,205,000	14,205,000
Santa Ana Unified School District	8.696%	221,191,491	19,234,812
Irvine Ranch Water District Improvement Districts	16.886% - 100.000%	63,143,308	50,291,501
Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1	100.000%	41,990,000	41,990,000
City of Newport Beach Special Improvement District No. 95-1	100.000%	9,390,000	9,390,000
City of Newport Beach 1915 Act Bonds	100.000%	16,081,549	16,081,549
Orange County Assessment District No. 88-1	100.000%	35,948,296	35,948,296
Orange County Assessment District No. 99-1R	100.000%	15,010,000	15,010,000
Orange County Assessment District No. 01-1	100.000%	54,834,000	54,834,000
Orange County Assessment District No. 01-1R	100.000%	7,115,000	7,115,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		1,640,541,062	534,496,928
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	9.781%	\$ 462,152,000	\$ 45,203,087
Orange County Pension Obligations	9.781%	69,713,001	6,818,629
Orange County Board of Education Certificates of Participation	9.781%	19,430,000	1,900,448
Municipal Water District of O.C. Water Facilities Corporation	11.613%	17,685,000	2,053,759
South Orange County Community College District Certificates of Participation	3.009%	32,875,000	989,209
Newport Mesa Unified School District Certificates of Participation	71.707%	525,000	376,462
Santa Ana Unified School District Certificates of Participation	8.696%	62,396,493	5,425,999
Irvine Ranch Water District Certificates of Participation	11.496%	103,100,000	11,852,376
City of Newport Beach Certificates of Participation	100.000%	4,335,000	4,335,000
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		772,211,494	78,954,969
Less: MWDOC Water Facilities Corporation (100% self-supporting)			(2,053,759)
Santa Ana Unified School District QZAB (supported by scheduled deposits to trustee)			(484,285)
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 76,416,925
GROSS COMBINED TOTAL DEBT (2)			\$ 613,451,897
NET COMBINED TOTAL DEBT			\$ 610,913,853

¹ The percentage of overlapping agency's assessed valuation located within boundaries of the city.

² Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and nonbonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.410%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$4,335,000) 0.010%

Gross Combined Total Debt 1.650%

Net Combined Total Debt 1.650%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0.000

AB: (\$425)

Source: California Municipal Statistics, Inc.

CITY OF NEWPORT BEACH
Legal Debt Margin Information
Last Ten Fiscal Years

	2000	2001	2002	2003
Assessed valuation	\$ 14,387,400,273	\$ 16,002,999,637	\$ 17,428,874,715	\$ 22,425,221,565
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	3,596,850,068	4,000,749,909	4,357,218,679	5,606,305,391
Debt limit percentage	15%	15%	15%	15%
Debt limit	539,527,510	600,112,486	653,582,802	840,945,809
Total net debt applicable to limit: General obligation bonds	-	-	-	-
Legal debt margin	<u>\$ 539,527,510</u>	<u>\$ 600,112,486</u>	<u>\$ 653,582,802</u>	<u>\$ 840,945,809</u>
Total debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%

NOTE:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City Administrative Service

Fiscal Year						
2004	2005	2006	2007	2008	2009	
\$ 24,591,599,249	\$ 26,677,681,287	\$ 30,050,714,559	\$ 32,993,340,291	\$ 35,856,583,925	\$ 37,974,645,552	
25%	25%	25%	25%	25%	25%	
6,147,899,812	6,669,420,322	7,512,678,640	8,248,335,073	8,964,145,981	9,493,661,388	
15%	15%	15%	15%	15%	15%	
922,184,972	1,000,413,048	1,126,901,796	1,237,250,261	1,344,621,897	1,424,049,208	
-	-	-	-	-	-	
<u>\$ 922,184,972</u>	<u>\$ 1,000,413,048</u>	<u>\$ 1,126,901,796</u>	<u>\$ 1,237,250,261</u>	<u>\$ 1,344,621,897</u>	<u>\$ 1,424,049,208</u>	
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

CITY OF NEWPORT BEACH
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year Ended June 30	Water Revenue Bonds					
	Water Revenue ¹	Less Operating Expenses ²	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2000	17,770,491	11,713,223	6,057,268	1,025,000	551,668	3.84
2001	17,839,320	11,784,120	6,055,200	1,145,000	510,224	3.66
2002	17,809,919	13,257,934	4,551,985	1,105,000	465,572	2.90
2003	17,326,604	12,430,144	4,896,460	1,185,000	418,172	3.05
2004	18,321,122	15,261,360	3,059,762	1,230,000	367,742	1.92
2005	17,878,016	12,967,118	4,910,898	1,280,000	314,622	3.08
2006	18,026,750	14,190,147	3,836,603	1,330,000	258,762	2.41
2007	18,534,689	15,614,885	2,919,804	1,385,000	199,900	1.84
2008	16,709,021 ³	17,518,263	(809,242)	1,445,000	137,765	(0.51)
2009	17,259,977	16,437,227	822,750	1,510,000	71,325	0.52

¹ Gross revenues includes operating revenues, interest, property, and intergovernmental revenues in the Water Fund.

² Total Water Fund operating expenses do not include interest or depreciation expenses.

³ Adjusted due to loss on deletion

DEMOGRAPHIC AND ECONOMIC INFORMATION

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules depict demographic and economic indicators to assist the reader in understanding the socio-economic, environment in which the City's financial activities take place:

- Demographic and Economic Statistics
- Principal Employers

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF NEWPORT BEACH
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Income	Unemployment Rate
2000	73,965	4,630,061	62,598	1.6%
2001	70,032	4,413,066	63,015	1.6%
2002	75,662	4,865,294	64,303	2.5%
2003	79,392	5,325,060	67,073	2.4%
2004	80,800	5,434,285	67,256	1.9%
2005	83,120	5,635,370	67,798	2.4%
2006	83,361	6,335,186	75,997	2.1%
2007	84,218	6,518,052	77,395	2.6%
2008	84,554	7,059,752	83,494	2.4%
2009	86,252	7,468,216	86,586	6.1%

Source: California State Department of Finance

CITY OF NEWPORT BEACH
Principal Employers
Current Year and 4 years ago

Employer	2009			2005 ¹		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
Hoag Memorial Hospital	4,116	1	5.08%	3,640	1	N/A
Pacific Life Insurance	1,096	2	1.35%	2,788	2	N/A
Glidewell Dental	902	3	1.11%	-	-	N/A
City of Newport Beach	832	4	1.03%	788	4	N/A
Pacific Investment Management Co.	762	5	0.94%	530	7	N/A
Resort at Pelican Hill	735	6	0.91%	-	-	N/A
Jazz Semi-Conductor	586	7	0.72%	730	5	N/A
The Island Hotel	424	8	0.52%	525 ²	8	N/A
Fletcher Jones Motor Cars Inc.	420	9	0.52%	-	-	N/A
Newport Beach Marriott Hotel & Tennis Club	363	10	0.45%	475	9	N/A

¹ Information for nine years ago is not available.

² The Island Hotel was formerly the Four Seasons Hotel.

Source: Newport Beach Chamber of Commerce

OPERATING INFORMATION

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. The statistical information presented herein is un-audited.

The following schedules present information on the City's operations and resources including service and infrastructure data to facilitate the readers understanding of how financial statement information relates to the services the City provides and the activities it performs:

- Full Time City Employees by Functions
- Operating Indicators by Function
- Capital Asset Statistics by Function
- Water Sold by Customer Type
- Water Rates
- Major Water Customers

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive annual financial reports and underlying accounting records for the relevant year.

CITY OF NEWPORT BEACH
Full-time City Employees by Function
Last Ten Fiscal Years

Function	Full-Time Employees as of June 30, 2009									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government	69	75	77	77	84	86	90	93	93	99
Public safety	344	358	384	384	385	385	388	393	397	397
Community development	39	42	44	46	46	47	48	52	56	57
Public works	157	155	163	164	162	162	163	163	165	160
Community services	51	53	57	58	57	60	65	66	68	71
Balboa yacht basin	1	1	1	1	1	1	-	-	-	-
Water	31	34	33	33	33	34	34	34	35	35
Wastewater	11	10	12	12	13	13	13	13	13	13
Total	<u>703</u>	<u>728</u>	<u>771</u>	<u>775</u>	<u>781</u>	<u>788</u>	<u>801</u>	<u>814</u>	<u>827</u>	<u>832</u>

Source: City Administrative Services Department

CITY OF NEWPORT BEACH
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year				
	2000	2001	2002	2003	2004
Police:					
Adult Arrests	3,396	3,494	3,684	3,485	3,201
Parking Citations Issued	76,993	74,068	73,191	68,907	71,076
Fire:					
Fire Responses	353	365	359	442	423
Fire Inspections	6,173	6,173	6,400	4,460	4,500
General Services:					
Street Patching (tons of mix)	4,400	5,000	5,500	5,500	5,000
Sidewalk Repair (square feet)	65,000	50,000	50,000	55,000	50,000
Recreation & Senior Services:					
Co-Sponsored Youth Organizations	141,594	165,464	188,689	200,077	185,627
Senior Transportation Services	10,260	11,000	10,917	12,094	12,041
Water:					
New connections	163	154	118	99	53
Average daily consumption (hundred cubic ft.)	17	17	17	17	17
Sewer:					
New connections	N/A	N/A	N/A	50	25
Miles of Pipe Cleaned	N/A	N/A	202	262	293
Library Services:					
Library Circulation of Materials	1,130,000	1,250,713	1,263,200	1,347,583	1,392,346

Source: City of Newport Beach

Fiscal Year				
2005	2006	2007	2008	2009
3,079	2,999	3,289	3,599	3,231
72,665	74,780	67,170	67,258	64,577
228	214	175	247	236
4,550	6,470	7,136	6,682	6,912
4,500	4,600	4,980	4,644	3,882
50,000	55,000	59,459	60,222	49,644
194,749	194,722	201,258	255,424	318,779
11,936	13,000	13,493	14,500	15,984
55	52	95	60	26
17	17	17	17	17
24	24	45	45	12
205	335	226	241	220
1,475,025	1,443,078	1,622,573	1,622,573	1,575,518

CITY OF NEWPORT BEACH
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year			
	2000	2001	2002	2003
Police:				
Stations	1	1	1	1
Fire:				
Fire stations	6	6	7	7
Lifeguard Headquarters	1	1	1	1
Public works:				
Streets (miles)	311	315	325	333
Streetlights	N/A	N/A	7,277	7,277
Traffic signals	N/A	121	130	131
Recreation & Senior Services:				
Parks	45	45	47	47
Community centers	10	10	11	11
Aquatic Center	1	1	1	1
Water:				
Water mains (miles)	N/A	282.35	294.81	294.81
Maximum daily capacity (thousands of gallons)	N/A	20,959	20,796	21,291
Wastewater:				
Sanitary sewers (miles)	N/A	200.02	176.90	178.40
Storm sewers (miles)	N/A	103.08	51.40	53.50
Library Services:				
Libraries	4	4	4	4

Source: City of Newport Beach

Fiscal Year					
2004	2005	2006	2007	2008	2009
1	1	1	1	1	1
7	8	8	8	8	8
1	1	1	1	1	1
333	333	333	395	395	395
7,277	7,277	7,277	7,278	7,278	7,278
131	144	147	147	148	148
47	47	47	47	48	49
11	11	11	12	13	13
1	1	1	1	1	1
294.81	298.42	299.88	300.35	300.17	300.31
20,092	20,633	19,369	20,392	20,365	19,707
179.15	179.15	179.15	202.80	202.80	202.80
57.60	57.60	57.60	95.50	95.50	95.50
4	4	4	4	4	4

CITY OF NEWPORT BEACH
Water Sold by Type of Customer
Last Ten Fiscal Years
(in hundred cubic feet)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Type of Customer:										
Residential	N/A	4,227,699	4,459,302	4,430,485	4,362,402	4,289,629	4,190,791	4,492,489	4,046,969	3,989,816
Commercial	N/A	1,487,538	1,552,366	1,604,931	1,659,565	1,568,462	1,440,377	1,302,578	1,184,904	1,188,553
Government	N/A	678,594	480,809	597,395	486,051	487,189	607,650	601,659	361,457	420,697
Total	N/A	6,393,831	6,492,477	6,632,811	6,508,018	6,345,280	6,238,818	6,396,726	5,593,330	5,599,066
Total direct rate per 100 cubic ft.	2.00	2.00	2.00	2.00	2.00	2.00	2.08	2.08	2.08	2.08

Source: City Utilities Department

CITY OF NEWPORT BEACH
Water Rates
Last Ten Fiscal Years

Fiscal Year Ended June 30	Monthly Base Rate	Rate per 100 cubic ft
2000	9.90	2.25
2001	9.90	2.25
2002	9.90	2.25
2003	10.00	2.25
2004	10.20	2.25
2005	10.35	2.25
2006	12.37	2.43
2007	12.37	2.43
2008	12.37	2.43
2009	12.37	2.43

Note: Rates are based on 3/4" meter, which is the standard household meter size. The City charges an excess-use rate above normal demand.

CITY OF NEWPORT BEACH
Major Water Customers
Current Year and Seven Years Ago

Water Customer	2009			2001 ¹		
	Water Charges	Rank	Percent of Total Water Revenues	Water Charges	Rank	Percent of Total Water Revenues
Big Canyon Country Club	\$ 181,581	1	0.01052035	\$ 169,900	2	0.95%
Irvine Apartment Management	143,043	2	0.008287554	N/A		0.00%
Hoag Memorial Hospital	132,152	3	0.007656557	101,436	6	0.57%
Newport Beach Country Club	115,829	4	0.006710843	152,362	3	0.85%
UDR Newport Beach	85,345	5	0.004944676	N/A		0.00%
Park Newport Ltd	84,229	6	0.004880018	150,062	4	0.84%
The Irvine Company	79,813	7	0.004624166	267,688	1	1.50%
Newport-Mesa USD	62,185	8	0.003602844	N/A		0.00%
Pacific View - Pierce Bros.	57,483	9	0.003330422	47,466	11	0.27%
Bluffs Homeowners Association	54,392	10	0.003151337	N/A		0.00%
Spyglass Hill Community Assoc.	43,422	11	0.002515762	N/A		0.00%
Newport Dunes Resort	42,672	12	0.002472309	N/A		0.00%
Newport Beach Marriott	38,144	13	0.002209968	N/A		0.00%
Eastbluff Homeowners Comm. Assoc.	38,112	14	0.002208114	N/A		0.00%
Jasmine Creek Community Assoc.	37,368	15	0.002165009	N/A		0.00%
	<u>\$ 1,195,770</u>		<u>6.93%</u>	<u>\$ 888,914</u>		<u>4.98%</u>

¹ Information for fiscal years ended prior to 2001, is not available.

Source: City Revenue Division

APPENDIX C

SUMMARY OF THE LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Trust Agreement and Lease/Purchase Agreement not described elsewhere in this Official Statement. This summary does not purport to be complete and is qualified in its entirety by reference to said documents.

TRUST AGREEMENT

Definitions

“Additional Certificates” means certificates of participation authorized by a Supplemental Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

“Additional Payments” means all amounts payable by the City as Additional Payments as defined in the Lease.

“Assignment Agreement” means the Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

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

“Business Day” means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California are authorized or required by law or executive order to remain closed.

“Certificates” means collectively, the 2010A Certificates and the 2010B Certificates.

“Certificate of Completion” means a certificate of the City Representative delivered pursuant to the Lease stating that all components of the Project have been completed or concluded in conformity with the requirements of the Lease.

“Certificate Year” means the period extending from July 2 each year to July 1 of the subsequent calendar year, provided that the first Certificate Year shall commence on the Closing Date and end on July 1, 2011.

“City” means the City of Newport Beach, a chartered city organized and existing under the laws and Constitution of the State, and its successors and assigns.

“City Representative” means the City Manager of the City, the Assistant City Manager or any other person authorized by the City Manager of the City to act on behalf of the City with respect to the Lease or the Trust Agreement.

“Closing Date” means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such section.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement dated as of November 1, 2010, by and between the City and the Trustee, as Dissemination Agent, as it may be amended from time to time in accordance with the terms thereof.

“Corporation” means the Newport Beach Public Facilities Corporation, a 501(c)(4) nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

“Corporation Representative” means the President, Vice President, Secretary, Treasurer of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

“Delivery Cost Requisition” means a written requisition substantially in the form attached hereto as Exhibit B-1.

