

HARVEY W. ROGERS

May 20, 2005

To the persons on the attached Transcript Distribution List

Subject: \$15,000,000 City of Lincoln City, Oregon General Obligation
Sewer Bonds, Series 2005; Our File No. 26974-00016

Ladies and Gentlemen:

We have enclosed a copy of the transcript for this financing for your records. We have enjoyed working with you on this issue and look forward to working with each of you again. Please call if you have any questions.

Cordially,

PRESTON GATES & ELLIS LLP



Harvey W. Rogers

HWR/smc
Enclosure

TRANSCRIPT DISTRIBUTION LIST

\$15,000,000

City of Lincoln City, Oregon,
General Obligation Sewer Bonds
Series 2005

Issuer

Ron Tierney, Finance Director (1 CD)
City of Lincoln City
P. O. Box 50
Lincoln City, OR 97367
Telephone: 541-996-2151
Telecopier: 541-996-1284
Email: ront@lincolncity.org

Initial Purchaser

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San Francisco, CA 94111
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Telephone: 415-693-6930
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Financial Advisor

Rebecca Chao (1 CD)
Regional Financial Advisors Inc.
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Portland, OR 97205
Telephone: 503-227-2009
Telecopier: 503-227-2510
Email: rebchao@r-f-a.com

Paying Agent/Registrar

Mary Lee, Asst. Vice President (1 CD, 1 binder)
The Bank of New York Trust Company, N.A.
700 S. Flower Street, Suite 200
Los Angeles, CA 90017
Telephone: 213-630-6488
Telecopier: 213-630-6480
Email: marylee@bankofny.com

Bond Counsel

Harvey Rogers, Esq. (1 CD)
Gulgun Ugur, Esq.
Mac McCullough, Esq.
Preston Gates & Ellis LLP
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Portland, OR 97201
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Telecopier: 503-248-9085
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gugur@prestongates.com
emccullough@prestongates.com

LEGAL CLOSING MEMORANDUM AND INDEX

\$15,000,000

City of Lincoln City, Oregon General Obligation Sewer Bonds Series 2005

Closing will be held at the offices of Preston Gates & Ellis LLP at 8:30 a.m. on April 12, 2005. There will be no preclosing.

Listed below are the closing documents for this issue. Beside each document is the name of the party responsible for providing each document to Harvey Rogers at Preston Gates & Ellis LLP by 12:00 noon on April 11, 2005. All documents should be originals or true copies of originals. Documents should be fully executed originals or the party providing the documents should ensure that persons authorized to sign their documents attend the closing.

The following abbreviations are used to indicate parties responsible for providing documents:

ISS:	City of Lincoln City, Oregon, Issuer
PUR:	Morgan Stanley DW Inc., Initial Purchaser
PA:	The Bank of New York Trust Company, N.A., Paying Agent and Registrar
FA:	Regional Financial Advisors, Inc., Financial Advisor
BI:	Financial Guaranty Insurance Company, Bond Insurer
BC:	Preston Gates & Ellis LLP, Bond Counsel

BASIC DOCUMENTS

1. BC Transcript Certification.
2. BC State Treasurer's letter certifying compliance with ORS 287.040 and OAR 170-61-000.
3. BC Preliminary Official Statement, including Official Notice of Bond Sale.
4. BC Copies of bids received for the purchase of the bonds.
5. BC Final Official Statement.
6. BC The Depository Trust Company Blanket Issuer Letter of Representations.
7. BC Bond Declaration.
8. BC Specimen bond.

ISSUER'S DOCUMENTS

Election Phase

9. BC Minutes of August 23, 2004 City Council meeting at which Resolution No. 2004-27 was adopted calling an election to submit general obligation bond authorization to voters.
10. BC Resolution No. 2004-27.
11. BC Affidavit of Publication, Notice of Receipt of Ballot Title, *New-Times*, August 25, 2004.

12. ISS Notice of City Measure Election indicating date received by Lincoln County elections office.
13. ISS Copy of ballot.
14. ISS Certificate of Mailing of ballots from Lincoln County elections office.
15. BC Minutes of November 22, 2004 City Council meeting at which Resolution No. 2004-35 was adopted declaring canvass of votes.
16. BC Resolution No. 2004-35.
17. BC Abstract of votes from Lincoln County elections office.

Bond Sale Phase

18. BC Minutes of January 24, 2005 City Council meeting at which Resolution No. 2005-03 was adopted authorizing sale of general obligation sewer bonds.
19. BC Resolution No. 2005-03.
20. BC General Certificate.
21. BC Continuing Disclosure Certificate.
22. BC Tax Certificate.
23. BC Internal Revenue Service Form 8038-G and evidence of filing.
24. BC Receipt for Bond Proceeds.

INITIAL PURCHASER'S DOCUMENTS:

25. BC Certificate Regarding Issue Price and Bond Insurance.
26. BC Acknowledgment of Delivery of Bonds.

PAYING AGENT/REGISTRAR'S DOCUMENTS:

27. PA Certificate regarding authorized signers, with attached extract from by-laws, and signing authority resolution.
28. BC Paying Agent and Registrar Agreement.
29. BC Receipt for and Acceptance of Bonds and Policy.

FINANCIAL ADVISOR'S DOCUMENTS:

30. BC Certificate of Financial Advisor.

INSURANCE DOCUMENTS

31. BC Commitment for Municipal Bond Insurance.
32. BI Municipal Bond New Issue Insurance Policy.
33. BI FGIC letter regarding tax matters.
34. BI Rating letter of Moody's Investors Service (Aaa) reflecting insured rating on the Bonds based on bond insurance policy.

OPINIONS AND MISCELLANEOUS:

- 35. BC Opinion of Bond Counsel.
- 36. BC Reliance opinion of Bond Counsel addressed to Bond Insurer.
- 37. BI Opinion of Bond Insurer's Counsel.
- 38. FA Closing Payment Memorandum.
- 39. BC Final numbers.

TRANSCRIPT CERTIFICATION

**\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005**

On behalf of the City of Lincoln City, Oregon (the "City"), I hereby certify that the attached documents are true copies or duplicate originals of the documents which were assembled at the closing of the captioned bonds on April 12, 2005 at the offices of Preston Gates & Ellis LLP, Bond Counsel, in Portland, Oregon.

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By: 
David Hawker, City Manager

RANDALL EDWARDS
STATE TREASURER



DEBT MANAGEMENT DIVISION
LAURA LOCKWOOD-McCALL
DIRECTOR
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896
(503) 378-4930
FAX (503) 378-2870
www.ost.state.or.us/divisions/DMD

OREGON STATE TREASURY

February 16, 2005

PRESTON GATES & ELLIS LLP
Attn: Margo Sharp
222 S.W. Columbia Street Suite 1400
Portland OR 97201

RE: Proposed Competitive Sale, City of Lincoln City (Lincoln County)
\$15,000,000 General Obligation Bonds, Series 2005.

This is to confirm that the City of Lincoln City in Lincoln County has complied with the provisions of Oregon Revised Statutes 287.040 and Oregon Administrative Rule 170-061-0000 in connection with the above-referenced competitive offering.

In accordance with OAR 170-061-0000 (6), please send a completed MDAC Form 2 and final official statement (preferably electronic), if available, for the above referenced sale within five business days of the bond marketing date to:

Oregon State Treasury
Debt Management Division
350 Winter St. NE, Suite 100
Salem, Oregon 97301-3896
Email: dmd@ost.state.or.us

Sincerely,

A handwritten signature in cursive script that reads "Laura Lockwood-McCall".

Laura Lockwood-McCall, Director
Debt Management Division

LLM:df

This is a Preliminary Official Statement and the information contained herein is subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Preliminary Official Statement Dated March 18, 2005

NEW ISSUE – COMPETITIVE via Parity
Book-Entry-Only

RATINGS: Moody's ____
[Insured]
See "Rating and Insurance" herein.

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, the interest on the Bonds ("Interest") is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law. Interest is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "Tax Exemption" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the Bonds is exempt from Oregon personal income tax under existing law.

CITY OF LINCOLN CITY LINCOLN COUNTY, OREGON

\$15,000,000* General Obligation Sewer Bonds, Series 2005

Dated: Date of Delivery

Due: JUNE 1, as shown inside cover

Security: The \$15,000,000* General Obligation Sewer Bonds, Series 2005 (the "Bonds") are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

[The Bonds may not be offered with insurance; the purchase of bond insurance is the option and expense of the bidder.] The scheduled payment of principal of and interest on the Bonds, when due will be insured by a financial guaranty insurance policy issued concurrently with the delivery of the Bonds by _____.

[Insert Insurance Logo]

Use of Proceeds: The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

Payment Provisions: The Bonds will be issued initially in book-entry-only form in denominations of \$5,000 or integral multiples thereof. The Bonds are registered certificates issued in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. The interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2005. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The principal and interest on the Bonds will be remitted by The Bank of New York Trust Company, N.A. (the "Paying Agent") to DTC which, in turn, will be required to distribute such payments to the DTC Participants for ultimate distribution to the Beneficial Owners of the Bonds. See "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM".

Maturity schedule appears on inside cover

Redemption Provisions: The Bonds are subject to optional [and mandatory] redemption prior to their stated maturities as described herein. See "THE BONDS – Redemption of the Bonds."

Not Bank Qualified: The Bonds are *not* "qualified tax-exempt obligations" as defined in the Internal Revenue Code of 1986, as amended.

Delivery: The Bonds are offered for sale to the original purchaser subject to the final approving opinion of Preston, Gates & Ellis LLP, Bond Counsel to the City. It is expected that the Bonds will be available for delivery through the facilities of DTC or to the Registrar and Paying Agent for Fast Automated Securities Transfer on behalf of DTC, on or about April 12, 2005.

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

For further information, contact: Regional Financial Advisors, Inc., Portland, Oregon, Phone: (503) 227-2009; E-mail: jbiery@r-f-a.com.

[Insert Underwriter Logo]

* Preliminary; subject to change.

Maturity Schedule*

Due June 1	Principal Amount	Interest Rates	Price or Yield	CUSIP No. _____	Due June 1	Principal Amount	Interest Rates	Price or Yield	CUSIP No. _____
2006	\$255,000	%	%		2019	\$595,000	%	%	
2007	305,000				2020	620,000			
2008	370,000				2021	655,000			
2009	380,000				2022	685,000			
2010	395,000				2023	720,000			
2011	405,000				2024	755,000			
2012	425,000				2025	795,000			
2013	440,000				2026	835,000			
2014	465,000				2027	875,000			
2015	490,000				2028	920,000			
2016	510,000				2029	1,000,000			
2017	540,000				2030	1,000,000			
2018	565,000								

* Preliminary; subject to change.