“Delivery Costs” means and includes all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the financing of the Project from the proceeds of the Certificates, including but not limited to costs provided in the contract of purchase with the Original Purchaser, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee, including its first annual administration fee and the fees of its counsel, legal fees and charges, financing and other professional consultant fees, fees of auctioning the Certificates, costs of rating agencies and costs of providing information to such rating agencies, any computer and other expenses incurred in connection with the Certificates, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Delivery Date” means the date on which any Series of Certificates or Additional Certificates are delivered to the Original Purchaser.

“Depository” means the securities depository acting as depository pursuant to the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

“Escrow Agent” means U.S. Bank National Association or any successor or assigns.

“Escrow Agreement” means the Escrow Agreement dated as of October 29, 2010, by and between the City and the Escrow Agent relating to the 1998 Certificates.

“Escrow Fund” means that fund established pursuant to the Escrow Agreement and held by the Escrow Agent.

“Event of Default” means an event of default under the Lease, as defined in the Trust Agreement.

“Extraordinary Event” means:

- (a) a change has occurred to Section 54AA or 6431 of the Code,
 - (b) there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections, or
 - (c) any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the City to satisfy the requirements to qualify to receive the 35% federal cash subsidy payable with respect to the 2010B Tax Certificate,
- and as a result thereof, the federal cash subsidy expected to be received from the United States Treasury with respect to the Interest Component of the 2010B Lease Payments is eliminated or reduced, as reasonably determined by the City Manager or Director of Administrative Services, which determination shall be conclusive.

“Fiscal Year” means the fiscal year of the City commencing July 1 and ending June 30 of the next year.

“Fitch” means Fitch Ratings Group or any successors or assigns thereto.

“Government Obligations” means Permitted Investments of the type described in paragraphs (A) or (B) of the definition thereof.

“Independent Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the City. If the City fails to appoint an Independent Banking Institution at least 30 days prior to the date fixed for prepayment, or if the Independent Banking Institution appointed by the City is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield will be determined by an Independent Banking Institution designated by the Trustee.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the City.

“Interest Payment Date” means July 1 and January 1 of each year commencing January 1, 2011.

“Lease” means the Lease/Purchase Agreement related to the Certificates, dated as of the date of the Trust Agreement, by and between the City and the Corporation, and any duly authorized and executed amendments thereto.

“Lease Payment” means any of the 2010A Lease Payments, the 2010B Lease Payments or lease payments relating to Additional Certificates required to be paid by the City to the Corporation pursuant to the Lease.

“Lease Payment Date” means the Lease Payment Date defined in the Lease, which shall be each December 15 and June 15 commencing December 15, 2010.

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to Article V of the Trust Agreement.

“Leased Premises” has the meaning set forth in the Lease.

“Letter of Representations” means the letter of the City delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates making reference to the DTC Operational Arrangements memorandum, as it may be amended from time to time, setting forth the basis on which the Depository serves as depository for such book-entry certificates, as such letters were originally executed or as they may be supplemented or revised or replaced by letters from the City and the Trustee delivered to and accepted by the Depository.

“Moody’s” means Moody’s Investors Service or any successors or assigns thereto.

“Net Proceeds” means any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Leased Premises remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Net Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to Article VII of the Trust Agreement.

“1998 Certificates” means the \$7,330,000 City of Newport Beach Refunding Certificates of Participation, Series 1998 (Central Library Building Project).

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

“Original Purchaser” means Stone & Youngberg LLC, as representative of original purchasers of the Certificates on the Closing Date, or the original purchaser of any Series of Additional Certificates.

“Outstanding” when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates or Additional Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

- (1) Certificates or Additional Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates or Additional Certificates for the payment or prepayment of which funds or Government Obligations, together with interest earned thereon, in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates or Additional Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and
- (3) Certificates or Additional Certificates in lieu of or in exchange for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Owner” or “Certificate Owner” or “Owner of a Certificate”, or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

“Permitted Investments” means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
2. Federal Housing Administration Debentures (FHA)
3. General Services Administration
Participation certificates
4. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations
5. U.S. Maritime Administration
Guaranteed Title XI financing (qualified under the Ship Financing Act of 1972)
6. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Corporation Bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation certificates
Senior debt obligations

3. Federal National Mortgage Association (FNMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal)
4. Student Loan Marketing Association (SLMA or “Sallie Mae”) Senior debt obligations
5. Resolution Funding Corp (REFCORP)
The interest only component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York
6. Farm Credit System Corp. - Consolidated system-wide bonds and notes

D. Money market mutual funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G,” “AAAm” or “AAm” and by Moody’s of “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services or serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Trust Agreement may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

E. Certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the City) secured at all times by collateral described in (A) and/or (B) above and having a maturity of one year or less. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” by Standard & Poor’s and “Prime-1” by Moody’s, which may include the Trustee and its affiliates. The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the City), savings accounts, deposit accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest bearing deposits, interest bearing money market accounts, bankers’ acceptances or money market deposits which are fully insured by FDIC or are rated in the AA long term rating by Moody’s or Standard & Poor’s (including those of the Trustee and its affiliates).

G. Commercial paper rated at the time of investment “Prime - 1” by Moody’s and “A-1+” or better by Standard & Poor’s.

H. Investment agreements, including guaranteed investment agreements, acceptable to the Trustee.

I. Bonds or notes issued by any state or municipality which are rated by Moody’s and Standard & Poor’s in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1+” or better by Standard & Poor’s, including those of the Trustee and its affiliates.

K. Repurchase or reverse repurchase agreements rated “AA” or better by Standard and Poor’s (including those of the Trustee or any of its affiliates) and that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee, in exchange for the securities at a specified date or dates.

L. Any guaranteed investment contract, including forward delivery agreements (“FDAs”) and forward purchase agreements (“FPAs”), with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability rated within the two highest rating categories of Standard & Poor’s and Moody’s. Only Permitted Investments described in clauses A, B or C above and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

M. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s. If, however, the issue is only rated by Standard & Poor’s (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

N. The Local Agency Investment Fund of the State, provided that the Trustee may deposit and withdraw monies in its own name.

O. Any other investments permitted by Government Code section 53601 (including investment agreements and forward delivery or forward purchase agreements).

“Value” of the above investments shall be determined by the manner currently employed by the Trustee or any other manner consistent with industry standard.

“Prepayment” means any payment made by the City pursuant to the Lease as a prepayment of Lease Payments.

“Prepayment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Principal Office or Corporate Trust Office” means the corporate trust office of the Trustee at 700 South Flower Street, Suite 600, Los Angeles, California 90017, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee; provided, however, that for the purposes of payment, transfer or exchange of Certificates such term means the office or agency of the Trustee at which, at any particular time its corporate trust agency business shall be conducted.

“Project” has the meaning set forth in the Lease.

“Project Cost Requisition” means a written requisition substantially in the form attached to the Trust Agreement.

“Project Costs” means, with respect to any item or portion of the Project, the contract price paid or to be paid therefor upon acquisition, construction, procurement or improvement thereof, in accordance with a purchase order or contract therefor. Project Costs include, but are not limited to, the administrative, engineering, interior decorating, fixtures, furnishings and equipment, legal, financial and other costs incurred by the City and the Corporation in connection with the acquisition, construction, procurement, remodeling or improvement of the Project, all applicable sales taxes and other charges resulting from such construction, procurement, remodeling or improvement of the Project and the costs associated with making rebate calculations required by the Code. Project Costs shall not include any costs of the City or the Corporation to enforce remedies hereunder or under the Lease.

“Project Fund” means the fund by that name established and held by the Trustee pursuant to Article III of the Trust Agreement.

“Record Date” means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

“Reference Treasury Dealer” means any firm, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any prepayment date for a particular 2010A Lease Payment, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such prepayment date.

“Series” means either the 2010A Certificates and such Additional Certificates which are secured by 2010A Lease Payments or the 2010B Certificates and such Additional Certificates which are secured by the 2010B Lease Payments as the context may suggest.

“S&P” or “Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of the McGraw Hill Companies, Inc., or any successors or assigns thereto.

“Site Lease” means the Site Lease related to the Certificates, dated the date of the Trust Agreement, by and between the Corporation and the City.

“Special Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the City.

“State” means the State of California.

“Supplemental Agreement” means a supplement to the Trust Agreement providing for the execution and delivery of Additional Certificates pursuant to the Trust Agreement.

“Tax Certificate” means the Tax Certificates, each dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates executed and delivered to the

City on the date of execution and delivery of the 2010A Certificates and the 2010B Certificates, including any and all exhibits attached thereto.

“Term” means the time during which the Lease is in effect, as provided in the Lease.

“Treasury Rate” means, with respect to any prepayment for a particular 2010B Lease Payment, the rate per annum truncated to the fifth decimal, expressed as a percentage of the Principal Component, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the prepayment date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States, and any successor trustee.

“Trust Agreement” or “Agreement” means the Trust Agreement, together with any amendments hereof or supplements hereto permitted to be made hereunder.

“2010A Certificates” means the \$20,085,000 aggregate principal amount of the City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project) to be executed and delivered by the Trustee pursuant to the Trust Agreement.

“2010B Certificates” means the \$106,575,000 aggregate principal amount of the City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project/Central Library Refunding) to be executed and delivered by the Trustee pursuant to the Trust Agreement.

“2010A Lease Payment” means any payment required to be paid by the City to the Corporation pursuant to the Lease as set forth in Exhibit A thereto and deposited in the 2010A Account of the Lease Payment Fund.

“2010B Lease Payment” means any payment required to be paid by the City to the Corporation pursuant to the Lease as set forth in Exhibit A thereto and deposited in the 2010B Account of the Lease Payment Fund.

“2010A Prepayment” means any payment made by the City pursuant to the Lease as a prepayment of the 2010A Lease Payments.

“2010B Prepayment” means any payment made by the City pursuant to the Lease as a prepayment of the 2010B Lease Payments.

The 2010 Certificates of Participation

Payment Provisions. Interest with respect to any Certificate shall be payable in lawful money of the United States of America by check or draft of the Trustee, mailed no later than the Interest Payment Date to the Owner at his address as it appears, on the Record Date, on the registration books maintained by the Trustee or at such other address as has been furnished to the Trustee in writing by the Owner on or prior to such Record Date; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Certificates or Additional Certificates filed with the Trustee prior to any Record Date, interest with respect to such Certificates shall be paid to such Owner on each succeeding Interest Payment Date (unless such request has been revoked in writing) by wire transfer of immediately available funds to an account in the continental United States designated in

such written request. Payments of defaulted interest with respect to the Certificates or Additional Certificates shall be paid by check or draft to the registered Owners of the Certificates or Additional Certificates as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the registered Owners of the Certificates or any Additional Certificates no less than ten days prior thereto. The principal of and premium, if any, on the Certificates or Additional Certificates is payable when due upon surrender thereof at the Principal Office in lawful money of the United States of America.

Form of Certificates. The Certificates and the assignment to appear thereon shall be substantially in the forms set forth in the Trust Agreement. Pending the preparation of definitive Certificates the Certificates may be executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. If the Trustee delivers temporary Certificates, it shall execute and deliver definitive Certificates in an equal aggregate principal amount of authorized denominations, when available, without additional charge, and thereupon the temporary Certificates shall be surrendered to the Trustee at its Principal Office. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates. The form of any Additional Certificates shall be as set forth in the Supplemental Agreement relating to such Additional Certificates.

Execution. The Certificates shall be executed by and in the name of the Trustee by the manual signature of any authorized signatory of the Trustee. The Trustee shall insert the date of execution of each Certificate in the place provided thereon.

Application of Proceeds and Other Amounts. The proceeds from the sale of the Certificates shall be applied as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES."

Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same tenor and maturity, for like aggregate principal amount in authorized denominations. The cost of printing Certificates and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the City. The Trustee 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, and there shall be no other charge to any Owner for any such transfer.

Exchange of Certificates. Certificates may be exchanged at the Principal Office for a like aggregate principal amount of Certificates of other authorized denominations of the same tenor and maturity. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Certificates and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the City. All Certificates surrendered shall be cancelled and destroyed by the Trustee and shall not be redelivered.

Time for Transfer or Exchange. The Trustee shall not be obligated to transfer or exchange any Certificate after a Record Date and before the following Interest Payment Date, or during the period in which it is selecting Certificates for prepayment, or after notice of prepayment has been given as provided in the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, shall execute and deliver a new Certificate of like tenor, maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated and indemnification of the Trustee to its satisfaction. Every mutilated Certificate so surrendered to the Trustee shall be cancelled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and, if an indemnity, satisfactory to the Trustee indemnifying the Trustee, the Corporation and the City, shall be given, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor, maturity and principal amount and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Certificate delivered and of the expenses which may be incurred by the Trustee in carrying out its duties in connection therewith. Any Certificate executed under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate in place of one which has been mutilated, lost, destroyed or stolen, and which has matured, or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the above-mentioned indemnity.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Trust Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Certificates. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of Certificates shall be sufficient for any purpose of the Trust Agreement (except as otherwise herein provided), if made in the following manner:

The fact and date of the execution by any Owner or his attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged before him the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

The fact of the ownership of Certificates by any person, the amount and numbers of such Certificates and the date of execution shall be proved by the registration books maintained pursuant to the Trust Agreement.

Nothing shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which the Trustee may deem sufficient in its sole discretion. Any request or consent of the Owner of any Certificate shall bind every future Owner of the same Certificate in respect of anything done or to be done by the Trustee in pursuance of such request or consent.

Certificate Register. The Trustee will keep or cause to be kept at its Principal Office or another office designated by the Trustee sufficient books for the registration and transfer of the Certificates which shall, during normal working hours and upon reasonable prior notice, be open to inspection by the City

and the Corporation; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Certificates. The City, the Corporation and the Trustee shall be entitled to treat the registered owner of a Certificate as the absolute owner thereof for all purposes, whether or not a Certificate shall be overdue and the City, the Corporation and the Trustee shall not be affected by any notice to the contrary.

Destruction of Cancelled Certificates. Whenever in the Trust Agreement provision is made for the surrender or cancellation by the Trustee and the delivery to the City of any Certificates, the Trustee will cancel and destroy such Certificates and deliver a certificate of such destruction to the City upon its request.

Additional Certificates. Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee shall, upon written request or requests of the City Representative and of the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there shall have been compliance with all of the following conditions, which are hereby made conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement shall have executed a Supplemental Agreement which (i) sets forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under the Trust Agreement for the Certificates, as shall be necessary or appropriate, and (ii) specifies whether such Certificates are payable from 2010A Lease Payments or 2010B Lease Payments;

(b) The scheduled principal and interest payable with respect to such Additional Certificates shall be payable only on Interest Payment Dates applicable to the Certificates;

(c) The Lease and Site Lease shall have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates as and when the same mature or become due and payable, (ii) if appropriate, amend the definition of "Leased Premises" to include as part of the Leased Premises all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Leased Premises as such Leased Premises is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease and Site Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions shall not materially prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement as may be evidenced by an opinion of Special Counsel;

(d) There shall have been delivered to the Trustee a counterpart of the amendments required by (c) above;

(e) The Trustee shall have received a certificate of the Corporation Representative that there exists on the part of the Corporation no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee shall have received a certificate of the City Representative that (i) there exists on the part of the City no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted

do not exceed in any year the fair rental value of the Leased Premises (as such term is defined in the amended Lease);

(g) The Trustee shall have received an opinion of Special Counsel substantially to the effect that (i) said Supplemental Agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said Supplemental Agreement and said amendments to the Lease and Site Lease (if applicable) have been duly authorized, executed and delivered by the City and the Corporation, as applicable, (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said Supplemental Agreement or said amendments to the Lease and Site Lease (if applicable)), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said Supplemental Agreement, and the Lease and Site Lease (if applicable), as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the City and Corporation, as applicable, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such Supplemental Agreement and said amendments to the Lease and Site Lease (if applicable), and performance by the parties thereunder, will not result in the inclusion of the Interest Component of any 2010A Lease Payments payable with respect to any 2010A Certificates, including Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), theretofore prepared, executed and delivered, in the gross income of the Owners of the 2010A Certificates or the owners of any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) for purposes of federal income taxation or the loss of the subsidy payments from the United States Treasury relating to the District's obligation to pay the Interest Component of the 2010B Lease Payments as evidenced by the 2010B Certificates;

(h) There shall have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates; and

(i) Such other conditions shall have been satisfied, and such other instruments shall have been duly executed and delivered to the Trustee, as the City or the Corporation shall have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee shall cause to be executed and delivered Additional Certificates of a Series representing the aggregate principal amount specified in such Supplemental Agreement, and such Additional Certificates shall be equally and ratably secured with all Certificates of like Series, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate of a Series, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement shall require the City to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the City to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, shall be in the sole discretion of the City.