**PRELIMINARY OFFICIAL STATEMENT
OF
CITY OF LINCOLN CITY, OREGON**

P.O. Box 50
Lincoln City, Oregon 97367
(541) 996-2152

Website: www.lincolncity.org*

RELATING TO

\$15,000,000 GENERAL OBLIGATION SEWER BONDS, SERIES 2005**

CITY COUNCIL

Mayor	Lori Hollingsworth
Council Member	Rick Brissette
Council Member	Wes Ryan
Council Member	Chester Noreikis
Council Member	Doug Holbrook
Council Member	Ed Kuntz
Council Member	Gary Ellingson

ADMINISTRATIVE STAFF

David Hawker	City Manager
Mark Nicholson	Finance Director
Joan Kerley	City Attorney
Lila Bradley	Public Works Operations Manager
Joe Whisler	Wastewater Treatment Supervisor

BOND COUNSEL

Preston, Gates & Ellis, LLP, Portland, Oregon

FINANCIAL ADVISOR

Regional Financial Advisors, Inc., Portland, Oregon

PAYING AGENT

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

This Preliminary Official Statement is intended only to furnish information in connection with the public invitation for bids for the purchase of the Bonds. The Preliminary Official Statement DOES NOT constitute a recommendation, expressed or implied, to purchase or not to purchase the Bonds or any other obligations of the City.

The City deems this Preliminary Official Statement to be final as of its date, except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, and other terms of the Bonds depending on such matters, in accordance with Section 240.15c2-12(b)(1) of Chapter 11 of Title 17 of the Code of Federal Regulations.

* The City's website is not part of this Official Statement, and investors should not rely on information which is presented in the City's website in determining whether to purchase Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website, by reference.

** Preliminary; subject to change.

TABLE OF CONTENTS

NOTICE OF SALE	NOS-1
SUMMARY STATEMENT	i
THE BONDS	1
General Description	1
Security for the Bonds	1
Authorization	1
Payment of the Bonds	1
Redemption of the Bonds	1
[Bond Insurance]	2
Use of Bond Proceeds	2
TABLE 1 -- Sources and Uses of Funds	2
The Sewer System	2
THE CITY	3
General Description	3
Government	3
TABLE 2 -- City Council	3
Administration	3
Staff	4
TABLE 3 -- Bargaining Units	4
Accrued Vacation	4
FINANCIAL INFORMATION	5
Basis of Accounting	5
Fiscal Year	5
Audits	5
TABLE 4 -- Summary of 2003-04 and 2004-05 General Fund Adopted Budgets	5
TABLE 5 -- Five-Year General Fund Consecutive Balance Sheets	6
TABLE 6 -- Five-Year General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances	7
Pension Plan and Deferred Compensation	8
Budgeting Process	9
GASB 34	9
Deposits and Investments	9
TABLE 7 -- Investments as of June 30, 2004	9
Insurance	9
DEBT INFORMATION	10
TABLE 8 -- Debt Ratios	10
Debt Limitations	10
Payment of Debt Service on the Bonds	10
Debt Management	10
Future Debt Plans	10
TABLE 9 -- Outstanding Obligations	11
TABLE 10 -- Future General Obligation Bond Debt Service Payments	12
TABLE 11 -- Overlapping Debt	12
PROPERTY TAX INFORMATION	13
General	13
Bond and Levy Election Record	13
TABLE 12 -- Bond and Levy Election History	13
Property Tax Limitation	13
TABLE 13 -- Real Market Value of Taxable Property in City of Lincoln City	15
TABLE 14 -- Tax Collection Record	15
Impact of Tax Limitation on The City	15
TABLE 15 -- Historical Impact of the \$10/\$1,000 Tax Limitation on City Property Tax Revenues	15
Consolidated Tax Rates	16
TABLE 16 -- 2004-05 Representative Consolidated Tax Rates for Levy Code Area 402	16
TABLE 17 -- 2004-05 Major Taxpayers in the City of Lincoln City	17
ECONOMIC AND DEMOGRAPHIC INFORMATION	18
Land Use Planning	18
Population	18
TABLE 18 -- Population Estimates	18
Employment	19
TABLE 19 -- Lincoln County Labor Force, Unemployment & Total Employment by Place of Residence	19
TABLE 20 -- Lincoln County Nonfarm Employment (NAICS)	20
Unemployment	21

TABLE 21 -- Lincoln County Average Annual Unemployment as a Percent of Labor Force	21
TABLE 22 -- Lincoln County Major Employers	21
Development Activity	22
Income	22
TABLE 23 -- Income Estimates	22
Agriculture	23
TABLE 24 -- Lincoln County Gross Farm Sales (\$000)	23
Forestry	23
TABLE 25 -- Timber Harvest (in thousand board feet)	23
Housing	24
TABLE 26 -- Building Activity	24
Transportation	24
Utilities	24
Public Facilities	24
Tourism	25
Information Sources	25
THE INITIATIVE PROCESS	26
Proposed Initiative Measures Which Qualify To Be Placed On The Ballot	26
TABLE 27 -- Initiatives in Recent Oregon General Elections	26
Future Initiative Measures	26
Current Initiative Measures	27
Measure 37: Requires Governments to Pay Property Owners, or Forgo Enforcement, When Certain	
Land Use Restrictions Reduce Property Value	27
Recent State of Oregon Developments	27
TAX EXEMPTION	27
LITIGATION	27
LEGALITY	28
NOT QUALIFIED TAX EXEMPT BONDS	28
RATING AND INSURANCE	28
FINANCIAL ADVISOR	28
OFFICIAL STATEMENT	28
CONTINUING DISCLOSURE	28
MISCELLANEOUS	28
CONCLUDING STATEMENT	28
BASIC FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30, 2004	APPENDIX A
FORM OF BOND COUNSEL OPINION	APPENDIX B
FORM OF CONTINUING DISCLOSURE CERTIFICATE	APPENDIX C
BOOK-ENTRY-ONLY SYSTEM	APPENDIX D
[SPECIMEN BOND INSURANCE POLICY	APPENDIX E]

Official Notice of Sale
\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

NOTICE IS HEREBY GIVEN that electronic bids will be received by *PARITY* on behalf of the City of Lincoln City, Oregon (the "City") for the purchase of the City's General Obligation Sewer Bonds, Series 2005 (the "Bonds") until

10:00 o'clock a.m. prevailing Pacific Time on March 29, 2005.

Bids must be submitted electronically through PARITY as described herein. Bids will be publicly announced at the offices of Preston Gates & Ellis LLP, Bond Counsel, 222 S.W. Columbia Street, Suite 1400, Portland, Oregon 97201. The City will act on the bids within four hours.

SECURITY: The Bonds are general obligations of the City. The City has pledged its full faith and credit to pay the bonds. In addition, the City has covenanted with the owners of the bonds to levy a direct ad valorem tax upon all of the taxable property in the City which is sufficient, after taking into consideration sewer system revenues that the City Council makes available to pay the Bonds and expected discounts and delinquencies in the payment of property taxes, to pay the Bonds promptly as they mature. The City has covenanted to levy this tax each year until the Bonds are paid. The tax to pay the Bonds will be in addition to all other taxes of the City, and will not be limited in rate, amount or otherwise, by Article XI, Sections 11 or 11b of the Oregon Constitution.

RATING: The City has applied to Moody's Investors Service for a rating for the Bonds.

INTEREST PAYMENTS AND MATURITY: Interest on the Bonds is payable semiannually on June 1 and December 1 of each year until maturity, commencing December 1, 2005. The Bonds will be dated with their date of delivery, will be issued in the aggregate principal amount of \$15,000,000, and will mature on June 1 of the following dates in the following amounts, subject to adjustment as provided below:

<u>Due</u> <u>June 1</u>	<u>Principal</u> <u>Amount</u>	<u>Due</u> <u>June 1</u>	<u>Principal</u> <u>Amount</u>
2006	255,000	2019	595,000
2007	305,000	2020	620,000
2008	370,000	2021	655,000
2009	380,000	2022	685,000
2010	395,000	2023	720,000
2011	405,000	2024	755,000
2012	425,000	2025	795,000
2013	440,000	2026	835,000
2014	465,000	2027	875,000
2015	490,000	2028	920,000
2016	510,000	2029	1,000,000
2017	540,000	2030	1,000,000
2018	565,000		

ADJUSTMENT OF MATURITIES: The Bonds will be awarded based on the maturity schedule above. However, the City reserves the right to adjust the total principal amount of the Bonds and of each maturity specified in the bidding maturity schedule during the business day following receipt of bids to adjust debt service. The underwriter's spread (not including the bond insurance premium) will be preserved at the same percentage per bond maturity as bid. Notice of any adjustment will be given to the winning bidder promptly.

RIGHT TO CANCEL, CHANGE TIMING AND TERMS OF SALE: The City reserves the right to change the date, timing or terms under which the Bonds are offered for sale, or to cancel the sale based on market conditions, by making the changes in the Notice of Sale posted as part of the Preliminary Official Statement posted on i-Deal Prospectus or by placing a notice of the changes on Thomson Muni News on Thomson Municipal Market Monitor (www.tm3.com) not less than twenty-four (24) hours prior to the time for receipt of bids.

OPTIONAL REDEMPTION: The Bonds maturing on and after June 1, 2016 are subject to redemption prior to maturity at the option of the City in whole or in part on any date on or after June 1, 2015 at a price of par, plus accrued interest to the date of redemption. The City may select the maturities to be redeemed. Within a maturity Bonds will be selected for redemption by lot.

TERM BONDS: Bidders may designate two or more consecutive maturities of Bonds, with identical interest rates, as term Bonds. Each term Bond will mature on the final maturity date of its consecutive maturities, in an aggregate principal amount equal to the sum of the principal amounts of its consecutive maturities. Term Bonds will be subject to mandatory redemption at par and by lot, in the amounts and on the dates which would have been consecutive maturities. If no term Bonds are designated in the winning bid, the Bonds will mature serially as provided in this Notice of Sale.

INTEREST RATE: Bidders must specify the interest rate or rates which the Bonds shall bear. The bids shall comply with the following conditions: (1) no Bond shall bear more than one rate of interest; (2) each Bond shall bear interest from its dated date to its stated maturity date at the interest rate specified in the bid; and (3) all Bonds maturing on the same date shall bear the same rate of interest.

BOND INSURANCE: The City will submit information to qualify the Bonds for insurance to AMBAC, MBIA, FGIC, FSA and XL. The purchase of bond insurance is at the option, expense and risk of the successful bidder.

BIDS MUST BE SUBMITTED ON "PARITY": Bids must be submitted electronically via **PARITY**. Bids must be received by the **PARITY** system not later than the date and time indicated in the first paragraph of this Notice of Sale. For further information about submitting a bid using **PARITY**, potential bidders may contact Regional Financial Advisors, Inc. (the "Financial Advisor") at (503) 227-2009 or **PARITY** at (212) 849-5021. To the extent any instructions or directions set forth in **PARITY** conflict with this Notice of Sale, the terms of this Notice of Sale shall control. Bidders electing to submit bids through **PARITY** must obtain access to the **PARITY** system and bear all risks associated with using that system, including errors and delays in receipt of bids.

MINIMUM PRICE: Bids must be for the entire amount of the Bonds, and for a purchase price of not less than ninety-eight and fifty hundredths percent (98.50%) of the principal amount of the Bonds, plus accrued interest to the date of delivery.

BEST BID: Unless all bids are rejected, the Bonds will be awarded to the responsible bidder submitting the bid which results in the lowest true interest cost to the City. True interest cost will be determined by doubling the semiannual interest rate necessary to discount the debt service on the Bonds to April 12, 2005 (the estimated closing date of the Bonds), and the price bid for the Bonds. Each bidder is requested to supply the total interest cost and the true interest cost that the City will pay on the Bonds if the bid is accepted.

GOOD FAITH DEPOSIT - FINANCIAL SURETY BOND: Each bid must be secured by a good faith deposit in the form of a financial surety bond in the amount of Three Hundred Thousand Dollars (\$300,000.00). The good faith deposit will be held by the City to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid, and will be forfeited to the City as liquidated damages if the bidder to whom the Bonds are awarded withdraws its bid or fails to complete its purchase of the Bonds in accordance with this Notice of Sale and its bid.

The financial surety bond must be issued by a company which is rated in the highest rating category by Moody's Investors Service, Inc., by Standard & Poor's Corporation, or by Fitch Investors Service, Inc. Notification that the bidder has obtained the surety bond must be given by the issuer of the surety bond to the Financial Advisor prior to the opening of the bids. Not later than 2:00 p.m. (Pacific Time) on March 30, 2005 (the day following the sale), the successful bidder must send by electronic wire transfer to such account as the City shall specify, immediately available funds in an amount equal to the good faith deposit. If this wire transfer is not received from the successful bidder by 2:00 p.m. on that date, the City may draw on the financial surety bond immediately to satisfy the good faith deposit requirement.

Interest earnings on the good faith deposit will be the property of the City, and will not be credited against the purchase price of the Bonds. The successful bidder shall pay the balance of the purchase price of the Bonds at closing, in funds immediately available to the City on the date and at the time of closing.

RIGHT OF REJECTION: The City reserves the right to reject any or all bids, and to waive any irregularities.

BOOK ENTRY ONLY: The Bonds will be issued in registered, book-entry only form through DTC. Bonds will be available in denominations of \$5,000, or integral multiples. Unless the book-entry-only system is discontinued, Bond principal and interest payments will be made by the City to DTC through the City's paying agent. DTC will be responsible for making payments to beneficial owners of Bonds.

PURPOSE: The Bonds are being issued to finance improvements and expansions of the City's sewage treatment plant and collection system, and to pay the costs related to the authorization, sale, issuance and delivery of the Bonds.

CERTIFICATE OF REOFFERING PRICE: The reoffering prices and yields shown in the bid submitted to PARITY will be printed on the cover of the final official statement. In addition, the successful bidder must provide a certificate, satisfactory to Bond Counsel, containing information which will permit Bond Counsel to determine the "issue price" of the Bonds, and verifying the accuracy of the reoffering prices and yields which were provided on PARITY, not later than two business days prior to the closing. If the successful bidder fails to provide the reoffering prices and yields in the bid submitted to PARITY, or the certificate satisfactory to Bond Counsel, as specified in this Notice of Sale, the City may cancel the sale and retain the successful bidder's good faith deposit as liquidated damages.

LEGAL OPINION: The approving opinion of Preston Gates & Ellis LLP, Bond Counsel, of Portland, Oregon, will be provided at no cost to the purchaser.

TAX-EXEMPT STATUS: In the opinion of Bond Counsel, under existing law and conditioned on the City complying with certain covenants relating to the tax-exempt status of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes. The Bonds are not "private activity bonds" under Section 141 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is also exempt from personal income taxation by the State of Oregon under present state law.

NOT BANK QUALIFIED: The City has not designated the Bonds as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

DELIVERY: It is expected that delivery of the Bonds will be made to the paying agent under DTC's Fast Automated Securities Transfer (FAST) program, without cost to the bidder. Delivery of the Bonds will be made on or about April 12, 2005.

PRELIMINARY OFFICIAL STATEMENT AND ADDITIONAL INFORMATION: The preliminary official statement for the Bonds is available in electronic form from i-Deal Prospectus and will be posted at www.i-dealprospectus.com. For information on electronic delivery, please call the i-Deal Prospectus at 212-404-8104 or contact the Financial Advisor, Regional Financial Advisors, Inc., 733 S.W. Vista Avenue, Portland, Oregon 97205, telephone (503) 227-2009. The City will provide a paper copy of the preliminary official statement only on request to the Financial Advisor. Requests for additional information about this sale should also be directed to the Financial Advisor.

COMPLIANCE WITH SEC RULES: The City agrees to provide the successful bidder with a sufficient number of copies of the official statement in a form "deemed final" by the City to enable the successful bidder to satisfy its responsibilities under the SEC rules at the expense of the City, and such additional copies as the successful bidder may request at the expense of the bidder, not later than the seventh business day following the date on which bids are due. Bidders should expect that the official statements will not be available prior to the seventh business day following the date on which bids are due, and should not issue confirmations which request payment prior to that date. This provision will constitute a contract with the successful bidder upon acceptance of its bid by the City, in compliance with Section 240.15c2-12(b)(3) in Chapter II of Title 17 of the Code of Federal Regulations.

CONTINUING DISCLOSURE: The City will undertake to provide continuing disclosure for the benefit of the Bond Owners in compliance with SEC Rule 15c2-12. The form of the undertaking is attached as Appendix C to the preliminary official statement.

CUSIP: CUSIP numbers will be imprinted upon all Bonds of this issue at the City's expense. Failure to print, or improperly imprinted numbers will not constitute basis for the purchaser to refuse to accept delivery.

CLOSING CERTIFICATES: At the time of payment for the delivery of the Bonds, the City will furnish the successful bidder a certificate confirming that there is no material litigation pending that is not disclosed in the final official statement, and that the official statement does not contain any material misstatements or omissions.

By order of the City of Lincoln City, Oregon

City of Lincoln City
Lincoln County, Oregon
\$15,000,000* General Obligation Sewer Bonds, Series 2005
SUMMARY STATEMENT

This Summary is subject in all respects to more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the appendices hereto. No person is authorized to detach this Summary from this Official Statement or otherwise to use it without this entire Official Statement, including the appendices hereto.

The Issuer of the Bonds

The City of Lincoln City, Oregon, incorporated as a home-rule city in 1965, is issuing the Bonds.

Security

The \$15,000,000* General Obligation Sewer Bonds, Series 2005 (the "Bonds") are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

Authorization

The Bonds are authorized by Resolution No. 2005-03, adopted on January 24, 2005 (the "Resolution"), pursuant to the Constitution and Statutes of the State of Oregon, specifically Oregon Revised Statutes ("ORS") Chapters 287 and 288 (collectively, the "Act").

Use of Proceeds

The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

Interest Schedule

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year until maturity or prior redemption, commencing on December 1, 2005, through the principal corporate trust offices of the registrar and paying agent of the City, currently The Bank of New York Trust Company, N.A., Los Angeles, California. Interest on the Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

Redemption

The Bonds are subject to optional [and mandatory] redemption prior to their stated maturities as described herein. See "DESCRIPTION OF THE BONDS – Redemption of the Bonds."

Denominations

The Bonds will be issued in denominations of \$5,000 or integral multiples thereof.

Registration

The Bonds will be issued in fully registered form.

Book-Entry-Only

The Bonds will be issued as fully registered bonds, registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") and subject to a Book-Entry System of registration and transfer. Individual purchasers of the Bonds will not receive physical delivery of Bond certificates. Transfer of the Bonds will be made through the Book-Entry System described in Appendix D.

Tax Exempt Status

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, the Bond interest is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Bond interest is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations as more fully described under the caption "Tax Exemption" herein. Under the laws of the State of Oregon, as currently enacted and construed, Bond interest is exempt from Oregon personal income tax.

* Preliminary; subject to change.

Not Bank Qualified

The City has **NOT** designated the Bonds as "qualified tax exempt obligations" as defined in the Internal Revenue Code of 1986, as amended.

Paying Agent/Registrar

The Bonds will be registered and payable upon presentation at the principal corporate trust offices of The Bank of New York Trust Company, N.A., Los Angeles, California as paying agent. Interest on the Bonds is remitted by the paying agent to DTC, who in turn will be required to distribute such payments to DTC Participants for ultimate distribution to Owners.

Rating and Insurance

Moody's Investors Service ("Moody's") has assigned a rating of ____ to the Bonds[, with the understanding that, upon delivery of the Bonds, a policy insuring the payment when due of the principal and interest on the Bonds will be delivered by _____]. An explanation of the significance of the ratings can be obtained from the rating agency. There are no assurances that the ratings will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Bonds. [Also, Moody's has assigned an underlying rating of ____ to the Bonds.]

Legal Opinion

The City has retained Preston, Gates & Ellis LLP, Portland, Oregon, as its Bond Counsel. Bond Counsel will render an opinion with respect to the validity of and tax exemption on the Bonds, in substantially the form attached hereto as Appendix B.

Financial Advisor

The City has retained Regional Financial Advisors, Inc., Portland, Oregon as Financial Advisor with respect to the authorization and issuance of the Bonds.

Financial Statements

The most recent audit report is for the fiscal year ended June 30, 2004, and was rendered by Boldt, Carlisle & Smith LLC, Salem, Oregon, independent certified public accountants. The auditors were not requested to review this Official Statement and have not completed any additional auditing or review procedures subsequent to the issuance of their report on the 2004 fiscal year. The City's Basic Financial Statements for fiscal year ended June 30, 2004 are included in Appendix A. Copies of the complete fiscal year 2004 audit are available upon request.

Continuing Disclosure

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix C for the benefit of the Bondholders. (See "CONTINUING DISCLOSURE" for more information).

Additional Information

For additional information regarding the Bonds, contact Regional Financial Advisors, Inc., 733 SW Vista Avenue, Portland, Oregon 97205; telephone (503) 227-2009; fax (503) 227-2510; email jbiery@r-f-a.com.

**OFFICIAL STATEMENT FOR
CITY OF LINCOLN CITY
LINCOLN COUNTY, OREGON**

\$15,000,000* GENERAL OBLIGATION SEWER BONDS, SERIES 2005

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the sale and delivery of the General Obligation Sewer Bonds, Series 2005 (the "Bonds") in the aggregate principal amounts shown on the cover hereof.

THE BONDS

GENERAL DESCRIPTION

The General Obligation Sewer Bonds, Series 2005 (the "Bonds") are being executed and delivered in the aggregate principal amount of \$15,000,000* and mature as set forth on the inside cover. The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 each or any integral multiple thereof.

SECURITY FOR THE BONDS

The Bonds are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

AUTHORIZATION

The Bonds are authorized by Resolution No. 2005-03, adopted on January 24, 2005 (the "Resolution"), pursuant to the Constitution and Statutes of the State of Oregon, specifically Oregon Revised Statutes ("ORS") Chapters 287 and 288 (collectively, the "Act").

PAYMENT OF THE BONDS

The Bonds will mature on June 1 of the years and in the principal amounts shown on the inside front cover, and will bear interest from the date of delivery (payable on June 1 and December 1 of each year, commencing December 1, 2005) at the rates set forth on the inside cover. The Bonds will be issued initially in book-entry-only form. Principal and interest components due with respect to the Bonds will be payable by the Paying Agent, currently The Bank of New York Trust Company, N.A., Los Angeles, California, to The Depository Trust Company which, in turn, will remit such principal and interest components to The Depository Trust Company Participants for subsequent disbursement to the beneficial owners of the Bonds.