Establishment of Project Fund.

The Trustee shall establish a special fund designated as the “City of Newport Beach (Civic Center Project) Project Fund,” referred to herein as the “Project Fund” and shall establish a 2010A Account and a 2010B Account therein. Within each of the 2010A Account and the 2010B Account, there shall be established Delivery Costs Subaccounts therein; shall keep the Project Fund separate and apart from all other funds and moneys held by it; and shall administer such fund as herein provided. The Project Fund shall be held and applied by the Trustee in accordance herewith.

Purpose. Moneys in the Project Fund shall be expended for Project Costs and Delivery Costs.

Deposit of Moneys; Payment of Project Costs and Delivery Costs.

(a) Deposits. There shall be credited to the 2010A Account of the Project Fund the following amounts: (1) the proceeds of sale of the 2010A Certificates required to be deposited therein pursuant to the Trust Agreement; (2) all investment earnings on moneys held in the 2010A Account of the Project Fund, which shall remain in the 2010A Account of the Project Fund until expended for Project Costs or applied to the prepayment of 2010A Certificates, as described in the Trust Agreement ; and (3) any other funds from time to time deposited with the Trustee to pay Project Costs.

There shall be credited to the 2010B Account of the Project Fund the following amounts: (1) the proceeds of sale of the 2010B Certificates required to be deposited therein pursuant to the Trust Agreement; (2) all investment earnings on moneys held in the 2010B Account of the Project Fund, which shall remain in the 2010B Account of the Project Fund until expended for Project Costs or applied to the prepayment of 2010B Certificates, as described in the Trust Agreement; and (3) any other funds from time to time deposited with the Trustee to pay Project Costs.

(b) Disbursements. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project Costs directly or to reimburse the City for payment of Project Costs, upon receipt by the Trustee of a Project Cost Requisition signed by the City Representative. The Trustee shall have no duty or liability to monitor the application of any moneys disbursed hereunder. The Trustee shall disburse moneys from the Delivery Costs Subaccounts to pay Delivery Costs or to reimburse the City for payment of such Delivery Costs upon receipt by the Trustee of a Delivery Cost Requisition signed by the City Representative. The Trustee shall be absolutely protected in making any disbursement from the Project Fund in reliance upon a Project Cost Requisition or Delivery Cost Requisition signed by the City Representative. Each such Project Cost Requisition and Delivery Cost Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Any remaining balance in a Delivery Costs Subaccount after June 15, 2011 shall be transferred by the Trustee to the applicable account of the Project Fund as directed in writing by City Representative.

Transfers of Unexpended Proceeds. Upon the filing with the Trustee of the Certificate of Completion pursuant to the Lease, the Trustee shall withdraw all remaining moneys in the Project Fund (other than any moneys retained therein to pay Project Costs not then due and payable and certified by the City Representative) and shall transfer such moneys to the applicable account of the Lease Payment Fund to be applied to the payment of principal and interest with respect to the applicable Series of Certificates as prescribed in the Trust Agreement or, at the written election of the City Representative delivered to the Trustee, together with an opinion of Special Counsel that such transfer will not cause interest due with respect to the 2010A Certificates to be included in gross income for federal income tax purposes, shall transfer such moneys to the City for the purpose of capital expenditures of the City, and following such transfer, the Project Fund shall be closed.

Establishment of Prepayment Fund

The Trustee shall establish a special fund designated as the “City of Newport Beach (Civic Center Project) Prepayment Fund,” referred to herein as the “Prepayment Fund”; shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as herein provided. Within the Prepayment Fund, the Trustee shall establish a “2010A Account” into which any 2010A Prepayments shall be deposited and a “2010B Account” into which any 2010B Prepayments shall be deposited. Moneys to be used for prepayment of the Certificates and Additional Certificates shall be deposited into the applicable account of the Prepayment Fund established for such Series and used solely for the purpose of prepaying the applicable Certificates or Additional Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates or Additional Certificates to the Trustee.

Lease Payments, Lease Payment Fund

Security Provisions.

(a) Assignment of Rights in Lease. The Corporation has, pursuant to the Assignment Agreement, absolutely assigned and set over to the Trustee certain of its rights in the Lease, including but not limited to all of the Corporation’s rights to receive and collect all of the Lease Payments, the Prepayments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or pursuant hereto. All Lease Payments, Prepayments and such other amounts to which the Corporation may at any time be entitled (other than amounts due to the Corporation under the Lease) shall be paid directly to the Trustee, and all of the Lease Payments and Prepayments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within five (5) Business Days after the receipt thereof, and all such Lease Payments shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, all such Prepayments shall be forthwith deposited by the Trustee upon the receipt thereof in the Prepayment Fund.

(b) Security Interest in Moneys and Funds. The Corporation and the City, as their interests may appear, hereby grant to the Trustee for the benefit of the Owners of the Certificates and all Additional Certificates a lien on and a security interest in all moneys in the following funds or accounts held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Prepayment Fund and the Net Proceeds Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified herein and in the Lease.

In addition to the Trustee, only Owners of the 2010A Certificates and Owners of Additional Certificates (to the extent provided in a Supplemental Agreement) shall have a lien on and a security interest in all moneys in the 2010A Account of the Lease Payment Fund and the 2010A Account of the Prepayment Fund.

In addition to the Trustee, only Owners of the 2010B Certificates and Owners of Additional Certificates (to the extent provided in a Supplemental Agreement) shall have a lien on and a security interest in all moneys in the 2010B Account of the Lease Payment Fund and the 2010B Account of the Prepayment Fund.

(c) Pledge of Lease Payments and Proceeds. The 2010A Lease Payments are hereby irrevocably pledged to and shall be used for the punctual payment of the interest and principal represented

by the 2010A Certificates (and Additional Certificates to the extent provided in a Supplemental Agreement). The 2010B Lease Payments are hereby irrevocably pledged to and shall be used for the punctual payment of the interest and principal represented by the 2010B Certificates (and Additional Certificates to the extent provided in a Supplemental Agreement). Any proceeds from the re-letting or any other disposition of the Leased Premises pursuant to Article IX of the Lease (the "Lease Proceeds") are hereby irrevocably pledged equally to the 2010A Certificates, the 2010B Certificates and any Additional Certificates. Except as permitted under the Trust Agreement with respect to Additional Certificates, the Lease Payments and Lease Proceeds shall not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms of the Trust Agreement.

Establishment of Lease Payment Fund. The Trustee shall establish a special fund designated as the "City of Newport Beach (Civic Center Project) Lease Payment Fund" and shall establish a 2010A Account and a 2010B Account therein. All moneys at any time deposited by the Trustee in an account of the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the applicable Certificates of such Series. So long as any Certificates are Outstanding, neither the City nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

Deposits. There shall be deposited in the 2010A Account of the Lease Payment Fund all 2010A Lease Payments and in the 2010A Account of the Prepayment Fund all 2010A Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation pursuant to the Lease (regarding proceeds of rental interruption insurance) or pursuant to the Trust Agreement, which moneys shall be applied as a credit towards any 2010A Lease Payment then due.

There shall be deposited in the 2010B Account of the Lease Payment Fund all 2010B Lease Payments and in the 2010B Prepayment Fund all 2010B Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation pursuant to the Lease (regarding proceeds of rental interruption insurance) or pursuant to the Trust Agreement, which moneys shall be applied as a credit towards any 2010B Lease Payment then due.

The Trustee, in accordance with the Calculation Agency Agreement, dated as of November 1, 2010, by and between the City and the Trustee, shall at least 45 days but not more than 90 days prior to each Certificate Payment Date, submit to the United States Treasury a subsidy reimbursement request with respect to the 2010B Certificates in accordance with applicable Federal regulations. Upon receipt of such subsidy, the City shall deposit such cash subsidy payment into the 2010B Account of the Lease Payment Fund and use any such cash subsidy payments to offset its obligations to pay the Interest Component of the 2010B Lease Payments under the Lease.

Application of Moneys. Except as provided in the Trust Agreement, all amounts in the 2010A Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the 2010A Certificates as the same shall become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement.

Except as provided in the Trust Agreement, all amounts in the 2010B Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with

respect to the 2010B Certificates as the same shall become due and payable, in accordance with the provisions of the Trust Agreement.

On or before each Interest Payment Date, the Trustee shall set aside an amount sufficient to pay the interest becoming due and payable on such Interest Payment Date on all Outstanding Certificates. Moneys so set aside shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates as it shall become due and payable (including, accrued interest with respect to any Certificates prepaid prior to maturity).

On or before each Interest Payment Date on which the principal of the Certificates shall be payable, the Trustee shall set aside an amount equal to (i) the principal amount of the Certificates coming due and payable on such Interest Payment Date pursuant to the Trust Agreement, and (ii) the prepayment price of the Certificates (consisting of the principal amount thereof and any applicable premiums) required to be prepaid on such Interest Payment Date pursuant to any of the provisions of the Trust Agreement. Moneys so set aside shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Certificates at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Certificates upon the prepayment thereof pursuant to the Trust Agreement.

Surplus. Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, shall be withdrawn by the Trustee and remitted to the City.

Net Proceeds Fund

Establishment of Net Proceeds Fund: Deposits. The Trustee shall establish when required a special fund designated as the “City of Newport Beach (Civic Center Project) Net Proceeds Fund,” referred to herein as the “Net Proceeds Fund,” to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided herein. The Trustee shall deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

(a) Casualty Insurance. The Trustee shall disburse Net Proceeds for replacement or repair of the Leased Premises as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the City Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the City Representative in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to thereof, the Trustee shall pay any remaining moneys in the Net Proceeds Fund to the City after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

(b) Title Insurance. Proceeds of any policy of title insurance received by the Trustee with respect to the Leased Premises shall be applied and disbursed by the Trustee upon the Written Request of the City as follows:

(i) If the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Leased Premises and will not result in an abatement of Lease Payments and Additional Payments payable by the City under the Lease (such

determination to be certified by the City in writing), such proceeds shall be remitted to the City and used for any lawful purpose thereof; or

(ii) If the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Leased Premises and will result in an abatement of Lease Payments and Additional Payments payable by the City under the Lease; then the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

Cooperation. The Corporation and the Trustee shall cooperate fully with the City at the expense of the City in filing any proof of loss with respect to any insurance policy maintained pursuant to Article V of the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Leased Premises or any item or portion thereof; provided, however, the Trustee shall not be obligated to take any action hereunder if it is not indemnified to its satisfaction from and against any liability or expense arising therefrom.

Moneys In Funds, Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement, other than in the Rebate Fund, are irrevocably held in trust for the benefit of the respective Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the City, or any of them.

Investments Authorized.

(a) By Trustee. Subject to the further provisions of this Article VIII, moneys held by the Trustee hereunder shall be invested and reinvested on maturity thereof by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the City on a monthly basis in its regular statements.

(b) Upon Direction of the City. The City Representative shall direct by facsimile, to the designated trust officer responsible for the administration of the Trust Agreement, followed by distribution by U.S. Mail or overnight courier service of such notice, such investment in specific Permitted Investments not less than two Business Days prior to the date that such Permitted Investment is to take effect. Such investments and reinvestments shall be made giving full consideration for the time at which funds are required to be available based among other things, scheduled completion of the various components of the Project. In the event that the City Representative does not so direct the Trustee, the Trustee shall invest in the Permitted Investments described in the Trust Agreement.

Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund shall mature not later than the Interest Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Investments instructed by the City Representative to be purchased with funds on deposit in the Project Fund shall mature not later than the dates upon which such funds shall be needed to be expended for the payment of Project Costs. Investments to the later of the final maturity of the Certificates or any Additional Certificates so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Trust Agreement. The Trustee may conclusively rely upon the written instructions of the City Representative as to both the suitability and legality of the directed investments.

(c) Registration. Such investments, if registrable, shall be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee or its nominee.

(d) Trustee as Purchaser or Agent. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee or any of its affiliates may act as a sponsor of, or as an advisor to any provider of, Permitted Investments hereunder. The City and Corporation acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City and the Corporation the right to receive brokerage confirmations of security transactions as they occur, at no additional costs, the City and Corporation specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

(e) Trustee Standard of Care. Except as otherwise provided in the Trust Agreement, the Trustee shall not be responsible or liable for any consequences of any investment of funds or sale of such investment made by it in accordance with this section or disposition made by it in accordance with the Trust Agreement.

Crediting of Investments. Except as otherwise provided in the Trust Agreement, any income, profit or loss on the investment of moneys held by the Trustee hereunder shall be credited to the respective fund for which it is held.

Accounting. The Trustee shall furnish to the City, not less than monthly, an accounting (which may be in the form of its regular statements) of all investments made by the Trustee and all funds and amounts held by the Trustee; provided, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero and (ii) has not had any activity since the last reporting date. The Trustee shall keep accurate records of all funds administered by it and of all Certificates paid and discharged.

Valuation and Disposition of Investments.

(a) Valuation. Subject to the provisions of the Trust Agreement, for the purpose of determining the amount in any fund, all Permitted Investments (except investment agreements) credited to such fund shall be valued at the lower of the cost or the market price, exclusive of accrued interest. With respect to all funds and accounts, investments shall be valued by the Trustee not less often than annually nor more often than monthly. In making any such valuations, the Trustee may utilize, and conclusively rely upon such valuation services as may be available to the Trustee, including those within its regular accounting system and brokers and dealers in securities.

(b) Disposition. Subject to the provisions of the Trust Agreement, the Trustee shall sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

Commingling of Moneys in Funds. The Trustee may, and upon the written request of the City Representative shall, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee. The City shall ensure that any such commingling complies with Section 1.148-4 of the Treasury Regulations, and shall provide written direction to the Trustee accordingly. In no event shall the Trustee

have any duty or obligation, at any time and in any manner to monitor compliance with any governmental regulations relating to commingling of accounts.

Tax Covenants.

(a) General. The City and the Corporation hereby covenant with the holders of the 2010A Certificates that, notwithstanding any other provisions of the Trust Agreement, (to the extent that the Corporation may have control over the Project or the proceeds of the Certificates) they shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest with respect to the 2010A Certificates under Section 103 of the Code. The City and the Corporation (to the extent that the Corporation may have control over the Project or the proceeds of the Certificates) shall not, directly or indirectly, use or permit the use of proceeds of the 2010A Certificates or the Project, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest due with respect to the 2010A Certificates.

(b) Use of Proceeds. The City and the Corporation (to the extent that the Corporation may have control over the Project or the proceeds of the Certificates) shall not take any action, or fail to take any action, if any such action or failure to take action would cause the 2010A Certificates to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the 2010A Certificates or the Project, or any portion thereof, or any other funds of the City, that would cause the 2010A Certificates to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any 2010A Certificates are outstanding, the City and the Corporation, with respect to such proceeds and the Project and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Code, to the extent such requirements are, at the time, applicable and in effect. The City shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the 2010A Certificates as “governmental bonds.”

(c) Arbitrage. The City and the Corporation (to the extent that the Corporation may have control over the Project or the proceeds of the Certificates) shall not, directly or indirectly, use or permit the use of any proceeds of any 2010A Certificates, or of the Project, or other funds of the City, or take or omit to take any action, that would cause the 2010A Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the City and the Corporation shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the 2010A Certificates.

(d) Federal Guarantee. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the Certificates) shall not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the 2010A Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) Covenant Regarding Build America Bonds. The City and the Corporation (to the extent that the Corporation may have control over the proceeds of the 2010B Certificates) shall not make any use of the proceeds of the 2010B Certificates, or take or omit to take any other action, that would cause the City to lose the cash subsidy payments from the United States Treasury relating to City’s obligations to pay the Interest Component of the 2010B Lease Payments under the Lease as evidenced by the 2010B Certificates.

(f) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of this section, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the 2010A Certificates and the 2010B Certificates.