Transfer and payment of the Bonds will be made through the Book-Entry-Only System described in Appendix D.

REDEMPTION OF THE BONDS

Optional Redemption

Bonds maturing on and after June 1, 2016 are subject to redemption prior to maturity at the option of the City, in whole or in part, on any date on or after June 1, 2015 (with maturities selected by the City and by lot within a maturity) at par, plus accrued interest to the date of redemption.

[Mandatory Redemption

The Bonds maturing on _____ are subject to mandatory redemption, by lot at par plus accrued interest in accordance with the following schedule:

<u>Date</u>	<u>Amount</u>
-------------	---------------

* Preliminary; subject to change.

Notice of Redemption

Unless the book-entry-only system is discontinued (See "APPENDIX D - BOOK-ENTRY-ONLY SYSTEM"), notice of any call for redemption shall be given to DTC not less than thirty days prior to the redemption date. DTC shall be responsible for notifying the DTC participants; Beneficial Owners are responsible for making arrangements with the DTC participants to receive redemption notices. Interest on any Bonds called for redemption shall cease on the redemption date designated in the notice.

[BOND INSURANCE]

USE OF BOND PROCEEDS

The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

At the November 2, 2004 general election, voters of the City authorized the issuance of \$22,000,000 of general obligation bonds for sewer improvements. The 2005 Bonds will be the first issuance under that authorization. The second bond issue of approximately \$7,000,000 is expected to take place in fiscal year 2007-08.

The wastewater capital improvement program requires multiple projects to be completed in the collection system and at the treatment plant. The collection system projects of approximately \$5,000,000 will bring the system and pumping stations up to the required capacity to pass the 5-year, 24-hour winter storm standard. The treatment plant projects of approximately \$17,000,000 will correct existing problems with aeration basin leakage, will increase treatment capacity to meet the demands of growth in the service area and will develop a Class A solids handling program.

Repayment Revenues for the Bonds

The Bonds are general obligations of the City to which the City has pledged its full faith, credit and resources and for which the City covenants to levy annually an ad valorem tax upon all taxable property to pay principal and interest when due. (See "Security for the Bonds" herein.) However, the City also has identified certain other revenues including sewer fees and charges and system development charges which it anticipates using to repay portions of debt service on the Bonds. These revenues are not specifically pledged to the Bonds and the City may substitute other revenues and may use these revenues for other purposes.

TABLE 1 -- Sources and Uses of Funds

Sources of Funds	Series 2005
Par Amount	\$
Net Premium (Discount)	
Accrued Interest	
Total sources of funds	\$
Uses of Funds	
Projects	\$
Costs of Issuance	
Underwriter's Discount	
Accrued Interest	
Total uses of funds	\$

Source: City of Lincoln City.

THE SEWER SYSTEM

The City owns, operates and maintains its own sewage collection and treatment system. The sewer system (the "System") provides municipal sewer services for the City, and the Roads End Sanitary District. The total number of accounts was 4,608 for fiscal year 2004. Facilities of the System include 29 pump stations and a sewage treatment plant. Total gross System sales revenue for fiscal year 2004 was \$1,557,599. The City reviews its sewer rates on a regular basis. Sewer rates for 2004 increased by 5.0 percent, effective 7/1/04. The City intends to use a mix of system development charges, sewer fees and charges and tax levies to make improvements to the System. While the City intends to use various portions of these revenues to pay debt service on the Bonds, the City does not pledge or commit the System revenues to the payment of debt service on the Bonds and may use them for other purposes.

THE CITY

GENERAL DESCRIPTION

The City, with an estimated 2004 population of 7,470, is located on the Pacific Coast in Lincoln County, Oregon, about 81 miles southwest of Portland. Incorporated as a home-rule city on March 3, 1965, the City consolidated the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

GOVERNMENT

The government of the City is vested in a mayor and six council members. Two council members are elected from each of three wards for four-year terms. The mayor is elected for a four-year term.

The City Council appoints a City Manager who is the chief administrative officer of the City. The City Manager appoints the heads of all City departments, including a Finance Director who supervises the financial affairs of the City. The Finance Director is responsible for operating a general accounting system for City government in conformity with generally accepted accounting principles and practice, and for receipt, custody and disbursement of all City funds and monies. Current members of the City Council are shown in the following table.

TABLE 2 -- City Council

City Council	Occupation	Service Began	Term Expires
Lori Hollingsworth, Mayor	Massage therapist	6/1995	12/31/06
Rick Brissette	Retail Mall Owner	1/2005	12/31/08
Wes Ryan	Motel manager	1/1999	12/31/06
Chester Noreikis	Contractor	1/2003	12/31/06
Doug Holbrook	Attorney	5/2003	12/31/08
Ed Kuntz	Bed & Breakfast owner	1/2002	12/31/08
Gary Ellingson	Motel owner	11/2003	12/31/06

Source: City of Lincoln City.

ADMINISTRATION

Lori Hollingsworth, Mayor, has been Mayor since 2003 and on the City Council since 1995. She has a Bachelor of Science degree from Mary Washington College and is a licensed massage therapist.

David Hawker, City Manager, has been with the City since December 1999. He holds a Masters of Public Administration from the University of Colorado. He has 25 years experience as a city manager with previous positions in the Colorado cities of Rifle, Northglen and Federal Heights.

Mark Nicholson, Finance Director, has served the City as Assistant Finance Director since January 2002 and became Finance Director in January 2005. He holds a Masters of Business Administration and a Bachelor of Science degree in Computer Science. His professional experience has focused upon financial information systems and financial analysis. He is a member of the Oregon Municipal Finance Officers Association.

Ron Tierney has served the City since January 1991, and has served as Finance Director for the last 10 years. He holds a Bachelor of Business Administration degree in Public Accounting from Gonzaga University. Currently, he is still employed on a part-time basis by the City as a financial advisor for special projects.

Joan Kelsey, City Attorney, has practiced government and municipal law in Oregon for ten years and for the City since January 2005.

Lila Bradley, Public Works Director, has served the City for the past 16 years. She has developed the experience and technical skills in operations and maintenance, geographic information systems and capital project management that include all aspects of public works. She has been involved with American Public Works' Oregon Chapter since 1993 and is the President Elect for 2005.

Joe Whisler, Wastewater Treatment Plant Supervisor, has been with the City since 1981 and in his current position since 1990. He holds an Associates of Applied Science degree in Water/Wastewater Treatment from Linn Benton Community College.

STAFF

As of December 31, 2004, the City employed a total of 144 people, including 95 full-time career employees, 12 part-time career employees, and 37 seasonal and part-time temporary employees. The majority of City employees who are eligible under State law to be represented by a labor organization are employed under provisions of negotiated contracts with two major labor organizations. The City enters into written bargaining agreements with each of the bargaining organizations; agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions and grievance procedures. Labor relations between the City and the bargaining staffs are good. The bargaining units which represent City employees, the number of employees represented by each and the date each current contract expires are shown in the following table.

TABLE 3 -- Bargaining Units

Bargaining Unit	Number of Employees	Termination Date of Current Contract	Status of Contract
Lincoln City Police Association	29	June 30, 2005	Settled
Oregon AFSCME Council 75	56	June 30, 2006	Settled

Source: City of Lincoln City.

ACCRUED VACATION

Each employee earns vacation at rates determined by their length of employment. An employee can accumulate a maximum of 320 hours. Accumulated vested vacation is accrued as it is earned. As of June 30, 2004, the audited total accrued leave liability in the General Fund and Other Funds was \$385,392. Citywide accrued leave is fully funded.

FINANCIAL INFORMATION

BASIS OF ACCOUNTING

The City's governmental fund types and agency funds are maintained on the modified accrual basis of accounting. The proprietary fund types are accounted for using the accrual basis of accounting. The City's accounting practices conform to generally accepted accounting principles.

FISCAL YEAR

July 1 to June 30.

AUDITS

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination to be made of the accounts and financial affairs of every municipal corporation at least once a year. Unless the municipality elects to have the audit performed by the State Division of Audits, the audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy.

The City's audit for fiscal year 2003-04 was performed by Boldt, Carlisle & Smith LLC, Salem, Oregon. The auditors were not requested to review the official statement and offer no opinion regarding the official statement. A complete copy of the City's annual financial statements may be obtained from the City upon request.

TABLE 4 -- Summary of 2003-04 and 2004-05 General Fund Adopted Budgets

	Adopted 2003-04	Adopted 2004-05
Revenues		
Taxes	\$2,998,176	\$3,107,832
Fees, Licenses & Permits	796,200	753,125
Intergovernmental	193,350	264,000
Fines and Forfeitures	122,700	122,200
Miscellaneous Revenue	488,680	551,742
Transfers In	782,479	801,738
Total revenues	\$5,381,585	\$5,600,637
Expenditures		
City Council	\$8,600	\$8,600
Administration	255,099	253,334
Finance	549,215	603,811
Library	551,801	573,311
Municipal court	80,630	78,980
City attorney	109,100	135,600
Planning	492,155	444,786
Vehicle maintenance	91,813	100,689
Transfers out	2,257,007	2,256,394
Total expenditures	\$5,377,250	\$5,623,399

Source: City of Lincoln City Adopted Budgets.

TABLE 5 -- Five-Year General Fund Consecutive Balance Sheets

	1999-00	2000-01	2001-02	2002-03	2003-04
Assets					
Cash and investments	\$1,064,748	\$1,012,267	\$1,299,632	\$1,631,013	\$2,033,939
Receivables	409,200	415,801	402,575	433,147	408,220
Total Assets	\$1,473,948	\$1,428,068	\$1,702,207	\$2,064,160	\$2,442,159
Liabilities & Fund Balances					
Liabilities					
Accounts payable	\$89,251	\$144,296	\$160,103	\$123,003	\$179,914
Deferred revenue	342,429	335,634	321,370	352,756	323,745
Total liabilities	431,680	479,930	481,473	475,759	503,659
Fund Balances					
Unreserved	1,042,268	948,138	1,220,734	1,588,401	1,938,500
Total Fund Balances	\$1,042,268	\$948,138	\$1,220,734	\$1,588,401	\$1,938,500
Total liabilities and Fund Balances	\$1,473,948	\$1,428,068	\$1,702,207	\$2,064,160	\$2,442,159

Source: Derived from the City's audited financial statements for fiscal years 2000-2004.

TABLE 6 -- Five-Year General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances

	1999-00	2000-01	2001-02	2002-03 ¹	2003-04
Revenues					
Property Taxes	\$2,410,428	\$2,477,544	\$2,568,287	\$2,657,106	\$2,883,068
Franchises and fees	706,483	717,207	870,846	947,168	1,032,242
Fines and forfeitures	114,635	115,607	119,189	101,270	118,112
Intergovernmental	287,179	319,130	310,664	264,724	265,890
Interest on investments	63,800	62,388	25,791	25,827	22,994
Miscellaneous	420,456	411,944	554,701	483,238	482,650
Total revenues	4,002,981	4,103,820	4,449,478	4,479,333	4,804,956
Expenditures					
Personal services	3,729,611	3,856,762	3,795,132	--	--
General government	--	--	--	1,652,538	1,793,099
Materials and services	984,596	1,093,899	1,174,171	--	--
Culture and recreation	--	--	--	1,041,074	1,028,330
Capital outlay	159,978	202,900	252,126	223,626	163,223
Debt service	61,420	62,108	44,738	--	--
Total expenditures	4,935,605	5,215,669	5,266,167	2,917,238	2,984,652
Excess (deficiency) of revenues over expenditures	(932,624)	(1,111,849)	(816,689)	1,562,095	1,820,304
Other Financing Sources (Uses)					
Operating transfers in ²	932,696	1,028,194	1,090,639	948,553	786,633
Operating transfers out ²	--	(10,475)	(1,354)	(2,142,981)	(2,256,838)
Total other financing sources (uses)	932,696	1,017,719	1,089,285	(1,194,428)	(1,470,205)
Net change in fund balances	72	(94,130)	272,596	367,667	350,099
Fund Balances at beginning of year	1,042,196	1,042,268	948,138	1,220,734	1,588,401
Fund Balances at end of year	\$1,042,268	\$948,138	\$1,220,734	\$1,588,401	\$1,938,500

1. Reflects implementation of GASB 34.

2. 'Operating transfers in' consists of reimbursements from other funds for time spent by General Fund staff for administration, legal services, accounting, billing and collection of revenues of the Water and Sewer utilities and Vehicle Maintenance. 'Operating transfers out' consists of General Fund contributions to the Public Safety funds (Police and Dispatch Center).

Source: Derived from the City's audited financial statements for fiscal years 2000-2004.

PENSION PLAN AND DEFERRED COMPENSATION

Pension Plan

The Oregon Public Employees Retirement System (“PERS”) and the Oregon Public Service Retirement Plan (“OPSRP” and together with PERS, the “System”) collect contributions from both employers and employees for the purpose of funding retirement benefits. PERS is a defined benefits pension plan for public employees who joined prior to August 29, 2003. OPSRP is a hybrid (defined contribution/defined benefit) pension plan for public employees hired on or after August 29, 2003, unless membership was previously established in PERS. A PERS member who has a six-month service break becomes a member of OPSRP for any subsequent employment upon rehire. The systems are administered by the Oregon Public Employees’ Retirement Board (the “PERS Board”).

OPSRP was created as a part of significant changes to the retirement system enacted by the 2003 Legislative Assembly. Many of these legislative changes were challenged in legal proceedings filed in the Oregon Supreme Court and in federal court by a number of unions and individual employees. A federal district court judge has held the 2003 legislative changes to PERS (the “2003 PERS Legislation”) do not violate the federal constitution. The plaintiffs have appeals that decision to the Ninth Circuit Court of Appeals. On March 8, 2005, the Oregon Supreme Court released its opinion in the state court litigation (the “PERS Decision”) and declared that certain portions of the 2003 PERS Legislation violate the Oregon Constitution and affirmed the validity of others.

The benefits administered by the System are paid from the Oregon Public Employees’ Retirement Fund (“OPERF”), and the Oregon Investment Council (“OIC”) invests System assets.

Unfunded Actuarial Liability

Oregon statutes require an actuarial valuation of the System at least once every two years. Under current practice, actuarial valuations are normally performed every two years as of December 31 of each odd-numbered year. The valuations are released approximately one year after the valuation date. The most recent valuation is contained in a report prepared by the System’s actuary, the “Oregon Public Employees Retirement System – Actuarial Valuation December 31, 2003” (the “2003 Actuarial Report”).

An employer’s UAL is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. According to the 2003 Actuarial Report, the unfunded actuarial liability (“UAL”) for the System is as follows:

PERS Unfunded Actuarial Liability \$(millions)

UAL as of December 31, 2003 (Actuarial Value of Assets)	\$ 42,874.4
UAL as of December 31, 2003 (Actuarial Liability of Assets)	\$ 44,625.6

The City is a member of a pool with the State of Oregon, Oregon community college districts, and other local governments for purposes of setting its employer contribution rate. The assets and liabilities of employers in a pool are not tracked or calculated on an employer basis or allocated to individual employers; therefore, the City is not currently able to determine its share of the UAL.

The UAL may change depending on the market performance of the securities in which the OIC invests, future changes in compensation and benefits of covered employees, demographic characteristics of members, and assumptions used by the actuary in estimating the assets and liabilities of the System. The System’s current assumed actuarial rate of return is 8%. No assurance can be given that the UAL of the System will not materially increase.

Contribution Rates

Employers are required to contribute an actuarially determined rate that is based upon the expected obligations of the System (determined by calculating the amount necessary to provide each pool member’s retirement, health and other benefits) and a smoothing of investment losses and gains in OPERF over a period of four years to determine the level of funding available to pay the System’s obligations. Even though OPERF may have significant investment gains and losses in one calendar year, all of those gains or losses may not be reflected in the adjustment to the employer contribution rate. Instead, the gains and losses may be offset against prior gains and losses in the smoothing process and lead to a change in employer rates that is not in direct correlation to OPERF’s most recent investment performance.

The City also pays the employee’s contribution to the System in an amount that is equal to 6% of salaries.

Preliminary PERS’ employer contribution rates were presented to the PERS Board at its January 25, 2005 meeting. The PERS Board opted to implement a portion of the rate increase as of July 1, 2005 and the rest in 2007.

The City’s contribution rate as of June 30, 2004 was 4.72 percent and its contribution rate as of July 1, 2005 will be 8.81 percent. The employer contribution rates are based, in part, on the 2003 PERS Legislation.

The City’s contribution to PERS for the years ending June 30, 2004, 2003, and 2002 were \$426,890, \$548,147, and \$467,653, respectively, and were equal to the required contributions for each year according to the City’s audited financial statements.

PERS Litigation

The City is not able to estimate the effect of the PERS Decision on PERS, the UAL of the System, or future contributions that the City may be required to make to PERS until PERS produces a new actuarial valuation for PERS and participating

employers. PERS indicated on March 8, 2005 that it will request its actuary to perform a new valuation for PERS, and to make that valuation available to PERS at its meeting that is scheduled to be held on March 29, 2005.

BUDGETING PROCESS

The City prepares an annual budget in accordance with provisions of the Oregon Local Budget Law (ORS Chapter 294), which provides standard procedures for the preparation, presentation, administration and appraisal of budgets. In the months of January through April of each year a proposed budget is prepared by the City's Budget Officer. The budget is presented to the City's Budget Committee in May. The committee consists of the seven elected Council Members (the Mayor and six Councilors), and an equal number of appointed citizens of the City. The Budget Committee receives the proposed budget from the City Manager, holds a public hearing to receive citizen comment, and deliberates on the budget proposal during a series of meetings open to the public. The approval of the budget requires a majority vote of the members with all members of the Budget Committee having an equal vote.

After the Budget Committee has approved the budget, the governing body enters into the adoption stage of the budget process. The City Council, by law, has the power (1) to limit the amount of tax that may be levied by the local government, and (2) to establish a maximum for total expenditures for each fund. A budget summary and notice of hearing are published following strict requirements as to time and mode. A final hearing is held at which time the City Council considers citizen testimony and, if necessary, alters the budget subject to statutory limitations upon increasing taxes or fund allocations without further publication and hearing.

Supplemental budgets may be prepared as needed during the fiscal year. Supplemental budgets are considered and adopted by the City Council.

GASB 34

The City has successfully implemented GASB 34 requirements with the issuance of its Audited Annual Financial Report for fiscal years ending June 30, 2003 and 2004.

DEPOSITS AND INVESTMENTS

ORS Chapter 294 authorizes the City to invest in U.S. Government obligations and its agencies or instrumentalities, collateralized repurchase agreements, insured or collateralized certificates of deposit, government pools and certain other types of investments. As of June 30, 2004, the City had \$11,126,101 in the State Treasurer's Local Government Investment Pool.

TABLE 7 -- Investments as of June 30, 2004

Investment Instrument	Carrying Value	Market Value
U.S. Government securities	\$2,498,594	\$2,479,070
Certificates of deposits	1,000,000	1,000,000
Oregon State Local Government Investment Pool	11,126,101	11,126,101
Total	\$14,624,695	\$14,605,171

Source: City of Lincoln City.

INSURANCE

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. In 1981, the League of Oregon Cities joined together with the Association of Oregon Cities to form City County Insurance Services ("CCIS"), a public entity risk pool currently operating as a common risk management and insurance program for approximately 265 municipal corporations and associated entities in the State of Oregon. CCIS is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$2 million for each insured event.

The City continues to carry commercial insurance for other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DEBT INFORMATION

TABLE 8 -- Debt Ratios¹

	<u>Values</u>	<u>Per Capita</u>	<u>Percent of RMV</u>
2004 estimated population	7,470	--	--
2004-05 Real Market Value (RMV)	\$1,067,743,042	\$142,937	--
Gross Direct Debt ²	18,782,000	2,514	1.76%
Net Direct Debt ³	11,215,000	1,501	1.05%
Net Overlapping Debt	11,399,006	1,526	1.07%
Net Direct Debt and Net Overlapping Debt	22,614,006	3,027	2.12%

1. Outstanding debt information is calculated as of March 1, 2005, except for the overlapping debt calculation. The overlapping debt calculation was performed by Municipal Debt Advisory Commission as of January 13, 2005.
2. Gross Direct Debt includes all voter approved general obligation bonds, limited tax bonds and any other bonds, Certificates of Participation or leases backed by the full faith and credit of the City, including the Bonds. Debt whose term is less than one year is not included.
3. Net Direct Debt is Gross Direct Debt less bonds or leases paid from non-tax sources.

Source: City of Lincoln City; Lincoln County Assessor's Office; Population Research Center, Portland State University.

DEBT LIMITATIONS

ORS 287.004 limits the general obligation debt which an Oregon city may have outstanding at any time to three percent of the real market value of the City. Self-supporting debt, revenue bonds, general obligation improvement bonds, bonds issued for water, sanitary or storm sewers, sewage disposal plants, hospitals, infirmaries, gas, power or lighting purposes, and certain parking facility bonds are legally exempt from this debt limitation. The Bonds are exempt from this limitation.

2004-05 RMV	\$1,067,743,042
Debt limitation (3.00 % of RMV)	32,032,291
Applicable bonded debt ¹	3,782,000
Debt margin	28,250,291
Percent of limit issued	11.81%

1. Includes the City's outstanding General Obligation Bonds, Series 1999 and General Obligation Civic Center Refunding Bonds, Series 2003A.

Under ORS 223.295, cities may issue additional assessment related bonds and notes subject to a separate three percent statutory limitation.

PAYMENT OF DEBT SERVICE ON THE BONDS

The Bonds are general obligations of the City to which the City has pledged its full faith, credit and resources and for which the City covenants to levy annually an ad valorem tax upon all taxable property to pay principal and interest when due. However, the City also has identified certain other revenues including sewer fees and charges and system development charges which it anticipates using to repay portions of debt service on the Bonds. These revenues are not specifically pledged to the Bonds and the City may substitute other revenues and may use these revenues for other purposes.