Rebate Fund. The Trustee shall establish a special fund designated the “City of Newport Beach (Civic Center Project) Rebate Fund” (the “Rebate Fund”). All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”). Such amounts shall be free and clear of any lien under the Trust Agreement and shall be governed by the Trust Agreement and by the Tax Certificate executed by the City. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the City, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the City with the Rebate Requirement.

The Trustee

Appointment of Trustee.

(a) Appointment. Trustee, a national banking association organized under the laws of the United States, is hereby appointed Trustee by the Corporation and the City.

(b) Qualifications. The Corporation and the City agree that they will maintain a Trustee having a corporate trust office in New York, New York, San Francisco, California, Santa Ana, California, or Los Angeles, California capable of exercising trust powers in the State of California, with a combined capital (exclusive of borrowed capital) and a surplus of at least Seventy-Five Million Dollars (\$75,000,000), or be a member of a bank holding company system, which shall have a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority, so long as any Certificates are Outstanding. If such bank, corporation or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to then for the purpose of this section the combined capital and surplus of such bank, corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) Removal. So long as there is no Event of Default, the City may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

(d) Resignation. The Trustee may, upon written notice to the City and the Corporation, resign; provided that such resignation shall not take effect until the successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee. In the event the City does not name a successor Trustee within thirty (30) days of receipt of notice of the Trustee’s resignation, then the Trustee may petition a federal or state court to seek the immediate appointment of a successor Trustee and be reimbursed by the City for all costs incurred in connection therewith.

(e) Successor. Any successor Trustee shall be a bank, corporation or trust company meeting the qualifications as set forth in Subsection (b) above. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee shall mail notice thereof to the Owners

at their respective addresses set forth on the Certificate registration books maintained pursuant to the Trust Agreement.

Merger or Consolidation. Any company or banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under the Trust Agreement, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Protection of the Trustee.

(a) Reliance Upon Papers or Documents. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, facsimile, request, consent, direction, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may, in the absence of bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. In the event the Trustee shall make any investigation into the content of any such certifications, the Trustee shall not thereby be deemed to have expanded the scope of its duties.

(b) Reliance Upon Opinions of Counsel. The Trustee may consult with its counsel or counsel to the City with regard to legal questions and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith. Before being required to take any action, the Trustee may require an opinion of Independent Counsel acceptable to the Trustee which opinion shall be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or a verified certificate of any party hereto, or both, concerning the proposed action and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken by the Trustee in reliance thereon and the City shall promptly reimburse the Trustee for such costs.

(c) Reliance Upon Requested Certificates. Whenever in the administration of its duties under the Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed), in the absence of bad faith on its part, shall be deemed to be conclusively proved and established by the certificate of the City Representative or the Corporation Representative and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement in reliance thereon, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable, provided however that the duties and obligations of the Trustee shall not be deemed expanded thereby.

Rights of the Trustee.

(a) Ownership of Certificates. The Trustee may become an Owner with the same rights it would have if it were not Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any

committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of the majority in principal amount of the Certificates then Outstanding.

(b) Attorneys, Agents, Receivers. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, shall not be responsible for the actions or omissions of such attorneys, agents or receivers if appointed by it with reasonable care, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder.

(c) Funds and Accounts. In addition to the funds and accounts established or required to be established pursuant to the Trust Agreement, the Trustee may establish such additional funds and accounts as it deems necessary or appropriate to perform its duties hereunder, and shall have the right to close such accounts in its discretion.

Standard of Care. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee shall only perform those duties specifically set forth herein and no implied duties, covenants or obligations whatsoever shall be read into the Trust Agreement. In the event of and during the continuance of an Event of Default, the Trustee shall exercise such care in performing its duties hereunder as a prudent person would exercise under the circumstances in the conduct of its own affairs. No action by the Trustee shall be construed or deemed to expand the limitations on the scope of the Trustee's duties. The Trustee shall not be considered in breach of or in default in its obligations hereunder in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Compensation of the Trustee. As an Additional Payment under the Lease, the City shall, from time to time, pay such amounts and reimburse such expenses (including, without limitation, legal fees and expenses) as are specified in any written agreement with the City and, on demand, pay to the Trustee to the extent not covered by such agreement reasonable compensation for its services and the services of any accountants, consultants, attorneys and other experts as may be engaged by the Trustee to provide services under the Trust Agreement pursuant to a written agreement between the City and the Trustee. Further, in the event of a default hereunder, the City agrees that the Trustee's fees and costs shall be deemed to be a substantial contribution to the trust and bankruptcy estate and/or administrative expenses in a bankruptcy, if applicable. The City's obligation hereunder shall remain valid and binding notwithstanding maturity and payment of the Certificates or resignation and removal of the Trustee. Upon an Event of Default, and only upon an Event of Default, the Trustee shall have a first lien with right of payment prior to payment on account of principal of and premium, if any, interest on any Certificate, upon the trust estate for the foregoing fees, charges and expenses incurred by it.

Trustee's Disclaimer of Warranties. THE TRUSTEE MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PREMISES, OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE CITY IS LEASING THE

LEASED PREMISES AS IS. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease, the Site Lease, the Assignment Agreement or the Trust Agreement for the existence, furnishing, functioning or the City's use and possession of the Leased Premises.

Modification or Amendment of Agreements

Amendments Permitted.

(a) With Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to any rating agency then rating the Certificates by a Supplemental Agreement or amendment thereto which shall become effective when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall:

(i) extend or have the effect of extending the maturity of any Certificate or reducing the fixed interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificates being affected, or

(ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or

(iii) modify any of the rights or obligations of the Trustee without its written assent thereto, or

(iv) amend the Trust Agreement without the prior written consent of the Owners of all Certificates then outstanding.

The Trustee shall have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners and (ii) the fact that the amendment will not affect the tax status of interest evidenced by the Certificates or any Additional Certificates. Any such Supplemental Agreement or amendments thereto shall become effective as provided in the Trust Agreement.

Without Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a Supplemental Agreement or amendments thereto or a supplement or amendment to the Lease, without the consent of any such Owners, but only to the extent permitted by law and only:

(i) to add to the covenants and agreements of the City hereunder,

(ii) to cure, correct or supplement any ambiguous or defective provision contained herein or therein,

(iii) in regard to matters arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable (which may be based upon opinions as provided in the Trust Agreement), shall not materially adversely affect the interest of the Owners,

(iv) to substitute the Leased Premises, or a portion thereof, in accordance with the Lease,

(v) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of 2010A Lease Payments and the interest payable with respect to the 2010A Certificates and to maintain the federal subsidy with respect to the City's obligations to pay the Interest Component with respect to the 2010B Lease Payments under the Lease,

(vi) to add to the rights of the Trustee,

(vii) to maintain the rating or ratings assigned to the Certificates, or

(viii) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

No such modification or amendment, however, shall modify any of the rights or obligations of the Trustee without its written assent thereto. Any such Supplemental Agreement shall become effective upon execution and delivery by the parties hereto or thereto as the case may be.

The Trustee shall have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners and (ii) the fact that the amendment will not affect the tax status of interest with respect to the 2010A Certificates or any Additional Certificates. Any such Supplemental Agreement or amendments thereto shall become effective as provided in the Trust Agreement.

Procedure for Amendment with Written Consent of the Owners. The Trust Agreement or the Lease may be amended by Supplemental Agreement as provided in the Trust Agreement in the event the consent of the Owners is required pursuant to the Trust Agreement. A copy of the form of such Supplemental Agreement, together with a request to the Owners for their consent thereto, shall be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books maintained pursuant to the Trust Agreement, but failure to receive copies of such Supplemental Agreement and request so mailed shall not affect the validity of the Supplemental Agreement when assented to as in this section provided.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices shall have been mailed as hereinafter in this section provided. Any such consent shall be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this section provided for has been mailed.

After the Owners of the required percentage of Certificates shall have filed their consent to such Supplemental Agreement, the Trustee shall mail a notice to the Owners of the Certificates in the manner hereinbefore provided in this section for the mailing of such Supplemental Agreement, stating in substance that such Supplemental Agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in this section (but failure to mail copies of said notice shall not affect the validity of such Supplemental Agreement or consents thereto). A record, consisting of the papers required by this section to be filed with the Trustee, shall be proof of the matters

therein stated until the contrary is proved. The Trustee may obtain and conclusively rely on an opinion of counsel with regard to such matters.

Disqualified Certificates. Certificates or Additional Certificates owned or held by or for the account of the City or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the City or the Corporation (except any Certificates or Additional Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates or Additional Certificates provided for in the Trust Agreement, and shall not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement; except that in determining whether the Trustee shall be protected in relying upon any such approval or consent of an Owner, only Certificates that the Trustee actually knows to be owned or held by or for the account of the City or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the City or the Corporation (except any Certificates or Additional Certificates held in any pension or retirement fund) shall be disregarded unless all Certificates are so owned, held by or for the account of, in which case such Certificates shall be considered Outstanding for the purpose of such determination.

The City or the Trustee may adopt appropriate regulations to require each Owner, before his consent shall be deemed effective, to reveal if the Certificates or Additional Certificates as to which such consent is given are disqualified as provided in the Trust Agreement. Upon request of the Trustee, the City and Corporation shall specify to the Trustee those Certificates and Additional Certificates disqualified pursuant to this section and the Trustee may conclusively rely on such certificate.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective, the Trust Agreement or the Lease, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Agreement shall be deemed to be part of the terms and conditions of the Trust Agreement or the Lease, as the case may be, for any and all purposes.

Endorsement or Replacement of Certificates Delivered After Amendments. The City may determine that Certificates delivered after the effective date of any action taken as provided in the Trust Agreement shall bear a notation, by endorsement, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Outstanding Certificate at such effective date and presentation of his Certificate for such purpose at the Principal Office, a suitable notation shall be made on such Certificate. The City may determine that new Certificates, so modified as in the opinion of the Trustee is necessary to conform to such Owner's action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such new Certificate shall be exchanged in the Principal Office without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

Amendatory Endorsement of Certificates. Subject to the Trust Agreement, an Owner may accept any amendment as to the particular Certificates held by him, provided that due notification thereof is made on such Certificates.

Copies of Amendments Delivered to Rating Agencies. Copies of any modifications or amendments to this Agreement, the Lease, the Site Lease or the Assignment Agreement shall be delivered by the City to any rating agency then rating the Certificates at least 10 days prior to the effective date thereof.

Covenants; Notices

Compliance With and Enforcement of the Lease. The City covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease. The Corporation covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease.

The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Corporation thereunder. The Corporation and the City, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Leased Premises, which may or can in any manner affect such estate of the City, will deliver the same, or a copy thereof, to the Trustee.

Payment of Taxes. The City shall pay all taxes as provided in the Lease.

Observance of Laws and Regulations. The City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City, including its right to exist and carry on business as a municipal corporation, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits. The City shall promptly, and also upon request of the Trustee or any Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Leased Premises, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose.

City Budgets. In accordance with the Lease, the City Representative shall certify to the Trustee on or before August 1 of each year that the City has included all Lease Payments (other than Lease Payments of advance rental), Additional Payments due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the City fails to certify that it has included all such Lease Payments and Additional Payments in such annual budget, the Trustee shall promptly provide the City written notice specifying that the City has failed to observe and perform its covenant and agreement and requesting that such failure be remedied within 30 days, or such failure shall constitute an Event of Default under the Lease. The Trustee shall forward a copy of such notice to the Corporation. Upon receipt of such notice, the City shall notify the Trustee in writing of the proceedings proposed to be taken by the City, and shall keep the Trustee advised in writing of all proceedings thereafter taken by the City.

Further Assurances. The Corporation and the City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Agreement, and for the better assuring and confirming unto the Owners the rights and benefits provided herein.

Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court

order, to cause the City to comply with its obligations under this section and the Continuing Disclosure Agreement.

Limitation of Liability

Limited Liability of the City. Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the City contained herein and in the Lease, the City shall have no obligation or liability to any of the other parties hereto or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

No Liability of the City or Corporation for Trustee Performance. Except as expressly provided herein, neither the City nor the Corporation shall have any obligation or liability to any other parties hereto or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

(a) No Investment Advice. The Trustee shall have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

(b) Sufficiency of the Trust Agreement or Lease Payments. The Trustee makes no representations as to the validity or sufficiency of the Certificates, shall incur no responsibility or liability in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon it. The Trustee shall not be responsible or liable for the sufficiency or enforceability of the Lease, the Site Lease or the Assignment Agreement. The Trustee shall not be liable for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of or title to the Leased Premises.

(c) Actions of Corporation and City. The Trustee shall have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease, but shall be responsible solely for the performance of the duties and obligations expressly imposed upon it hereunder as provided in the Trust Agreement.

(d) Recitals and Agreements of Corporation and City. The recitals of facts, covenants and agreements herein and in the Certificates contained shall be taken as statements, covenants and agreements of the City or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same.

Limitation of Rights to Parties and Certificate Owners. Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the City, the Corporation, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Corporation, the Trustee and the Owners.

No Liability of Corporation to the Owners. Except as expressly provided herein, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the City or with respect to the observance or performance by the City of the other agreements, conditions, and covenant imposed upon the City by the Lease or by the Trust Agreement.

Events of Default and Remedies of Certificate Owners

Assignment of Rights. The parties hereto acknowledge that pursuant to the Assignment Agreement the Corporation has transferred, assigned and set over to the Trustee for the benefit of the Owners, certain of the Corporation's rights under the Lease.

Events of Default.

(a) Remedies. If an Event of Default shall happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything herein or in the Lease to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. The Lease is hereby incorporated by reference.

(b) Actual Knowledge. The Trustee shall not be deemed to have knowledge of any Event of Default unless and until the trust officer responsible for the administration of the Trust Agreement shall have actual knowledge thereof, or shall have received written notice thereof at the Principal Office.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease in an Event of Default, shall be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and the Lease in the following order upon presentation of the Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, Costs and Expenses: to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties and obligations hereunder, including reasonable compensation to its agents, attorneys and counsel and then to any such amounts incurred by the Owners;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which shall have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein or in the Lease, or in aid of the

execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder; provided that such written request shall not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee shall have the right to decline to follow any such written request if the Trustee shall be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith shall determine that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability. In no event shall counsel to the Trustee be deemed counsel to the Owners, and any communications between the Trustee and its counsel shall be deemed confidential and privileged. Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners of the Certificates so affected.

Non-Waiver. Nothing in the Trust Agreement or in the Certificates shall affect or impair the obligation of the City to pay or prepay the Lease Payments as provided in the Lease. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it shall have full power, in the exercise of its discretion for the best interest of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) there shall have been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this section or any other provision of the Trust Agreement.

Miscellaneous

Defeasance.

(a) Methods. If and when any Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(i) Payment or Prepayment: by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) Cash: by depositing with the Trustee, in trust, an amount of cash which (together with cash then on deposit in the Lease Payment Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(iii) Government Obligations: by irrevocably depositing with the Trustee, in trust, Government Obligations together with cash, if required, in such amount as will, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity or prepayment date;

and all other amounts due hereunder have been paid in full, then, notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to such Certificates shall cease and terminate, except only the rights of the Trustee under the Trust Agreement hereof, and the obligation of the City and the Corporation to comply with the provisions of the Trust Agreement and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (ii) and (iii) of this section, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) and (iii) of this section, the Certificates shall continue to represent direct and proportionate interests of the Owners thereof in applicable Lease Payments under the Lease.

(b) Surplus Moneys. Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to one of the procedures described in paragraphs (a)(i) through (a)(iii) of this section, which are not required for the payment to be made to the Owners, shall be paid over to the City, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement hereof and any other Additional Payments due under the Lease.

(c) Surviving Provisions. Notwithstanding the satisfaction and discharge hereof, the Trustee shall retain such rights, powers and privileges hereunder as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, on the Certificates and for the registration, transfer and exchange of the Certificates.

(d) Opinions and Reports. Prior to any defeasance becoming effective under this section, the City shall cause to be delivered (i) an executed copy of a report, addressed to the Trustee, the City, in form and substance acceptable to the City of a nationally recognized firm of certified public accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, and (iii) a copy of an opinion of Special Counsel, dated the date of such defeasance and addressed to the Trustee and the City, in form and substance acceptable to the City, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Non-Presentation of Certificates. In the event any Certificate shall not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys sufficient to pay such Certificate shall have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the City and the Trustee to the Owner thereof for payment of such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of Certificates within two (2) years after the date on which the same shall have become due shall be paid by the Trustee to the City, free from the trusts created by the Trust Agreement. Prior to forwarding any such moneys to the City, the Trustee may publish notice of its intention to transfer such funds in The Bond Buyer or another financial newspaper of general circulation in New York, New York. In addition, Trustee shall be indemnified from and against any and all liabilities to third parties resulting from its actions under this section. Thereafter, Owners shall be entitled to look only to the City for payment, and then only to the extent of the amount so repaid by the Trustee. The City shall not be liable for any interest on the sums paid to it pursuant to this section and shall not be regarded as a trustee or trustees of such money.

Acquisition of Certificates by City. All Certificates acquired by the City, whether by purchase, gift or otherwise, shall be surrendered by the City to the Trustee for cancellation.

Records. The Trustee shall keep complete and accurate records of all moneys received and disbursed by it under the Trust Agreement until four years after no Certificate is Outstanding (or such longer period as required by the Trustee's policies and procedures, or by applicable law), which shall be available for inspection by the City, the Corporation and any Owner, or the agent of any of them, at any time during regular business hours upon reasonable prior notice.

Notices. Except as specifically provided otherwise in the Trust Agreement, all written notices to be given under the Trust Agreement shall be given by mail or personal delivery to the party entitled thereto at its address set forth in the Trust Agreement.

Governing Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State.

Waiver of Notice. Whenever the giving of notice by mail or otherwise is required by the Trust Agreement, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Separability of Invalid Provisions. In case any one or more of the provisions contained in the Trust Agreement or in the Certificates shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision of the Trust Agreement, and the Trust Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The parties hereto hereby declare that they would have entered into the Trust Agreement and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Trust Agreement may be held illegal, invalid or unenforceable.

LEASE/PURCHASE AGREEMENT

Definitions

“Central Library Site” means the portion of the Leased Premises identified as such on Exhibit B to the Lease.

“Civic Center Site” means the portion of the Leased Premises identified as such on Exhibit B to the Lease.

“Completion Certificate” means the certificate of the City filed with the Trustee and signed by a City Representative, as prescribed by the Lease.

“Environmental Regulations” shall mean all Laws and Regulations, now or hereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321 et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

“Interest Component” means the portion of each Lease Payment designated in Exhibit A to the Lease as the Interest Component.

“Leased Premises” means the real property described in Exhibit B to the Lease and the existing improvements thereon being leased to the City by the Corporation.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease, permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease; (iv) the Site Lease; (v) any contested right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law to the extent permitted under the Lease; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions, liens or restrictions which exist of record as of the Closing Date, which the City hereby certifies will not materially impair the use of the Leased Premises by the City; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Corporation and the City consent in writing.

“Principal Component” means the portion of the Lease Payments designated in Exhibit A to the Lease as the Principal Component.

“Project” means the improvements described in Exhibit C to the Lease, and any and all additions or substitutions thereto made as provided in the Lease, and any additional improvements financed with the proceeds of Additional Certificates.

“Term” means the term of the Lease as set forth in Lease.

“Vendors” or “Contractors” means the persons with whom the Corporation, or the City as agent of the Corporation, has contracted for completion of the Project.

Representations, Covenants and Warranties

Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Corporation as follows:

Due Organization and Existence. The City is a municipal corporation and a chartered city duly organized and existing under the Constitution and laws of the State.

Authorization; Enforceability. The Constitution and laws of the State authorize the City to enter into the Lease, the Site Lease, the Trust Agreement, the Agency Agreement and the Continuing Disclosure Agreement, and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid leases and agreements; the City has duly authorized and executed all of the aforesaid leases and agreements. The Lease, the Site Lease, the Trust Agreement, the Agency Agreement and the Continuing Disclosure Agreement constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

No Conflicts or Default; No Liens or Encumbrances. Neither the execution and delivery of the Lease, the Site Lease, the Continuing Disclosure Agreement, the Agency Agreement or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the City, or upon the Leased Premises except for Permitted Encumbrances and the pledges contained in the Trust Agreement.

Execution and Delivery. The City has duly authorized and executed the Lease in accordance with the Constitution and laws of the State.

General Tax and Arbitrage Covenant. The City hereby covenants that, notwithstanding any other provision of the Lease, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the Interest Component evidenced by the 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). The City shall not, directly or indirectly, use or permit the use of proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates), the Project or the portion of the Leased Premises intended for public use, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of the Interest Component evidenced by the 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates).

The City shall not take any action, or fail to take any action, if any such action or failure to take action would cause the 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) or the portion of the Leased Premises intended for public use, or any portion thereof, or any other funds of the City, that would cause the 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) are outstanding, the City, with respect to the proceeds thereof, the portion of the Leased Premises and the Project intended for public use and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Code, to the extent such requirements are, at the time, applicable and in effect.

The City shall not, directly or indirectly, use or permit the use of any proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) or of the Leased Premises, or other funds of the City, or take or omit to take any action, that would cause the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates).

The City shall not make any use of the proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) or any other funds of the City, or take or omit to take any other action, that would cause the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

The City hereby makes an irrevocable election to receive a refundable credit under Section 54AA(g)(2)(B) of the Code in cash with respect to the City’s obligations to make 2010B Lease Payments and covenants to cause such amounts to be deposited to the Lease Payment Fund as a credit against its obligation to pay the Interest Component of the 2010B Lease Payments. The City shall not make any use of the proceeds of the 2010B Certificates or take or omit to take any other action that would cause the City to lose the subsidy payments from the United States Treasury relating to the City’s obligations to pay the Interest Component of the 2010B Lease Payments under the Lease as evidenced by the 2010B Certificates.

Flood Plain. The City hereby represents that the Leased Premises is not in a 100 year flood plain.

Essentiality of the Leased Premises. The City hereby represents that the Leased Premises are essential for the City’s performance of its governmental functions.

Zoning Environmental and Safety Ordinance Compliance. The City hereby represents that the Leased Premises complies in all respects with applicable zoning, environmental and safety ordinances.

Title Insurance. The City hereby represents that the Leased Premises is the same property which is the subject of the ALTA title insurance policy (with western regional exceptions) CLTA title insurance policy issued by Fidelity Title Company pursuant to the Lease Agreement.

Representations, Covenants and Warranties of the Corporation. The Corporation represents, covenants and warrants to the City as follows:

Due Organization and Existence; Enforceability. The Corporation is a 501(c)(4) nonprofit public benefit corporation duly organized, existing and in good standing under the laws of the State, has the power to enter into the Lease, the Assignment Agreement, the Site Lease, the Agency Agreement and the Trust Agreement; is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of all of the aforesaid leases and agreements. The Lease, the Assignment Agreement, the Site Lease, the Agency Agreement and the Trust Agreement constitute the legal, valid and binding obligations of the Corporation, enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

No Conflicts or Defaults; No Liens or Encumbrances. Neither the execution and delivery of the Lease, the Assignment Agreement, the Site Lease, the Agency Agreement or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of the joint powers agreement of the Corporation or any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation, or upon the Leased Premises except by Permitted Encumbrances and by the pledge contained in the Trust Agreement.

Execution and Delivery. The Corporation has duly authorized and executed the Lease in accordance with the laws of the State.

Maintenance of Existence. To the extent permitted by law, the Corporation agrees that during the term hereof it will maintain its existence as a 501(c)(4) nonprofit public benefit corporation, will not combine or consolidate with or merge into any other entity or permit one or more other entities to consolidate with or merge into it.

General Tax and Arbitrage Covenant. The Corporation covenants that, notwithstanding any other provision of the Lease, it shall not take any action if any such action would adversely affect the exclusion from gross income of the Interest Component evidenced by the 2010A Certificates or any Additional Certificates intended for public use under Section 103 of the Code (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates). To the extent that the Corporation may control the Leased Premises or the proceeds of the Certificates or any Additional Certificates, the Corporation shall not, directly or indirectly, use or permit the use of proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) or the portion of the Leased Premises intended for public use by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of the Interest Component evidenced by the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates).

The Corporation shall not take any action if any such action would cause the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, to the extent that the Corporation may control the Leased Premises or the proceeds of the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), shall not make any use of the proceeds of the 2010A Certificates, any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), the Project or the portion of the Leased Premises intended for public use, or any portion thereof, or any other funds of the City, that would cause the 2010A Certificates or any Additional Certificates to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) are outstanding, to the extent that the Corporation may control the Leased Premises or the proceeds of the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), the Corporation, with respect to the proceeds thereof, the portion of the Leased Premises intended for public use, the Project and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Code, to the extent such requirements are, at the time, applicable and in effect.

To the extent that the Corporation may control the Leased Premises or the proceeds of the Certificates or any Additional Certificates, the Corporation shall not, directly or indirectly, use or permit the use of any proceeds of any 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), or of the Leased Premises, or other funds available to it, or take or omit to take any action, that would cause the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, to the extent that the Corporation may control the Leased Premises or the proceeds of the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates), the Corporation shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates).

To the extent that the Corporation may control the proceeds of the Certificates or any Additional Certificates, the Corporation shall not make any use of the proceeds of the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) or any other of its funds, or take or omit to take any other action, that would cause the 2010A Certificates or any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

To the extent that the Corporation may have control over the proceeds of the 2010B Certificates, the Corporation shall not make any use of the proceeds of the 2010B Certificates, or take or omit to take any other action, that would cause the City to lose the subsidy payments from the United States Treasury relating to City’s obligations to pay the Interest Component of the 2010B Lease Payments under the Lease as evidenced by the 2010B Certificates.

Acquisition, Construction and Installation of the Project

Deposit of Certificate Proceeds. On the Closing Date for the Certificates and on the Closing Date for any Additional Certificates, the Corporation agrees to pay or cause to be paid to the Trustee the proceeds of the sale of the Certificates and Additional Certificates, which moneys, in the case of the Certificates, shall be deposited with the Trustee as provided in the Trust Agreement, or in the case of Additional Certificates as provided in any Supplemental Trust Agreement which relates to such Additional Certificates.

Completion of the Project. The Corporation and the City agree to execute and deliver the Agency Agreement pursuant to which the City, as the agent of the Corporation, will acquire, construct, deliver and install the Project. The City and the Corporation each covenants and agrees to comply with the terms of the Agency Agreement.

Payment of Project and Delivery Costs. Payment of the Project Costs and Delivery Costs shall be made from the moneys deposited with the Trustee in the Project Fund as provided in the Lease Agreement and the Trust Agreement, which shall be disbursed in accordance and upon compliance with the Trust Agreement.

Completion Certification. The City and the Corporation expect that the Project will be substantially completed in accordance with plans and specifications described in the Agency Agreement. Upon the completion of acquisition, construction, delivery and installation of the portion of the Project to be financed with the proceeds of the Certificates, and upon the completion of the improvements to be financed with each series of Additional Certificates, the City shall deliver to the Trustee a Completion Certificate with respect thereto. A separate Completion Certificate will be filed with respect to the portion of the Project to be financed from the Certificates and the portion to be financed with each series of Additional Certificates.

On the date of filing a Completion Certificate, all excess moneys remaining in the Project Fund for the Certificates or issue of Additional Certificates for which such Completion Certificate is delivered shall be applied in accordance with the provisions of Section 3.04 of the Trust Agreement.

Section 3.5. Substitution of or Addition to the Project. The City shall have the right to substitute alternate items for any portion of the Project listed in Exhibit C hereto or provide for additional components of the Project by providing the Trustee with a written certificate in the form contained in Exhibit E hereto, so long as such substitution or addition does not cause, in and of itself, the Interest Component evidenced by the 2010A Certificates or any Additional Certificates (to the extent such Certificates are executed and delivered as tax exempt Certificates) to be included in gross income for federal income tax purposes or cause the City to lose the subsidy payments from the United States Treasury relating to the City's obligation to pay the Interest Component of the 2010B Lease Payments or result in a reduction in the fair rental value of the Leased Premises.

Compliance with Law.

(a) Public Bidding. Except as otherwise provided by City Charter and the City of Newport Beach Municipal Code, the City shall comply with all applicable provisions for bids and contracts prescribed by law, including, without limitation, the Public Contract Code and the Government Code of the State.

(b) Wage Rates and Working Hours. Except as otherwise provided by City Charter and the City of Newport Beach Municipal Code, the City shall comply with all provisions relating to prevailing wage rates and working hours applicable to it under the laws of the State.

(c) Plans and Specifications. Except as otherwise provided by City Charter and the City of Newport Beach Municipal Code, the City shall prepare and adopt plans and specifications for the acquisition, construction and installation of the Project pursuant to the Government Code and Public Contracts Code of the State.

Further Assurances and Corrective Instruments. The Corporation and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Premises hereby leased or intended so to be or for carrying out the expressed intention of the Lease.

Agreement to Lease; Term of Lease Payments

Lease. The Corporation hereby leases the Leased Premises to the City, and the City hereby leases the Leased Premises from the Corporation, upon the terms and conditions set forth herein. The Lease shall not operate as a merger of the City's leasehold estate in the Leased Premises pursuant to the Lease and its fee estate in the Leased Premises and shall not cause the extinguishment of the leasehold interest granted to the Corporation under the Site Lease.

Term. The Term of the Lease shall commence on the date of execution hereof and shall end on July 1, 2040, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

(a) Default and Termination. A default by the City and the Corporation's election to terminate the Lease;

(b) Payment of All Lease Payments. The payment by the City of all Lease Payments required under the Lease and any Additional Payments required under the Lease;

(c) Prepayment. The deposit of funds or Government Obligations with the Trustee in amounts sufficient to pay all Lease Payments as the same shall become due, as provided in the Lease and the Trust Agreement; or

(d) Purchase. Upon the exercise by the City of its option to purchase all of the Corporation's interest in the Leased Premises as provided in the Lease; provided, however, that upon exercise by the City of its option to purchase the Corporation's interest in a portion of the Leased Premises, as provided in the Lease, the Lease shall be terminated only with respect to the portion of the Leased Premises purchased.

Extension of Lease Term. The Term of the Lease may be extended in connection with the execution and delivery of any Additional Certificates. If on the final maturity date of the Certificates or any Additional Certificates all Interest Components and Principal Components represented thereby shall not be fully paid by the City as a result of a default in the payment of Lease Payments, or because the Lease Payments hereunder shall have been abated at any time as permitted by the terms hereof, then the Term shall be extended until all Certificates and Additional Certificates shall be fully paid, except that the Term shall in no event be extended beyond the tenth anniversary of the final scheduled maturity of any Certificate or Additional Certificate.

Lease Payments.

(a) Time and Amount. Subject to the provisions of the Lease (regarding abatement in event of loss of use of any portion of the Leased Premises), (regarding option to purchase) and Article X (regarding prepayment of Lease Payments), the City agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Leased Premises, the 2010A Lease Payments and the 2010B Lease Payments (denominated into components of principal and interest, the Interest Component of such Lease Payment being paid semiannually) in the amounts specified in Exhibit A, to be due and payable in arrears on the fifteenth (15th) day of the month (or if such day is not a Business Day, the next succeeding Business Day) specified in Exhibit A (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates. In the event that any Additional Certificates are executed and delivered pursuant to the Trust Agreement, the City and the Trustee shall execute an amendment to Exhibit A to state the Lease Payments due hereunder as a result of the execution and delivery of such Additional Certificates.

The obligation of the City to pay Lease Payments shall commence on the Closing Date for the Certificates. In the event the City does not pay a Lease Payment due on the respective Lease Payment Date, the Trustee shall provide prompt written notice to the City of such failure to pay; provided, however, that failure to give such notice shall not excuse any event of default under the Lease.

The City's obligation to make 2010B Lease Payments are hereby designated as federally taxable "Build America Bonds" pursuant to the American Recovery Reinvestment Tax Act of 2009 and the provisions of Section 54AA of the Code.

(b) Credits. Any amount held in the 2010A Account of the Lease Payment Fund or the 2010B Account of the Lease Payment Fund on any Lease Payment Date (other than capitalized interest, which shall be credited in accordance with the Trust Agreement, and other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of principal with respect to any Certificates or Additional Certificates that have matured or been called for payment and have not been presented for payment or interest) shall be credited towards the applicable Lease Payment then due and payable. The City need not transfer additional cash to the Trustee on any Lease Payment Date if the amounts then held in the Lease Payment Fund (other than those amounts excluded under the prior sentence) are at least equal to the Lease Payment then required to be paid.