DEBT MANAGEMENT

The City has never defaulted on any debt or lease obligation.

FUTURE DEBT PLANS

The City's voters approved a general obligation bond in November 2000 in an amount not to exceed \$4,000,000 to purchase additional water rights and to construct a pipeline to the existing water treatment plant. Bonds are anticipated to be sold in calendar year 2006.

At the November 2, 2004 general election, voters of the City authorized the issuance of \$22,000,000 of general obligation bonds for sewer improvements. The 2005 Bonds will be the first issuance under that authorization. The second bond issue of approximately \$7,000,000 is expected to take place in fiscal year 2007-08.

TABLE 9 -- Outstanding Obligations

	Dated Date	Maturity Date	Amount Issued	Amount Outstanding as of 3/1/05
DEBT SECURED BY THE GENERAL FUND (paid from taxes)				
General Obligation Bonds (voter approved)				
Series 1999 Open Space	7/1/1999	6/1/2014	\$3,000,000	\$2,215,000
Series 2005 Sewer (this issue) (60% paid from property taxes) ¹	4/12/2005	6/1/2030	9,000,000 ¹	9,000,000
Total Tax-Supported General Obligation Bonds			\$12,000,000	\$11,215,000
TOTAL NET DIRECT DEBT²			\$12,000,000	\$11,215,000
DEBT SECURED BY THE GENERAL FUND (self-supporting)				
General Obligation Bonds (voter approved)				
Series 2003A Lincoln Square Refunding (100% paid from hotel taxes)	4/30/2003	6/1/2011	\$1,617,000	\$1,567,000
Series 2005 Sewer (this issue) (40% paid from sewer revenues) ¹	4/12/2005	6/1/2030	6,000,000 ¹	6,000,000
Total Self-Supporting Debt Secured by the General Fund			\$7,617,000	\$7,567,000
Short-term Debt			\$0	\$0
TOTAL GROSS DIRECT DEBT²			\$19,617,000	\$18,782,000
REVENUE BONDS				
Water Revenue Bonds, Series 1997	10/1/1997	10/1/2017	\$3,370,000	\$2,560,000
TOTAL REVENUE BONDS			\$3,370,000	\$2,560,000
TOTAL GO AND REVENUE BONDS³			\$22,987,000	\$21,342,000

1. Preliminary; subject to change. The City anticipates that 40% of the annual debt service on the Bonds will be payable from revenues of the Sewer System. The remaining 60% will be payable from levied property taxes.
2. Net Direct Debt is all Gross Direct Debt directly paid from tax sources. Gross Direct Debt includes all voter approved General Obligation bonds, Limited Tax bonds and any other obligations, Certificates of Participation, notes, contracts or leases backed by the full faith and credit of the City. Debt whose term is less than one year is not included.
3. The City's Urban Renewal Agency has outstanding debt totaling \$10,044,054 as of March 1, 2005. Urban Renewal Agency debt is not a debt of the City.

Source: City of Lincoln City.

The following table presents the debt service on voter-approved general obligation bonds and the Bonds.

TABLE 10 -- Future General Obligation Bond Debt Service Payments ¹

Fiscal Year Ending 30-Jun	Outstanding General Obligation Bonds		2005 Bonds ²		Total Payments
	Principal	Interest	Principal	Interest	
2005	\$235,000	\$67,998	--	--	\$302,998
2006	408,000	154,804	\$255,000	\$809,650	1,627,453
2007	434,000	137,172	305,000	705,000	1,581,172
2008	454,000	118,465	370,000	695,850	1,638,315
2009	475,000	98,652	380,000	684,750	1,638,402
2010	494,000	77,841	395,000	672,400	1,639,241
2011	512,000	56,022	405,000	658,575	1,631,597
2012	245,000	37,608	425,000	642,375	1,349,983
2013	255,000	25,725	440,000	623,250	1,343,975
2014	270,000	13,230	465,000	601,250	1,349,480
2015	--	--	490,000	578,000	1,068,000
2016	--	--	510,000	553,500	1,063,500
2017	--	--	540,000	528,000	1,068,000
2018	--	--	565,000	501,000	1,066,000
2019	--	--	595,000	472,750	1,067,750
2020	--	--	620,000	443,000	1,063,000
2021	--	--	655,000	412,000	1,067,000
2022	--	--	685,000	379,250	1,064,250
2023	--	--	720,000	345,000	1,065,000
2024	--	--	755,000	309,000	1,064,000
2025	--	--	795,000	271,250	1,066,250
2026	--	--	835,000	231,500	1,066,500
2027	--	--	875,000	189,750	1,064,750
2028	--	--	920,000	146,000	1,066,000
2029	--	--	1,000,000	100,000	1,100,000
2030	--	--	1,000,000	50,000	1,050,000
	\$3,782,000	\$787,515	\$15,000,000	\$11,603,100	\$31,172,615

1. Outstanding debt is as of March 1, 2005. Any payments of principal or interest occurring prior to this date have been excluded from this table. Includes all voter-approved general obligation bonds secured by the General Fund. Leases and loans secured by the General Fund are not included. Columns may not foot due to rounding.
2. Preliminary; subject to change.

Source: City of Lincoln City.

The following table outlines the outstanding debt of overlapping entities.

TABLE 11 -- Overlapping Debt¹

Issuer	Real Market Value	Percent Overlapping	Gross	Net
Lincoln County	\$5,460,232,956	18.3483%	\$678,887	\$678,887
North Lincoln Fire & Rescue District #1	1,514,561,877	66.1484	1,514,798	1,514,798
Lincoln County Unified SD	5,493,006,055	18.2388	4,893,470	4,893,470
Oregon Coast Community College	5,460,232,956	18.3483	4,311,851	4,311,851
Total			\$11,399,006	\$11,399,006

1. As of January 13, 2005.

Source: Municipal Debt Advisory Commission, Oregon State Treasury.

PROPERTY TAX INFORMATION

GENERAL

The taxes levied to pay the Bonds will be exempt from the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution (Measure 50 and Measure 5).

Property tax administration governed by the Oregon Constitution, the State's taxation laws and regulations of the Department of Revenue, includes the process of assessment, equalization, levy and collection of taxes. A tax limitation measure ("Measure 50") that affects property tax collections was approved by the voters in the May 1997 special election. The Oregon Legislature implemented legislation for the constitutional provisions of Measure 50. The implementation legislation changed the property tax administration system substantially, including changes to levy rates, assessments and equalization.

See section entitled "Strategic Investment Program" within "FINANCIAL INFORMATION" for a description of this program which affects property tax collections for the City.

BOND AND LEVY ELECTION RECORD

TABLE 12 -- Bond and Levy Election History

Year	Purpose	Amount Requested	Votes			Passed (Failed)
			Yes	No	Margin	
03/20/97	Water Treatment Plant	\$4,700,000	1,311	453	858	74.32%
11/03/98	Open Space Acquisition	3,000,000	1,139	1,052	87	51.99
11/07/00	Purchase Water Rights and Pipeline Construction	4,000,000	1,413	1,282	131	52.43
11/02/04	Sanitary (Sewer System)	22,000,000	2,237	1,092	1,145	67.20

Source: City of Lincoln City.

PROPERTY TAX LIMITATION

The State has not levied property taxes for general fund purposes since 1941 and obtains its revenue principally from income taxation.

Property tax administration is governed by the Oregon Constitution, the State's taxation laws and regulations of the Department of Revenue, includes the process of assessment, equalization, levy and collection of taxes.

History

Article XI of the Oregon Constitution contains various limitations on property taxes levied by local jurisdictions. The Constitution calls for taxes imposed upon property to be segregated into two categories; one to fund the public school system (including community colleges) and one to fund government operations other than the public school system.

Measure 5, passed by voters in 1990, limits combined property tax rates for non-school government operations to \$10 per \$1,000 of Real Market Value ("RMV") per county-assigned tax code area. Similarly, combined property tax rates for the public school system are limited to \$5 per \$1,000 RMV for each tax code area. Property taxes are also subject to the limitations of Measure 50.

Measure 50 was approved by voters of the State at a special election held on May 20, 1997. Measure 50 included a reduction of property taxes with a rollback of property values, changed the property tax system to a rate-based system, and limited the annual growth in Assessed Value.

Measure 50 did not repeal Measure 5, and the limits of the two measures both apply to property tax collections. Measure 5's \$5/\$1,000 limit on school operating taxes and \$10/\$1,000 limit on non-school operating taxes (the "Measure 5 limitations") are calculated based on RMV. Measure 50 limits tax collections under permanent rate limits by preventing Assessed Values from increasing by more than three percent unless the condition of the property changes.

Specific provisions include:

Permanent Tax Rates

Each local taxing district which imposed operating ad valorem taxes in fiscal year 1997-98 received a permanent tax rate. The permanent tax rate was calculated by dividing the total operating ad valorem taxes imposed by local taxing districts in fiscal year 1997-98 (reduced by an average of approximately 17 percent statewide) by the Assessed Value of that property. Measure 50 prohibits increases in permanent tax rates. Permanent tax rates are subject to the Measure 5 limitations. The City's permanent tax rate in 2004-05 is \$4.0996/\$1,000 of Assessed Value. The operating tax levy for the City for fiscal year 2004-05 is \$3,325,501. Measure 5 limitations reduced the amount received from the levy by \$41.25.

Assessed Value Limitations

Measure 50 reduced property values for most property tax purposes (except calculation of the Measure 5 limitations) to "Assessed Value." In tax year 1997-98, each property was assigned an Assessed Value which was equal to its 1995-96 RMV, less ten percent.

Measure 50 limits any increase in Assessed Value (and therefore any increase in tax revenues from the new permanent tax rates) to 3 percent per year for tax years after 1997-98. There are special exceptions for property that is substantially improved, rezoned, subdivided or annexed, and when property ceases to qualify for a property tax exemption. Changed property will be assigned an Assessed Value equal to the Assessed Value of comparable property in the area.

Exemptions

The Bonds are exempt from Measure 50 limitations. Measure 50 exempted from its limitations taxes levied to pay voter approved general obligation bonds. Levies to pay general obligation bonds are also exempt from the Measure 5 limitations. See "General Obligation Bonded Indebtedness" below.

Measure 50 also exempted the following levies, which are subject to Measure 5 limitations:

1. Levies to pay bonds and other borrowings, if they were made before December 5, 1996, and were secured by a pledge or explicit commitment of ad valorem property taxes or a covenant to levy or collect ad valorem property taxes.
2. Certain local government pension levies.

The City has no levies of the type described in paragraphs 1 and 2, above.

Local Option Levies

Local governments are able to override Measure 50 for limited term local option levies with voter approval that meets the voter participation requirements discussed below. Local option levies may be up to five years for any purpose or ten years for capital projects.

Local option levies are subject to "special compression" under Measure 5. If operating taxes for non-school purposes exceed Measure 5's \$10/\$1,000 limit, local option levies are reduced first to bring operating taxes into compliance with this limit. This means that local option levies can be entirely displaced by future approval of permanent rate levies for new governments, or by urban renewal or certain pension levies.