(c) Rate on Overdue Payments. In the event the City should fail to make any of the Lease Payments required in this section, the Lease Payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate or Additional Certificate, as applicable, represented by such delinquent Lease Payment.

(d) No Withholding. Notwithstanding any dispute between the Corporation and the City, including a dispute as to the failure of any portion of the Leased Premises in use by or possession of the City to perform the task for which it is leased, the City shall make all Lease Payments and Additional Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

(e) Fair Rental Value. The Lease Payments and Additional Payments shall be paid by the City in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Leased Premises during each such period for which said Lease Payments are to be paid. The parties

hereto have agreed and determined that such total rental represents the fair rental value of the Leased Premises. In making such determination, consideration has been given to the fair market value and replacement cost of the Leased Premises, other obligations of the parties under the Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Leased Premises and the benefits therefrom which will accrue to the City and the general public, and the transfer of the Corporation's leasehold interest in the Leased Premises at the end of the Term.

Budget and Appropriation. The City covenants to take such action as may be necessary to include all Lease Payments and Additional Payments (to the extent the amounts of such Additional Payments are known to the City at the time its annual budget is proposed), due hereunder in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. To the extent the amount of such payments becomes known after the adoption of the annual budget, such amounts shall be included and maintained in such budget as amended. During the Term, the City will furnish annually, on or before August 1 of each year, to the Trustee a certificate of the City Representative stating that all Lease Payments and Additional Payments due hereunder for the applicable Fiscal Year have been included in its annual budget and the amount so included. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

The obligation of the City to pay Lease Payments and Additional Payments hereunder shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall anything contained herein constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Lease Payments and Additional Payments hereunder or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Assignment of Lease Payments. Certain of the Corporation's rights under the Lease, including the right to receive and enforce payment of the Lease Payments, Additional Payments and Prepayments, to be made by the City hereunder, have been assigned absolutely to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the City hereby consents. The Corporation hereby directs the City, and the City hereby agrees, to pay to the Trustee at the Trustee's corporate trust office designated in the Trust Agreement, or to the Trustee at such other place as the Trustee shall direct in writing, all Lease Payments, Additional Payments or Prepayments thereof payable by the City hereunder. The Corporation will not assign or pledge the Lease Payments or other amounts derived from the Leased Premises and from its other rights under the Lease except as provided under the terms of the Lease, the Assignment Agreement and the Trust Agreement, or its duties and obligations except as provided under the Lease.

Use and Possession. The total Lease Payments due in any Fiscal Year shall be in consideration for the City's right to use and possession of the Leased Premises for such Fiscal Year. During the Term of the Lease, the City shall be entitled to the exclusive use and possession of the Leased Premises, subject only to the Permitted Encumbrances.

Abatement of Lease Payments and Additional Payments.

(a) In the Event of Damage, Destruction, Condemnation or Title Defect. Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Premises or defects in the title with respect to the Leased Premises there is substantial interference with the use and possession of all or a portion of the Leased Premises by the City. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Leased Premises not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided herein, in the event of any such damage, destruction, interference or taking, the Lease shall continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Leased Premises, the City shall remain obligated to make Lease Payments which would otherwise be abated (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Leased Premises, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Lease Payment Fund to pay the amount which would otherwise be abated. The Lease Payments shall be payable from such amounts paid under (i) and (ii) above as an obligation of the City payable from a special fund.

(b) Repair or Replacement. In the event of such abatement, unless the abatement will be avoided as a result of a prepayment of Lease Payments from Net Proceeds pursuant to the Lease, the City will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Leased Premises, as the case may be, from Net Proceeds or special funds of the City or other moneys the application of which would, in the opinion of Special Counsel addressed to the Trustee, the City and the Corporation, not result in the obligations of the City hereunder constituting indebtedness of the City in contravention of the Constitution and laws of the State.

Additional Payments. In addition to the Lease Payments, the City shall also pay such amounts (“Additional Payments”) as shall be required for the payment of all administrative costs of the Corporation relating to the Leased Premises, the Certificates and any Additional Certificates, including without limitation all expenses, compensation and indemnification of the Trustee payable by the City under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its interest in the Leased Premises or undertaking of the transactions contemplated herein or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers and any and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to comply with the terms of the Certificates and any Additional Certificates or of the Trust Agreement, including premiums or insurance maintained pursuant to the Lease or to indemnify the Corporation and its employees, officers and directors and the Trustee. All such Additional Payments to be paid hereunder shall be paid when due directly by the City to the respective parties to whom such Additional Payments are owing.

Net-Net-Net Lease. The Lease shall be deemed and construed to be a “net-net-net lease” and the City hereby agrees that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, taxes, fees, insurance premiums, rebate payments, reserve deposits, costs associated with the Leased Premises, charges or set-offs whatsoever, except as expressly provided herein.

Insurance

Public Liability and Leased Premises Damage.

(a) Coverage. The City shall maintain or cause to be maintained, throughout the Term hereof, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the City and the Corporation and their officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of any City property or portion thereof.

(b) Limits. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event (in each case subject to a deductible clause of not to exceed \$500,000). Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth herein.

(c) Joint or Self-Insurance. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City.

(d) Payment of Net Proceeds. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Workers' Compensation. The City shall also maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto (with provision for self-insurance).

Casualty and Theft Insurance.

(a) Casualty and Theft Insurance; Coverage. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Leased Premises caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, excluding flood and earthquake; notwithstanding the foregoing, the City shall not be required to maintain such insurance on the portion of the Leased Premises located on the Civic Center Site until a Completion Certificate has been filed with the Trustee. The City shall not be required to purchase or maintain earthquake or flood insurance with respect to the Leased Premises.

(b) Amount. Such insurance shall be in an amount not less than the replacement cost of the Leased Premises, subject to a "deductible clause" not to exceed two hundred fifty thousand dollars (\$250,000) for any one loss or, in the case of a flood and earthquake rider, ten percent (10%) of the coverage obtained. The term "full replacement value" as used in the Lease shall mean the actual replacement cost of the improvements constituting the Leased Premises.

(c) Joint or Self-Insurance. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the City, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the City.

(d) Payment of Net Proceeds. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Net Proceeds Fund and applied as provided in the Lease.

Rental Interruption Insurance.

(a) Coverage and Amount. Upon delivery of the Leased Premises to it for occupancy, the City shall maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Leased Premises caused by perils covered by the insurance required to be maintained as provided in the Lease. Such rental interruption insurance shall name the Trustee and the Corporation as additionally insured parties and the Trustee as the loss payee.

(b) Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental income or use and occupancy insurance carried by the City but may not be maintained in the form of self-insurance by the City.

(c) Payment of Net Proceeds. The Net Proceeds of such rental interruption insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable and proportionately between 2010A Lease Payments and 2010B Lease Payments if there are insufficient Net Proceeds to pay all Lease Payments due in any such Certificate Year.

Title Insurance. The City shall obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Leased Premises, in the form of an ALTA title policy (with western regional exceptions) or in the form of a CLTA title policy, in an amount equal to the aggregate principal amount of the Certificates and Additional Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances. Said policy or policies shall insure the City's leasehold estate hereunder in the Leased Premises, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any of the Certificates and Additional Certificates remain Outstanding, each policy of the title insurance obtained pursuant hereto or required hereby shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners and the owners of any Additional Certificates. The Net Proceeds of such insurance shall be applied as provided in the Lease.

General Insurance Provisions.

(a) Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance shall be in a form certified by the City Representative or an insurance agent, broker or consultant to the City to comply with the provisions hereof. All such policies shall provide that the insured parties shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. Each policy of insurance required to be procured and maintained pursuant to the Lease regarding casualty and theft insurance, rental interruption insurance, and title insurance shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Owners. All required insurance policies must be provided by a commercial insurer rated A by Best or A- and A3 by S&P and Moody's, respectively. All policies shall name the City, the Corporation and the Trustee as insureds and the Trustee as a loss payee.

(b) Payment of Premiums. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease, and shall promptly furnish or cause to be furnished to the Trustee a certificate to such effect, as described in paragraph (d) below.

(c) Protection of the Trustee. The Trustee shall not be responsible for the sufficiency or adequacy of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

(d) Evidence of Insurance. The City shall cause to be delivered to the Trustee annually on or before August 1 a certificate stating that the insurance policies required by the Lease are in full force and effect.

(e) Self Insurance. The City may only elect to self insure pursuant to the Lease if and to the extent such self-insurance method or plan of protection shall afford reasonable protection to the Corporation and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other cities in the State other than the City. Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance shall not be deemed to be self-insurance for purposes hereof. Any self-insurance maintained by the City pursuant to the Lease shall comply with the following terms:

(i) The self-insurance program shall be approved in writing by the City's City Manager or Assistant City Manager and an independent insurance consultant in accordance with the California Labor Code and the California Government Code;

(ii) The self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; the adequacy of such fund shall be evaluated on a biannual basis by the City Representative in a certified statement delivered to the Trustee; and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of the City Representative; and

(iii) In the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the City Representative, shall be maintained.

Cooperation. The Corporation shall cooperate fully with the City at the expense of the City in filing any proof of loss with respect to any insurance policy maintained pursuant to this Article and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Leased Premises or any portion thereof.

Damage, Destruction and eminent Domain; Use of Net Proceeds

Application of Net Proceeds.

(a) Deposit in Net Proceeds Fund. The City shall remit promptly to the Trustee any Net Proceeds received by the City and the Trustee as provided in the Lease regarding casualty and theft insurance and title insurance promptly upon receipt thereof, and pursuant to the Trust Agreement, the Trustee shall deposit such Net Proceeds of insurance in the Net Proceeds Fund. The City and/or the Corporation shall transfer to the Trustee any other Net Proceeds (other than Net Proceeds paid under the Lease which shall be applied as described in such sections) received by the City and/or Corporation in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Project, for deposit in the Net Proceeds Fund.

(b) Disbursement for Replacement or Repair of the Leased Premises. Upon receipt of the certification described in paragraph (i) below and the requisition described in paragraph (ii) below, the Trustee shall disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in paragraph (ii) below.

(i) Certification. The City Representative must certify to the Corporation and the Trustee that:

(x) Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the City to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 100% of the projected costs of replacement or repair, as demonstrated in an attached reconstruction budget, and

(y) Timely Completion. In the event that damage, destruction or taking results, or is expected to result, in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

(ii) Requisition. The City Representative must deliver to the Trustee a requisition stating with respect to each payment to be made (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be paid and (4) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Each such cost requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed and after payment or provision for payment of all Certificates as provided in the Trust Agreement and all Additional Certificates as provided in any Supplemental Trust Agreement pursuant to which such Additional Certificates are executed and delivered shall be paid to the City after payment of amounts due the Trustee pursuant to the Trust Agreement.

(c) Disbursement for Prepayment. If the City Representative notifies the Trustee in writing of the City's determination that the certification provided in the Lease cannot be made or that replacement or repair of any portion of the Leased Premises is not economically feasible or in the best interest of the City, then the Trustee shall promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and Additional Certificates as provided in a Supplemental Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Leased Premises and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund are not sufficient to prepay all the Certificates and Additional Certificates then Outstanding, then the City shall not be permitted to certify that repair, replacement or improvement of all of the Leased Premises is not economically feasible or in the best interest of the City. In such event, the City shall proceed to repair, replace or improve the Leased Premises as described herein from legally available funds in the then-current Fiscal Year and shall make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee shall disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the requisition as provided therein.

Covenants with Respect to the Leased Premises

Use of the Leased Premises. The City represents and warrants that it has an immediate need for, and expects to make immediate use of, all of the Leased Premises, which need is not temporary or expected to diminish in the foreseeable future.

Interest in the Leased Premises and the Lease.

(a) Corporation Holds Leasehold Interest During Term. During the Term of the Lease, the Corporation does and shall hold a leasehold interest in the Leased Premises pursuant to the Site Lease. The City shall take any and all actions reasonably required, including but not limited to executing and filing any and all documents reasonably required, to maintain and evidence such title and interest at all times during the Term of the Lease.

(b) Title Transferred to the City at End of Term. Upon expiration of the Term as provided in the Lease, all right, title and interest of the Corporation in and to all of the Leased Premises shall be transferred to and vest in the City, without the necessity of any additional document of transfer.

Option to Purchase. The City may exercise an option to purchase the Corporation's interest under the Site Lease and the Lease in the Leased Premises by depositing with the Trustee cash and/or Government Obligations as provided in the Trust Agreement. In such event, all or a portion of the obligations of the City under the Lease, and the security provided by the Lease for said obligations or said portion of the obligations, shall cease and terminate as provided in the Lease, excepting in the case all of the Corporation's interest has been purchased, only the obligation of the City to make, or cause to be made, such Lease Payments from such deposit. In the event Lease Payments and Additional Payments under the Lease have been paid in full, on the date of said deposit, the Corporation's interest in the Leased Premises shall revert and transfer to the City automatically and without further action by the City or the Corporation, and the Corporation shall execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the reversion and transfer of the Corporation's interests in the Leased Premises. In the event Lease Payments under the Lease have been paid in part only, on the date of said deposit, the City shall specify a discrete portion of the Corporation's interest in the Leased Premises for reversion and transfer to the City and the Corporation shall execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the reversion and transfer of such portion of the Corporation's interest in the Leased Premises; provided, that such portion shall revert and transfer to the City only if the reduction in the fair rental value of the Leased Premises resulting from such reversion and transfer at the time of such reversion and transfer (as determined by an independent appraisal acceptable to the Corporation) is proportionately less than or equal to the reduction in the maximum annual Lease Payments under the Lease resulting from such purchase. Any such deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the Lease.

Quiet Enjoyment. During the Term, the Corporation shall provide the City with quiet use and enjoyment of the Leased Premises, and the City shall during such Term peaceably and quietly have and hold and enjoy the Leased Premises, without suit, trouble or hindrance from the Corporation, or any person or entity claiming under or through the Corporation except as expressly set forth in the Lease. The Corporation will, at the request of the City, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation shall have the right to inspect the Leased Premises as provided in the Lease.

Installation of the City's Personal Property. The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or

other property in or upon any portion of the Leased Premises. All such items shall remain the sole property of the City, regardless of the manner in which the same may be affixed to such portion of the Leased Premises, in which neither the Corporation nor the Trustee shall have any interest, and may be modified or removed by the City at any time; provided that the City shall repair and restore any and all damage to such portion of the Leased Premises resulting from the installation, modification or removal of any such items of equipment. Nothing in the Lease shall prevent the City from purchasing items to be installed pursuant to this section, provided that no lien or security interest shall attach to any part of the Leased Premises.

Access to the Leased Premises. The City agrees that the Corporation, any Corporation Representative and the Corporation's successors, assigns or designees shall have the right at all reasonable times to enter upon the Leased Premises or any portion thereof to examine and inspect the Leased Premises. The City further agrees that the Corporation, any such Corporation Representative, and the Corporation's successors, assigns or designees shall have such rights of access to the Leased Premises as may be reasonably necessary to cause the proper maintenance of the Leased Premises in the event of failure by the City to perform its obligations hereunder.

Maintenance, Utilities, Taxes and Assessments.

(a) Maintenance; Repair and Replacement. Throughout the Term of the Lease, as part of the consideration for the rental of the Leased Premises, all repair and maintenance of the Leased Premises shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the City or any sublessee thereof. In exchange for the Lease Payments herein provided, the Corporation agrees to provide only the Leased Premises, as hereinbefore more specifically set forth. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease.

(b) Tax and Assessments; Utility Charges. The City shall also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Corporation or the City or levied, assessed or charged against any portion of the Leased Premises or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

(c) Contests. The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided that prior to such nonpayment it shall furnish the Corporation and the Trustee with the opinion of an Independent Counsel acceptable to the Corporation, to the effect that, by nonpayment of any such items, the interest of the Corporation in such portion of the Leased Premises will not be materially endangered and that the Leased Premises will not be subject to loss or forfeiture. Otherwise, the City shall promptly pay such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Corporation. The Corporation will cooperate fully in such contest, upon the request and at the expense of the City.

Modification of the Leased Premises.

(a) Additions, Modifications and Improvements. The City shall, at its own expense, have the right to make additions, modifications, and improvements to any portion of the Leased Premises if such

improvements are necessary or beneficial for the use of such portion of the Leased Premises. All such additions, modifications and improvements shall thereafter comprise part of the Leased Premises and be subject to the provisions of the Lease. Such additions, modifications and improvements shall not in any way cause an abatement of Lease Payments with respect to the Leased Premises or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest with respect to the 2010A Certificates and Additional Certificates (to the extent such Additional Certificates were executed and delivered as tax exempt Certificates); and the Leased Premises, upon completion of any additions, modifications and improvements made pursuant to this section, shall have an annual fair rental value which is not less than the annual Lease Payments.

(b) No Liens. Except for Permitted Encumbrances, the City will not permit any mechanic's or other lien to be established or remain against the Leased Premises for labor or materials furnished in connection with any additions, modifications or improvements made by the City pursuant to this section; provided that if any such lien is established and the City shall first notify or cause to be notified the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Premises, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee (as assignee of the Corporation). The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

(c) Replacements, Redevelopment and Renovation. The City shall, at its own expense, or with the proceeds of Additional Certificates, have the right to make replacements, redevelopment or renovation of all or a portion of the Leased Premises if the following conditions precedent are satisfied:

(i) The City receives an opinion of Special Counsel, a copy of which the City shall furnish to the Corporation and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the Interest Component evidenced by the 2010A Certificates and Additional Certificates (to the extent such Additional Certificates were executed and delivered as tax exempt Certificates) or would cause the City to lose the subsidy payments from the United States Treasury relating to the City's obligation to pay the Interest Component of the 2010B Lease Payments, and (2) the Lease will remain the legal, valid, binding and enforceable obligation of the City;

(ii) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Lease Payments as provided in the Lease the City shall have notified any rating agency then providing a rating on the Certificates and shall deposit moneys with the Trustee in advance for payment of Lease Payments from the proceeds of Additional Certificates or from special funds of the City or other moneys, the application of which would not, in the opinion of Special Counsel (a copy of which shall have been delivered to the Trustee), result in such Lease Payments constituting indebtedness of the City in contravention of the Constitution and laws of the State;

(iii) The City shall certify to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation; and

(iv) In the case of replacement(s), redevelopment or renovation other than from the proceeds of Additional Certificates, the City and the Trustee receive an independent appraisal from a California certified general appraiser that the annual fair rental value of Leased Premises following the replacement, redevelopment or renovation will be at least equal to the annual Lease Payments immediately prior to such replacement, redevelopment or renovation.

Encumbrances; Alternative Financing Methods.

(a) Encumbrances. Except as provided in the Lease, the City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Leased Premises, other than Permitted Encumbrances and other than the respective rights of the Corporation and the City as herein provided. Except as expressly provided in the Lease, the City shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time; provided that the City may contest such liens if it desires to do so. The City shall reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

(b) Alternative Financing Methods. Notwithstanding the foregoing, the City may create or suffer to create any mortgage, pledge, liens, charges, encumbrances or claims upon the Leased Premises or any improvements thereto, provided that (1) any such mortgage, pledge, liens, charges, encumbrances or claims shall at any time while any of the Certificates or Additional Certificates remain Outstanding be and remain subordinate in all respects to the Site Lease and Lease and any security interest given to the Trustee for the benefit of the Owners and (2) the City shall have first delivered to the Trustee an opinion of Special Counsel substantially to the effect that such mortgage, pledge, liens, charges, encumbrances or claims would not result in the inclusion of the interest with respect to the 2010A Certificates and the Additional Certificates (to extent such Additional Certificates are executed and delivered as tax exempt Certificates) in the gross income of the owners thereof for purposes of federal income taxation or impair the State tax-exempt status of such interest payments and would not result in the loss of the federal subsidy with respect to the City's obligation to make 2010B Lease Payments which have been designated as Build America Bonds.

Corporation's Disclaimer of Warranties. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE LEASED PREMISES, OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE CITY IS LEASING THE LEASED PREMISES AS IS. In no event shall the Corporation be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease, the Site Lease, the Assignment Agreement, the Agency Agreement or the Trust Agreement for the existence, furnishing, functioning or the City's use and possession of the Leased Premises.

The City's Right to Enforce Warranties of Vendors or Contractors. The Corporation hereby irrevocably appoints the City its agent and attorney-in-fact during the Term of the Lease, so long as the City shall not be in default hereunder, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Leased Premises which the Corporation may have against any vendor or contractor. The City's sole remedy for the breach of any such warranty, indemnification or representation shall be against the vendor or contractor with respect thereto, and not against the Corporation, nor shall such matter have any effect whatsoever on the rights and obligations of the Corporation with respect to the Lease, including the right to receive full and timely Lease Payments and all other payments due hereunder. The City shall be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Corporation shall, upon the City's request and at the City's expense, do all things and take all such actions as the City may request in connection with the assertion of any such claims and rights.

Substitution or Release of the Leased Premises. The City shall have the right to substitute alternate real property for any portion of the Leased Premises described in Exhibit B hereto or to release a portion of the Leased Premises from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached as Exhibit D hereto and by satisfying the conditions set forth in the Lease . All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution pursuant to this section, there shall be no reduction in or abatement of the Lease Payments due from the City hereunder as a result of such substitution. No substitution or release shall be permitted hereunder unless:

(a) In the case of a substitution, the City provides the Trustee with a certificate that the substituted real property has an equivalent or greater useful life as the Leased Premises to be released and that the useful life of the substituted Leased Premises exceeds the remaining term of the Lease Payments hereunder;

(b) an independent California Certified General or equivalent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the Leased Premises following any release or substitution has an annual fair rental value greater than or equal to the corresponding Lease Payments due hereunder so that the Lease Payments payable by the City pursuant to the Lease will not be abated. Notwithstanding the foregoing, upon the filing by the City of the Completion Certificate, the City may release all of the Leased Premises other than the Civic Center Site and the Central Library Site, provided that the City certifies to the Trustee that at least 90% of the proceeds of the Certificates deposited into the Project Fund have been applied toward the construction of the Project on either the Civic Center Site or the Central Library Site.

(c) the City obtains or causes to be obtained an ALTA title insurance policy (with western regional exceptions) or CLTA title insurance policy with respect to any substituted property, with an endorsement so as to be payable to the Trustee for the benefit of the Owners, showing no prior liens thereon other than Permitted Encumbrances. Such policy shall comply with the Lease, shall be in the amount equal to the principal component of Lease Payments attributable to the substituted property, and shall insure the leasehold interest or the fee simple interest of the Corporation or the City, as applicable, to the substituted property;

(d) the City provides the Corporation and the Trustee with an opinion of Special Counsel that such substitution or release does not cause, in and of itself, the interest evidenced and represented by the 2010A Certificates and any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be included in gross income for federal income tax purposes or cause a loss of the cash subsidy payments from the United States Treasury with respect to the 2010B Certificates;

(e) the City shall give, or cause to be given, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Agreement; and

(f) upon the substitution of any real property and improvements thereon for all or a portion of the Leased Premises then existing, or the release of any portion of the Leased Premises, the City, the Corporation and the Trustee shall execute and the City shall record with the office of the County Recorder, County of Orange, California, any document necessary to reconvey to the City the portion of the Leased Premises being released and to include any substituted real property and/or improvements as all or a portion of the Leased Premises.

Compliance with Law, Regulations, Etc.

(a) Except as described in subsection (b) below, the City has, after due inquiry, no knowledge and has not given or received any written notice indicating that the past or present use of the Leased Premises or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable (including federal, state, county and local) law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Leased Premises (collectively, "Laws and Regulations"). Without limiting the generality of the foregoing, to the best of its knowledge, after due inquiry, neither the City nor any prior or present owner, tenant or subtenant of the Leased Premises has, other than as set forth in subsections (a) and (b) of this section or as may have been remediated in accordance with Laws and Regulations, (i) used, treated, stored, transported or disposed of any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the City, the Leased Premises or the business operations conducted by the City thereon (collectively, "Hazardous Materials") on, from or beneath the Leased Premises, (ii) pumped, spilled, leaked, disposed of, emptied, discharged or released (hereinafter collectively referred to as "Release") any material amount of Hazardous Materials on, from or beneath the Leased Premises, or stored any material amount of petroleum products at the Leased Premises in underground storage tanks.

(b) Excluded from the representations and warranties in subsection (a) of the Lease with respect to Hazardous Materials are those Hazardous Materials in the amounts ordinarily found in the inventory of, or used in the maintenance of the City's City Hall or related buildings, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations (the "Permitted Use").

(c) No portion of the Leased Premises located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Leased Premises.

Environmental Compliance.

(a) Other than the Permitted Use, the City shall not use or permit the Leased Premises or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Leased Premises and then, only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Leased Premises or onto any other Leased Premises excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of a municipal corporation, the use, storage, treatment, transportation and disposal of which shall be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials other than the Permitted Use, the City shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to

clean up and remove all Hazardous Materials so released, on, from or beneath the Leased Premises, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained herein, underground storage tanks shall only be permitted subject to compliance with subsection (d) and only to the extent necessary to maintain the improvements on the Leased Premises.

(b) The City shall comply with, and shall cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Leased Premises to comply with, all Environmental Regulations, and shall keep the Leased Premises free and clear of any liens imposed pursuant thereto; provided, however, that notwithstanding that a portion of this covenant is limited to the City's use of its best efforts, the City shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the City's obligations contained in subsection (c) of the Lease as provided in subsection (c) of the Lease. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials other than the Permitted Use on, from or beneath the Leased Premises, the City shall give prompt written notice thereof to the Trustee prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the Lease is not true or correct, the City shall, to the extent permitted by law, defend, indemnify and hold harmless the Trustee, the Owners, the Corporation and each of their respective employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees and expenses incurred to enforce the indemnification contained in the Lease, consultants' fees and expenses, investigation and laboratory fees and expenses, liabilities, settlements (five Business Days' prior notice of which the Trustee shall have delivered to the City) court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Leased Premises, (ii) any personal injury (including wrongful death) or Leased Premises damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Trustee shall have delivered to the City), or governmental order relating to Hazardous Materials on, from or beneath the Leased Premises, (iv) any violation of Environmental Regulations or subsection (a) or (b) of the Lease by it or any of its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the City is strictly liable under any Environmental Regulation, its obligation under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under the Lease shall survive the payment and satisfaction of all Certificates and Additional Certificates or resignation or removal of the Trustee.

(d) The City shall conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and shall maintain, repair, and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

Condemnation of Leased Premises. The City hereby covenants and agrees, to the extent it may lawfully do so, that, except as described in the Site Lease, so long as any of the Certificates or Additional Certificates remain outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Leased Premises. The City further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City shall fail or refuse to abide by such covenant and condemns the Leased Premises, then the appraised value of the Leased Premises shall not be less than the sum of: (i) as to Certificates and Additional Certificates then subject to optional prepayment, the principal and interest components of such Certificates and Additional

Certificates outstanding through the date of their prepayment, and (ii) as to Certificates and Additional Certificates not then subject to optional prepayment, the amount necessary to defease such Certificates and Additional Certificates to the first available prepayment date in accordance with the Trust Agreement.

Assignment, Subleasing and Amendment

Assignment by the Corporation. Except as provided herein, in the Trust Agreement and the Assignment Agreement, the Corporation will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease.

Assignment and Subleasing by the City.

(a) Assignment. The Lease may be assigned by the City, so long as such assignment does not, in the opinion of Special Counsel, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest with respect to the 2010A Certificates and any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) and would not result in the loss of the federal subsidy with respect to the City's obligation to make 2010B Lease Payments which have been designated as Build America Bonds or affect the validity of the Lease. In the event that the Lease is assigned by the City, the obligation to make Lease Payments hereunder shall remain the obligation of the City.

(b) Sublease. The City may sublease all or any portion of the Leased Premises subject to all of the following conditions:

(i) The Lease and the obligation of the City to make Lease Payments and Additional Payments hereunder shall remain obligations of the City;

(ii) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee, a true and complete copy of such sublease; and

(iii) The City shall furnish to the Corporation and the Trustee, an opinion of Special Counsel to the effect that the sublease will not cause the interest due with respect to the 2010A Certificates and any Additional Certificates (to the extent such Additional Certificates are executed and delivered as tax exempt Certificates) to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes of such amounts and would not result in the loss of the federal subsidy with respect to the City's obligation to make 2010B Lease Payments which have been designated as Build America Bonds.

Amendments and Modifications. The Lease may be amended or any of its terms modified with the written consent of the City, the Corporation and the Trustee in accordance with Article X of the Trust Agreement.

Events of Default and Remedies

Events of Default Defined. The following shall be "events of default" under the Lease and the terms "events of default" and "default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(a) Payment Default. Failure by the City to pay any Lease Payment required to be paid hereunder by the corresponding Lease Payment Date; and

(b) Covenant Default. Failure by the City to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed hereunder or otherwise with respect hereto or in the Trust Agreement or in the Site Lease, other than as referred to in clause (a) of this section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee, or the Owners of not less than twenty percent (20%) in aggregate principal amount of Certificates and Additional Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, such Owners, as the case may be, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(c) Bankruptcy or Insolvency. The filing by the City of a case in bankruptcy, or the subjection of any right or interest of the City under the Lease to any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may hereafter be enacted.

Remedies on Default. Whenever any event of default referred to in the Lease shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Notwithstanding anything herein or in the Trust Agreement to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default hereunder, the City will surrender possession of the Leased Premises to the Corporation, if requested to do so by the Corporation, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement.

(a) No Termination; Repossession and Re-Lease on Behalf of The City. In the event the Corporation does not elect to terminate the Lease in the manner hereinafter provided for in subparagraph (b) of the Lease, the Corporation may, with the consent of the City, which consent is hereby irrevocably given, repossess the Leased Premises and re-lease it for the account of the City, in which event the City's obligation will accrue from year to year in accordance with the Lease and the City will continue to receive the value of the use of the Leased Premises from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the City shall remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Corporation re-enters or not. The City agrees to and shall remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained herein and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Leased Premises, or, in the event the Corporation is unable to re-lease the Leased Premises, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments and Additional Payments hereunder, notwithstanding such repossession by the Corporation or any suit brought by the Corporation for the purpose of effecting such repossession of the Leased Premises or the exercise of any other remedy by the Corporation.

The City hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to repossess and re-lease the Leased Premises in the event of default by the City in the performance of any covenants contained herein to be performed by the City and to remove all personal property whatsoever situated upon the Leased Premises, to place such property in storage or other suitable place in

the County of Orange, for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Leased Premises. The City hereby waives any and all claims for damage caused or which may be caused by the Corporation in repossessing the Leased Premises as provided herein and all claims for damages that may result from the destruction of or the injury to the Leased Premises and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Premises.

The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Corporation to re-lease the Leased Premises in the event of such repossession without effecting a surrender of the Lease, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (b) below.

The City shall retain the portion of rental obtained by the Trustee, as assignee of the Corporation, that is in excess of the Lease Payments and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Leased Premises, and all amounts payable by the City under the Lease and the Trust Agreement.

In the event that the liability of the City under this subsection (a) is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Corporation, or the Trustee or the Owners, as assignees of the Corporation, shall not exercise the remedies provided in this subsection (a).

(b) Termination; Repossession and Re-Lease. In the event of the termination of the Lease by the Corporation at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any repossession of the Leased Premises by the Corporation in any manner whatsoever or the re-leasing of the Leased Premises), the City nevertheless agrees to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Leased Premises by the Corporation shall be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Corporation, from such re-leasing over total Lease Payments shall be remitted to the City. Additional Payments that would have been due hereunder and the fees, expenses and costs of the Trustee as assignee of the Corporation on re-leasing the Leased Premises shall be remitted to the City. Neither notice to pay rent or to deliver up possession of the Leased Premises given pursuant to law nor any proceeding taken by the Corporation to recover possession of the Leased Premises shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate the Lease. The City covenants and agrees that no surrender of the Leased Premises for the remainder of the Term hereof or any termination of the Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice. No such termination shall be effected either by operation of law or act of the parties hereto, except only in the manner herein expressly provided.

(c) Opinion of Special Counsel. The re-leasing of the Leased Premises as provided herein shall be subject to the opinion of Special Counsel that such re-leasing will not cause the interest with respect to the 2010A Certificates and any Additional Certificates (to the extent such Additional

Certificates are executed and delivered as tax-exempt Certificates) to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes of such amounts and would not result in the loss of the federal subsidy with respect to the City's obligation to make 2010B Lease Payments with respect to the 2010B Certificates which have been designated as Build America Bonds.