Voter Participation

In order to be exempt from the limitation provisions of Measure 50, general obligation bonds other than refunding bonds must be approved by a majority of the voters voting on the question either: (i) at a general election in an even numbered year, or (ii) at any other election in which not less than fifty percent (50%) of the registered voters eligible to vote on the question cast a ballot.

General Obligation Bonded Indebtedness

Levies to pay the following general obligation bonds are exempt from the limitations of Measure 50 and the Measure 5 limitations:

1. General obligation bonds authorized by a provision of the Oregon Constitution;
2. General obligation bonds issued on or before November 6, 1990; or
3. General obligation bonds incurred for capital construction or capital improvements; and
 - a) if issued after November 6, 1990, and approved prior to December 5, 1996, by a majority of voters; or
 - b) if approved after December 5, 1996, in accordance with Measure 50's voter participation requirements, or obligations issued to refund the preceding bonds.

The Bonds are exempt general obligation bonds.

Collection

The County Tax Collector extends authorized levies, computes tax rates, bills and collects all taxes and makes periodic remittances of collections to tax levying units. County tax collectors are charged with calculating public school and local government taxes separately, calculating any tax rate reductions to comply with tax limitation law, and developing percentage distribution schedules. The tax collector then reports to each taxing district within five days the amount of taxes imposed.

Tax collections are now segregated into two pools, one for public schools and one for local governments, and each taxing body shares in its pool on the basis of its tax rate (adjusted as needed with tax limitation rate caps), regardless of the actual collection experience within each taxing body. Therefore, in application, the amount for each taxing body becomes a pro rata share of the total tax collection record of all taxing bodies within a county. Thus, an overall collection rate of 90 percent of the county-wide levy indicates a 90 percent tax levy collection for each taxing body.

Taxes are levied and become a lien on July 1 and tax payments are due November 15 of the same calendar year. Under the partial payment schedule, the first third of taxes are due November 15, the second third on February 15 and the remaining third on May 15. If property taxes are paid in full by November 15, a three-percent discount is allowed; if two-thirds of property

taxes are paid by November 15, a two-percent discount is allowed. For late payments interest accrues at a rate of 1.33 percent per month. Property is subject to foreclosure proceedings four years after the tax due date.

TABLE 13 -- Real Market Value of Taxable Property in City of Lincoln City

Fiscal Year	Real Market Value (RMV)	Percent Increase	Total Assessed Value (AV) ¹	Percent Increase	AV as Percent Of RMV
2000-01	\$928,439,148	N/A	\$745,516,106	N/A	80.30%
2001-02	938,953,191	1.13%	769,009,560	3.15%	81.90
2002-03	943,616,369	0.50	797,739,809	3.74	84.54
2003-04	1,001,857,980	6.17	855,730,360	7.27	85.41
2004-05	1,067,743,042	6.58	885,860,792	3.52	82.97

1. Total Assessed Value of the City includes urban renewal values and other offsets such as Non-Profit Housing Value. Table 14, which follows, reflects the Taxable AV which does not include urban renewal and other offsets as calculated by the Lincoln County tax assessor.

NOTE: In fiscal year 2003-04 three properties owned by the Confederated Tribes of the Siletz were removed from the tax roll. The Assessed Value of these three properties was approximately \$2.7 million. Properties owned by the Confederated Tribes of the Siletz valued at approximately \$18 million. They have applied for trust status of additional properties valued at \$18.9 million in fiscal year 2004-05. If the \$21.6 million removed from the tax rolls in fiscal years 2003-04 and 2004-05, \$9.6 million is in the Urban Renewal District and \$12.0 million would have been subject to the City's general fund tax levy. Additional properties could be removed from the tax rolls, but the City is unable to predict the values or timing of these potential changes, or their impact on tax collections.

Source: Lincoln County Assessor.

TABLE 14 -- Tax Collection Record

Fiscal Year	Taxable Assessed Value ¹	Percent Change	Total Levy	Tax Rate Per \$1000	Percent Collected Year of Levy ²	Percent Collected as of 06/30/2004 ²
2000-01	\$619,475,221	N/A	\$3,529,582	4.0996%	91.34%	99.46%
2001-02	638,947,588	3.14	3,529,418	4.0996	91.32	98.36
2002-03	661,582,167	3.54	3,012,187	4.0996	91.61	97.51
2003-04	712,457,843	7.69	3,220,807	4.0996	91.78	91.78
2004-05	738,016,108	3.59	3,325,570	4.0996	N/A	N/A

1. Excludes Urban Renewal Value and other Offsets.
2. Data shown is for Lincoln County. 2004-05 data will be available in June 2005.

Source: Lincoln County Assessor.

IMPACT OF TAX LIMITATION ON THE CITY

TABLE 15 -- Historical Impact of the \$10/\$1,000 Tax Limitation on City Property Tax Revenues

Fiscal Year	Taxes Imposed ¹	Compression Loss
2000-01	\$3,529,584	(\$3.09)
2001-02	3,529,419	(1.82)
2002-03	3,012,184	(79.03)
2003-04	3,220,737	(78.06)
2004-05	3,325,501	(41.25)

1. This is the amount estimated to be raised by the permanent levy before the Measure 5 limit is applied.

Source: Lincoln County Assessor.

CONSOLIDATED TAX RATES

The following table shows consolidated tax rates for one of many tax code areas located within the City of Lincoln City.

TABLE 16 -- 2004-05 Representative Consolidated Tax Rates for Levy Code Area 402¹

Area	Tax Rate for Operations ²	Tax Rate for Bonds	Tax Rate Total
Within the City of Lincoln City			
Education			
Lincoln County Unified School District No.	\$4.0899	\$0.7071	\$4.7970
Linn-Benton-Lincoln ESD	0.2541	--	0.2541
Oregon Coast Community College	0.1464	0.3134	0.4598
Total Education	\$4.4904	\$1.0205	\$5.5109
Local Government			
Lincoln County	\$2.3429	\$0.1354	\$2.4783
Lincoln County Extension	0.0376	--	0.0376
Lincoln County Transportation	0.0812	--	0.0812
City of Lincoln City	3.4155	0.3386	3.7541
Lincoln City Urban Renewal Agency	2.5763	--	2.5763
North Lincoln Fire and Rescue	0.5651	0.1831	0.7482
Devils Lake Water District	0.1010	--	0.1010
North Lincoln Hospital District	0.4319	--	0.4319
Total Local Government	\$9.5515	\$0.6571	\$10.2086
Total Consolidated Tax Rate	\$14.0419	\$1.6776	\$15.7195

1. The 2004-05 Assessed Value to compute the tax rate of code area 402 is \$495,487,405 which is 67.14 percent of the taxable Assessed Value of the City.
2. The Tax Rates for Operations are the combined Measure 50 permanent tax rates and local option levies which are then applied to the Assessed Value to obtain the amount of taxes to be collected. These are not the Measure 5 tax rates which determine if there is "compression" and which are calculated using Real Market Value; Measure 5 tax rates cannot exceed \$5 for schools and \$10 for local governments.

Source: Lincoln County Assessor.

TABLE 17 -- 2004-05 Major Taxpayers in the City of Lincoln City

Name	2004-05 Taxes²	Assessed Value²	Percent of City AV¹
COROC Holdings LLC ³	\$427,046	\$27,164,730	3.07%
Confederated Tribes	290,186	18,452,500	2.08
Gorge Leasing Co.	109,957	6,994,970	0.79
United Telephone Northwest	108,059	6,861,800	0.77
Northwest Natural Gas Co.	77,170	4,899,200	0.55
William T & Lorna Cho	69,317	4,409,620	0.50
Lakeside Associates LLC	67,463	4,258,690	0.48
Barnes Living Trust	63,846	4,058,940	0.46
Lighthouse Square LLC	63,889	4,033,030	0.46
Oak Brook Financial Corp	60,052	3,820,230	0.43
Totals	\$1,336,985	\$84,953,710	9.59%

-
1. The 2004-05 Total Assessed Valuation is \$885,860,792 for the City.
 2. Preliminary values as compiled and provided by the Lincoln County Assessor.
 3. COROC Holdings LLC is a joint-venture entered into by Tanger Factory Outlet Centers, Inc. in December 2003.

Source: Lincoln County Assessor.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The City is located on the Pacific Coast in Lincoln County, Oregon, about 81 miles southwest of Portland. Incorporated as a home-rule city on March 3, 1965, the City consolidated the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

LAND USE PLANNING

State law requires comprehensive land use planning to be accomplished at the city and county levels. To provide common direction and consistency within each city and county comprehensive plan, the Oregon Legislature directed the Department of Land Conservation and Development Commission (LCDC) to adopt statewide planning goals and guidelines. All zoning and development within a city or county must conform to the appropriate comprehensive plan. Fifteen statewide planning goals have been adopted, dealing with matters that include economy; air, water and land resources quality; housing; agricultural lands; urbanization; and public facilities. As part of a comprehensive plan, an urban growth boundary for the 20-year planning period must be established. This boundary is designed to contain urban sprawl and should encompass adequate land in each zoning category to support predicted population growth.

The City adopted its comprehensive plan in 1980, and LCDC acknowledged it in 1984 after revisions were made and a revised plan sent by the City in 1982. The City reviews the plan periodically.

POPULATION

The estimated population in 2004 for the City was 7,470.

TABLE 18 -- Population Estimates

Year	City of Lincoln City	Percent Change	Lincoln County	Percent Change	State of Oregon	Percent Change
1994	6,335	--	41,000	--	3,119,940	--
1995	6,570	3.71%	41,800	1.95%	3,182,690	2.01%
1996	6,665	1.45	42,200	0.96	3,245,100	1.96
1997	6,785	1.80	42,500	0.71	3,302,140	1.76
1998	6,855	1.03	43,200	1.65	3,350,080	1.45
1999	6,890	0.51	43,350	0.35	3,393,410	1.29
2000	7,480	8.56	44,600	2.88	3,436,750	1.28
2001 ¹	7,420	(0.80)	44,650	0.11	3,471,700	1.02
2002 ¹	7,420	0.00	44,700	0.11	3,504,700	0.95
2003 ¹	7,420	0.00	45,000	0.67	3,541,500	1.05
2004	7,470	0.67	44,400	(1.33)	3,582,600	1.16
1994-2004 Compound Annual Rate of Growth		1.66%		0.80%		1.39%
1999-2004 Compound Annual Rate of Growth		1.63%		0.48%		1.09%

The Federal Census figures, as of April 1 of the stated year, are as follows:

	1980	1990	2000
City of Lincoln City	5,469	5,903	7,437
Lincoln County	35,264	38,889	44,479
State of Oregon	2,633,156	2,842,321	3,421,399

1. U.S. Census population figures as of April 9, 2004, for cities and June 24, 2004, for counties are as follows:

	2001	2002	2003
City of Lincoln City	7,323	7,375	7,399
Lincoln County	44,057	44,494	44,667

Source: Under State law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty.

EMPLOYMENT

Lincoln County's economic and employment base relies on many elements, including the service industry, as well as government, retail trade and transportation.