(d) No Termination by The City. Under no circumstances may the City terminate the Lease as a remedy for a default by the Corporation in the performance of any obligation of the Corporation hereunder.

No Remedy Exclusive. No remedy conferred herein upon or reserved to the Corporation is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in this Article it shall not be necessary to give any notice, other than such notice as may be required in this Article or by law.

Agreement to Pay Attorneys' Fees and Expenses. In the event either party to the Lease (except for the Trustee, as assignee of the Corporation) should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained herein, the defaulting party agrees that it will pay on demand to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Lease should be breached by either party and thereafter waived by the other party; such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Application of the Proceeds from the Re-Lease of the Leased Premises. All amounts received by the Corporation under the Lease pursuant to an Event of Default shall, subject to the Trust Agreement, be deposited by the Trustee in the Lease Payment Fund and credited towards the Lease Payments in order of Lease Payment Dates, and proportionally among 2010A Lease Payments and 2010B Lease Payments.

Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Corporation under this Article IX have been assigned by the Corporation to the Trustee under the Assignment Agreement, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners as provided in the Trust Agreement. In addition to the rights and remedies assigned by the Corporation to the Trustee, to the extent that the Trust Agreement and the Lease confer upon or gives or grant to the Trustee any right, remedy or claim under or by reason of the Trust Agreement or the Lease, the Trustee is hereby explicitly recognized as being a third party beneficiary hereunder and may enforce any such right, remedy or claim conferred given or granted.

Prepayment of Lease Payments

Security Deposit. Notwithstanding any other provision of the Lease, the City may, on any date, secure the payment of Lease Payments and Additional Payments by a deposit by it with the Trustee of cash and/or Government Obligations as provided in the Trust Agreement. In such event, and provided that the City has paid any other amounts due and owing under the Lease and the Trust Agreement, all obligations of the City under the Lease, and all security provided by the Lease for said obligations, shall

cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments and Additional Payments from such deposit. On the date of said deposit, title to the Leased Premises shall vest in the City automatically and without further action by the City or the Corporation (except as provided herein). Said deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease. The Corporation shall execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the title transfer of the Leased Premises.

Extraordinary Prepayment. The City shall be obligated to prepay the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds or other moneys theretofore deposited in the Prepayment Fund (at least 45 days prior to the date fixed for prepayment of the Certificates and any Additional Certificates) pursuant to the Trust Agreement. The City and the Corporation hereby agree that such Net Proceeds or other moneys shall be credited towards the City's obligations hereunder (except in the case of such Prepayment of the Lease Payments in whole) pro rata among Lease Payments so that following Prepayment, the remaining annual Lease Payments will be proportional to the initial annual Lease Payments.

Optional Prepayment. Subject to the terms and conditions of this section, the Corporation hereby grants an option to the City to prepay all or a portion of the Lease Payments to the extent and on the dates at the prepayment prices set forth in the Trust Agreement and in any Supplemental Agreement. The City shall provide notice to the Trustee at least 45 days prior to the date fixed for prepayment of the Certificates (or on such later date as shall be consented to by the Trustee). The City and the Corporation agree that such prepayments shall be credited toward the City's obligations hereunder corresponding to the resulting prepayment of the Certificates and Additional Certificates in accordance with the Trust Agreement and any Supplemental Agreement on the dates and at the prepayment prices provided therein.

Miscellaneous

Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received on the earlier of the day of actual receipt or five Business Days after deposit in the United States mail in first-class or certified form, postage prepaid, to the City or the Corporation, as the case may be, at the addresses indicated in the Trust Agreement. The Corporation, the City, and the Trustee, by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

Binding Effect. The Lease shall inure to the benefit of and shall be binding upon the Corporation and the City and their respective successors and assigns.

Severability. In the event any provision of the Lease shall be held invalid or unenforceable by a court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of the Lease.

Applicable Law. The Lease shall be governed by and construed in accordance with the laws of the State of California.

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APPENDIX D

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS Appendix D CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CORPORATION, THE CITY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE CORPORATION, THE CITY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each coupon and maturity of each Series of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information set forth on such websites is not incorporated by reference.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Certificates 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. The Corporation and the City will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Certificates. Beneficial Owners of the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Certificates. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices will be sent to DTC. If less than all of the Series of a particular maturity are being prepaid, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in the Certificates of such maturity to be prepaid. None of the Corporation, the City or the Trustee can provide any assurance that DTC, the Direct Participants or the Indirect Participants will allocate prepayments of the Certificates of a particular maturity among Beneficial Owners on such a proportional basis.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates 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 the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE CORPORATION, THE CITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF

DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE CERTIFICATES (i) PAYMENTS OF PRINCIPAL OF AND INTEREST EVIDENCED BY THE CERTIFICATES, (ii) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE CERTIFICATES OR (iii) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE CERTIFICATES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NONE OF THE CORPORATION, THE CITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST EVIDENCED BY THE CERTIFICATES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE CERTIFICATES.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the Corporation, the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

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

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APPENDIX E

PROPOSED FORMS OF SPECIAL COUNSEL OPINIONS

Upon the issuance of the 2010A Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

City of Newport Beach
Newport Beach, California

Re: \$20,085,000 City of Newport Beach Certificates of Participation 2010A
(Tax Exempt) (Civic Center Project/Central Library Refunding)

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the City of Newport Beach (the “City”) in connection with the authorization, execution and delivery by the City of that certain Lease/Purchase Agreement dated as of November 1, 2010 (the “Lease”), by and between the Newport Beach Public Facilities Corporation (the “Corporation”) and the City. We have also reviewed that certain Trust Agreement dated as of November 1, 2010 (the “Trust Agreement”), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the Corporation and the City. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Corporation and the City, the initial purchaser of the Certificates (defined below) and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver the \$20,085,000 City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) (the “Certificates”) evidencing undivided proportionate interests of the owners of the Certificates in certain lease payments (the “2010A Lease Payments”) to be made by the City pursuant to the Lease. Pursuant to the Trust Agreement, simultaneous with the execution and delivery of the Certificates, the Trustee will execute and deliver the \$106,575,000 City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project) (the “2010B Certificates”), which will evidence undivided proportionate interests in certain other lease payments (the “2010B Lease Payments”) to be made by the City pursuant to the Lease. No opinion is expressed herein as to the 2010B Certificates or the 2010B Lease Payments. Pursuant to that certain Assignment Agreement dated as of November 1, 2010 (the “Assignment Agreement”), the Corporation has assigned to the Trustee the Corporation’s right to receive 2010A Lease Payments from the City under the Lease.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The obligation of the City to pay 2010A Lease Payments in accordance with the terms of the Lease is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make 2010A Lease Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease, the Site Lease and the Trust Agreement have been duly authorized, executed and delivered by the City and constitute valid and legally binding agreements of the City enforceable against the City in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and with respect to corporations will not be included as an adjustment in the calculation of alternate minimum taxable income.

(4) Interest (and original issue discount) with respect to the Certificates is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues to a Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (3) above) and is exempt from State of California personal income tax.

(6) The amount by which a Certificate owner's original basis for determining loss on sale or exchange in a Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the owner.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the

“Code”), that must be satisfied subsequent to the delivery of the Certificates to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Certificates. The City and the Corporation have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate executed by the City and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the tax consequences on and after the date on which any such change occurs or action is taken or omitted upon advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease, the Site Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Certificates terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Certificates and expressly disclaim any duty to advise the owners of the Certificates with respect to matters contained in the Official Statement.

Respectfully submitted,

Upon the issuance of the 2010B Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

City of Newport Beach
Newport Beach, California

*Re: \$106,575,000 City of Newport Beach Certificates of Participation 2010B
(Federally Taxable Direct Pay Build America Bonds) (Civic Center Project)*

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the City of Newport Beach (the "City") in connection with the authorization, execution and delivery by the City of that certain Lease/Purchase Agreement dated as of November 1, 2010 (the "Lease"), by and between the Newport Beach Public Facilities Corporation (the "Corporation") and the City. We have also reviewed that certain Trust Agreement dated as of November 1, 2010 (the "Trust Agreement"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the Corporation and the City. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Corporation and the City, the initial purchasers of the Certificates (defined below) and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver the \$106,575,000 City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Bonds) (Civic Center Project) (the "Certificates") evidencing undivided proportionate interests of the owners of the Certificates in certain lease payments (the "2010B Lease Payments") to be made by the City pursuant to the Lease. Pursuant to the Trust Agreement, simultaneous with the execution and delivery of the Certificates, the Trustee will execute and deliver the \$20,085,000 City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) (the "2010A Certificates") which will evidence direct and undivided proportionate interests in certain other lease payments (the "2010A Lease Payments") to be made by the City pursuant to the Lease. No opinion is expressed herein as to the 2010A Certificates or the 2010A Lease Payments. Pursuant to that certain Assignment Agreement dated as of November 1, 2010 (the "Assignment Agreement"), the Corporation has assigned to the Trustee the Corporation's right to receive 2010B Lease Payments from the City under the Lease.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The obligation of the City to pay 2010B Lease Payments in accordance with the terms of the Lease is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on

legal remedies against municipalities in the State of California. The obligation of the City to make 2010B Lease Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease, the Site Lease and the Trust Agreement have been duly authorized, executed and delivered by the City and constitute valid and legally binding agreements of the City enforceable against the City in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) evidenced by the Certificates is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code").

(4) Interest (and original issue discount) with respect to the Certificates is exempt from personal income taxes imposed in the State of California.

(5) Except for certain exceptions, the difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate.

(6) The District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable as a part of the 2010B Lease Payments evidenced by Certificates on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the American Recovery & Reinvestment Act of 2009.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Certificates.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease, the Site Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction, and express no opinion as to the enforceability of the choice of law provisions contained in the Trust Agreement.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such

authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Certificates terminates on the date of their execution and delivery.

Any federal tax advice contained herein with respect to the Certificates is not intended or written to be used, and it cannot be used, for the purpose of avoiding penalties under the Code. The federal tax advice contained herein with respect to the Certificates was written to support the promoting and marketing of the Certificates. Before purchasing any of the Certificates, all potential purchasers should consult their independent tax advisors with respect to the tax consequences relating to the Certificates and the taxpayer's particular circumstances.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Certificates or other offering material relating to the Certificates and expressly disclaim any duty to advise the owners of the Certificates with respect to matters contained in the Official Statement.

Respectfully submitted

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of November 1, 2010 (the “Agreement”), by and between the City of Newport Beach (the “City”) and Digital Assurance Certification, L.L.C. (the “Dissemination Agent”), is executed and delivered in connection with the \$20,085,000 aggregate principal amount of City of Newport Beach Certificates of Participation 2010A (Tax Exempt) (Civic Center Project/Central Library Refunding) (the “2010A Certificates”) and the \$106,575,000 aggregate principal amount of City of Newport Beach Certificates of Participation 2010B (Federally Taxable Direct Pay Build America Certificates) (Civic Center Project) (the “2010B Certificates” and, together with the 2010A Certificates, the “Certificates”) executed and delivered pursuant to the Trust Agreement, dated as of November 1, 2010 (the “Trust Agreement”), by and among the City, the Newport Beach Public Facilities Financing Corporation (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A., as trustee thereunder (the “Trustee”). Capitalized terms used in this Agreement which are not otherwise defined in the Trust Agreement shall have the respective meanings specified above or in Article IV hereof. The City and the Dissemination Agent agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The City shall provide Annual Financial Information with respect to each fiscal year of the City, commencing with fiscal year 2009-10, by no later than 270 days after the end of the respective fiscal year, to the MSRB.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to the MSRB.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the City shall provide, in a timely manner, notice of such Material Event to (i) the MSRB and (ii) the Dissemination Agent.

(b) Any notice of a defeasance of Certificates shall state whether the Certificates have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Dissemination Agent shall promptly advise the City whenever the Dissemination Agent has actual notice of an occurrence which, if material, would require the City to provide notice of a Material Event hereunder; provided, however, that the failure of the Dissemination Agent so to advise the City shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Agreement.

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the City chooses to do so, the City shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the City and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the City under such laws.

Section 1.7. No Previous Non-Compliance. The City represents that in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Material Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 2.3. Dissemination Agents. The City may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Agreement, and revoke or modify any such designation. Digital Assurance Certification, L.L.C. is hereby appointed the initial dissemination agent hereunder.

Section 2.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.5. Fiscal Year. (a) The City's current fiscal year is July 1 to June 30, and the City shall promptly notify (i) the MSRB and (ii) the Dissemination Agent of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Certificates.

(b) The obligations of the City and the Dissemination Agent under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Certificates.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the City (1) delivers to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Certificates, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Certificates (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the same effect as set forth in clause (2) above, (4) either (i) the City shall have delivered to the Dissemination Agent an opinion of Counsel or a determination by an entity, in each case unaffiliated with the City (such as counsel or the Dissemination Agent), addressed to the City and the Dissemination Agent, to the effect that the amendment does not materially impair the interests of the holders of the Certificates or (ii) the holders of the Certificates consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of Certificates pursuant to the Trust Agreement as in effect at the time of the amendment, and (5) the City shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Certificates, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that performance by the City and the Dissemination Agent under this Agreement as so amended will not result in a violation of the Rule and (3) the City shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Certificates, if all of the following conditions are satisfied: (1) the City shall have delivered to the Dissemination Agent an opinion of Counsel, addressed to the City and the Dissemination Agent, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC,

and (2) the Dissemination Agent shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the City in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Certificates, except that beneficial owners of Certificates shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the City to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Certificates, or by the Dissemination Agent on behalf of the holders of Outstanding Certificates, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Dissemination Agent on behalf of the holders of Outstanding Certificates; provided, however, that the Dissemination Agent shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided the Trust Agreement) who shall have provided the Dissemination Agent with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Certificates pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Certificates for purposes of this subsection (b).

(c) Any failure by the City or the Dissemination Agent to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Trust Agreement, and the rights and remedies provided by the Trust Agreement upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) updated versions of the following financial information and operating data contained in the tables with the following headings in Appendix A to the Official Statement, for each applicable fiscal year of the City, as follows:

- (A) City of Newport Beach General Fund Balance Sheets;
- (B) City of Newport Beach General Fund Statement of Revenues, Expenditures and Change in Fund Balance;
- (C) City of Newport Beach General Fund Budgets;
- (D) City of Newport Beach Selected Major Revenue Sources;
- (E) City of Newport Beach Property Tax Rates;
- (F) City of Newport Beach Assessed Valuation;
- (G) City of Newport Beach Property Tax Levies and Collections;
- (H) City of Newport Beach Fifteen Principal Taxpayers;
- (I) City of Newport Beach Employee Labor Organizations;
- (J) City of Newport Beach PERS Annual Pension Costs;
- (K) City of Newport Beach PERS Schedule of Funding Progress;
- (L) City of Newport Beach Annual OPEB Cost and Net OPEB Obligation;
- (M) City of Newport Beach Long Term Debt of the City;
- (N) City of Newport Beach Estimated Direct and Overlapping Debt; and
- (O) City of Newport Beach Schedule of Investments;

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons

for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Trust Agreement. Audited Financial Statements shall be prepared in accordance with GAAP applicable to governmental entities; provided, however, that pursuant to Sections 3.2(a) and (e) hereof, the City may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific Federal or State law a regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means nationally recognized special counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) “Material Event” means any of the following events with respect to the Certificates, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- (vii) modifications to rights of Certificateholders;
- (viii) bond calls
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Certificates; and
- (xi) rating changes.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(7) “Official Statement” means the Official Statement dated November 17, 2010 of the City relating to the Certificates.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of the Dissemination Agent under this Agreement. The Dissemination Agent shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct in the performance of its duties hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, and the City has caused its corporate seal to be hereunto affixed and attested by an authorized representative, all as of the date first above written.

[SEAL]

CITY OF NEWPORT BEACH

By: _____
An Authorized Representative

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY:

By: _____
David R. Hunt, City Attorney

APPROVED AS TO FORM:
SPECIAL COUNSEL:

By: _____
Hawkins Delafield & Wood LLP

**DIGITAL ASSURANCE
CERTIFICATION, L.L.C., as
Dissemination Agent**

By: _____

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