TABLE 19 -- Lincoln County Labor Force, Unemployment & Total Employment by Place of Residence

Year	Civilian Labor Force	Unemployment	Unemployment as a Percent of Labor Force ¹	Total Employment ²
1993	20,642	1,581	7.7%	19,061
1994	21,141	1,281	6.1	19,860
1995	21,180	1,491	7.0	19,689
1996	21,890	1,633	7.5	20,257
1997	21,738	1,870	8.6	19,868
1998	21,961	1,770	8.1	20,191
1999	21,308	1,669	7.8	19,639
2000	21,360	1,330	6.2	20,030
2001	21,266	1,465	6.9	19,801
2002	21,583	1,650	7.6	19,933
2003	22,100	1,903	8.6	20,197

1. Totals may not foot due to rounding. 2004 figures will be available in April 2005. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available. Because tourism is an important contributor to employment in Lincoln County, monthly unemployment rates are typically higher in the non-peak winter months. See "UNEMPLOYMENT."
2. Includes nonagricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers, and labor disputants.

Source: Oregon Employment Department.

Lincoln County experienced a slight shift in nonfarm employment between 1993 and 2003. Employment in the manufacturing sector experienced a slight decrease over that period, while employment in the nonmanufacturing sector increased, particularly in the services and government sectors.

TABLE 20 -- Lincoln County Nonfarm Employment (NAICS)¹

	1993 Annual Average (000)	1993 Percent of Total	2003 Annual Average (000)	2003 Percent of Total	Compound Annual Rate of Change	2004² Monthly Average (000)
Total Nonfarm Wage & Salary Employment	15,300	100.00%	16,920	100.00%	1.01%	16,610
Manufacturing	1,380	9.02%	1,130	6.68%	(1.98%)	1,170
Durable goods	280	1.83	270	1.60	(0.36)	280
Nondurable goods	1,100	7.19	870	5.14	(2.41)	890
Nonmanufacturing	13,920	90.98%	15,790	93.32%	1.27%	15,440
Construction & mining	890	5.82	800	4.73	(1.06)	760
Trade, transportation & utilities	3,100	20.26	3,190	18.85	0.29	3,200
Information	230	1.50	250	1.48	0.84	210
Financial activities	650	4.25	660	3.90	0.15	660
Professional & business services	680	4.44	960	5.67	3.51	950
Educational & health services	850	5.56	1,450	8.57	5.49	1,450
Leisure & hospitality	3,750	24.51	4,210	24.88	1.16	3,970
Other services	650	4.25	600	3.55	(0.80)	500
Government	3,110	20.33	3,690	21.81	1.72	3,690

Note: Totals may not foot due to rounding. Annual 2004 data will be available in April 2005.

1. 2003 and 2004 data is based on the North American Industry Classification System ("NAICS"). Data for years prior to 2001 is based on the Standard Industrial Classification System ("SIC") but has been converted to the NAICS format by the Oregon Employment Department. Because of the conversion, minor inconsistencies may exist between current and historical (converted) data. For more information on the NAICS and SIC systems, please visit the Oregon Employment Department website at www.olmis.org.
2. Data shown for the month of December 2004. Because the Leisure and Hospitality category is a major component of employment in Lincoln County, monthly employment figures are typically deflated in the non-peak winter months.

Source: Oregon Employment Department.

UNEMPLOYMENT

As reflected in the table below, Lincoln County, like the State and the nation, experienced an increase in the jobless rate in 2001, 2002 and 2003. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available. Because tourism is an important contributor to employment in Lincoln County, monthly unemployment rates are typically higher in the non-peak winter months.

TABLE 21 -- Lincoln County Average Annual Unemployment as a Percent of Labor Force

Year	Lincoln County ¹	State of Oregon	USA
1993	7.7%	7.3%	6.9%
1994	6.1	5.4	6.1
1995	7.0	4.8	5.6
1996	7.5	5.9	5.4
1997	8.6	5.8	4.9
1998	8.1	5.6	4.5
1999	7.8	5.7	4.2
2000	6.2	4.9	4.0
2001	6.9	6.3	4.7
2002	7.6	7.5	5.8
2003	8.6	8.2	6.0

Note: 2004 data will be available in April 2005.

1. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available.

Source: Oregon Employment Department.

TABLE 22 -- Lincoln County Major Employers

Employer	Product or Service	Estimated Employment
Chinook Winds Casino ²	Casino	890
North Lincoln Hospital	Health Care	260
Salishan Lodge	Resort	200
Inn at Spanish Head	Resort Hotel	100
Public Employers		
Lincoln County School District	Education	540
State of Oregon	Government	360 ¹
Federal Government	Government	260 ¹
City of Lincoln City	Government	144

1. Lincoln County employment for 2003.

2. Owned by the Confederate Tribes of the Siletz.

Source: Lincoln City Chamber of Commerce and Regional Financial Advisors, Inc.

DEVELOPMENT ACTIVITY

The new Lifestyle Center at the Lincoln City Community Center opened in December 2004. The center is part of a \$2.6 million Community Center expansion project. Completion of the expansion is expected in February 2005, with the opening of the adjacent gymnasium. The gym will feature a padded, elevated running track, basketball and volleyball equipment, and will host a variety of classes and functions.

Please also see "TOURISM – Chinook Winds Casino and Convention Center."

According to the Oregon Employment Department's weekly newsletter, "Around the State", the following openings and expansions occurred in 2004:

- Two new hotels - Motel 6 which has 72 rooms, and Bel Aire Express, which has 62 rooms.
- Six restaurants and coffee shops, including Starbucks.
- Pacific Coast Limos provides services for special occasions and entertainers at the Chinook Winds Casino.
- Sears expanded with a new warehouse and more retail space.

INCOME

The following table shows personal income and per capita income for Lincoln County, compared to similar data for the State and nation. According to the Bureau of Economic Analysis, Lincoln County per capita personal income was estimated at \$26,029 in 2002.

TABLE 23 -- Income Estimates

Year	Lincoln County	Per Capita Income		
	Total Personal Income (millions)	Lincoln County	State of Oregon	United States
1992	\$703	\$17,223	\$19,235	\$20,854
1993	740	17,621	20,046	21,346
1994	793	18,415	21,060	22,172
1995	854	19,363	22,293	23,076
1996	916	20,492	23,398	24,175
1997	968	21,381	24,469	25,334
1998	1,019	22,591	25,542	26,883
1999	1,045	23,257	26,480	27,939
2000	1,083	24,442	28,100	29,847
2001	1,119	25,403	28,451	30,580
2002	1,158	26,029	28,530	30,795
2003	N/A ¹	N/A ¹	28,806	31,459

1. 2003 figures for Lincoln County will be released in May 2005.

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

AGRICULTURE

In Lincoln County, the top commodities include farm forest products and cattle. Gross Farm Sales for Lincoln County in 2003 were \$6,701,000.

TABLE 24 -- Lincoln County Gross Farm Sales (\$000)

Year	Lincoln County			State of Oregon		
	Crops	Animal Products	Total	Crops	Animal Products	Total
1993	19,312	2,243	21,555	2,205,922	780,011	2,985,933
1994	15,951	2,043	17,994	2,239,748	769,914	3,009,662
1995	21,761	1,743	23,504	2,413,502	699,261	3,112,763
1996	11,572	1,548	13,120	2,470,173	697,168	3,167,341
1997	11,866	1,930	13,796	2,557,583	776,566	3,334,149
1998	6,815	1,466	8,281	2,375,452	763,992	3,139,444
1999	8,047	1,012	9,059	2,422,866	815,609	3,238,475
2000	6,192	1,392	7,584	2,490,399	869,616	3,360,016
2001	5,090	1,434	6,524	2,394,989	934,410	3,329,399
2002	5,006	1,479	6,485	2,380,100	884,930	3,265,030
2003	5,192	1,509	6,701	2,489,436	978,136	3,467,572

Source: Oregon State University Extension Economic Information Office.

FORESTRY

Based on the Oregon Department of Forestry's Western Oregon Harvests report for calendar year 2003 (the most recent data available), 176,052 million board feet of timber was harvested in Lincoln County. Of this, the forest industry harvested 153,125 million board feet of timber in Lincoln County, with the remainder harvested by the State and other private and public entities.

TABLE 25 -- Timber Harvest (in thousand board feet)

Year	Lincoln County	State of Oregon
1993	268,760	5,293,967
1994	132,572	4,167,166
1995	179,232	4,304,158
1996	153,951	3,922,299
1997	157,720	4,081,415
1998	106,413	3,531,903
1999	113,160	3,759,338
2000	138,971	3,853,514
2001	91,827	3,439,794
2002	164,725	3,922,358
2003	176,052	4,001,818

Note: 2004 data will be available in July 2005.

Source: Oregon Department of Forestry.

HOUSING

Based on the Market Action report, a publication of RMLS, the December 2004 year-to-date median sales price of a home in the North Coastal Counties was \$185,000. The following table shows building permit activity in the area.

TABLE 26 -- Building Activity

Calendar Year	Lincoln City Building Permits		
	Single Family Units	Multi-family Units	Total Residential (\$000)
1994	45	167	\$12,254
1995	31	96	8,665
1996	30	27	5,259
1997	35	3	3,538
1998	36	7	4,648
1999	40	3	4,982
2000	32	10	5,910
2001	21	4	3,203
2002	34	7	6,142
2003	43	0	7,931
2004 ¹	79	0	16,061

1. As of November 2004.

Source: Center for Population Research & Census, Portland State University and U.S. Census Bureau.

TRANSPORTATION

Highway 101, the principal north-south highway on the West Coast, passes through the City. A small general aviation airport located in the City provides private and chartered air service from the City.

UTILITIES

NW Natural supplies natural gas to the area; electricity is provided by Pacific Power and Light Company. Sprint provides telephone service.

PUBLIC FACILITIES

Sewer and Water

The City owns and operates its own water system, drawing its water from Schooner Creek. The City provides water within city limits and in the unincorporated areas at Road's End and around Devils Lake, as well as all other areas within the urban growth boundary.

The City owns, operates and maintains its own sewage collection and treatment system. Proceeds from the 2005 Bonds in this issue will be used to upgrade the system.

Public Safety

The City's Police Department has mutual aid agreements with surrounding communities, as well as with the Lincoln County Sheriff's Office and the Oregon State Police. Beach and ocean emergencies are handled by the department, North Lincoln Fire & Rescue and the U.S. Coast Guard stationed in Newport and Depoe Bay, with rescue helicopters and boats. A privately-owned company provides ambulance service. The dispatch center handles fire, police and ambulance calls.

The North Lincoln Fire and Rescue District is staffed by volunteers and provides fire protection in the City and surrounding area. This new district was formed in early 1997 by merging the Devils Lake Rural Fire Protection District and the Taft-Nelscott-Delake Rural Fire Protection District.

Education

The Lincoln County School District serves the City. There are seven elementary schools, four middle schools and four high schools in the District.

Health Care

The North Lincoln Hospital is a 41-bed general hospital built in 1967 and expanded in 1982. The hospital was remodeled in 1990, adding an intensive care unit, and again in 1994, adding a family birthing center and a dialysis unit. The Hospital provides a wide range of health care services including laser treatments, MRIs, CT Scans and laparoscopy procedures, as well as a variety of programs for the community through ongoing health and wellness education programs, home health services, and Lifeline.

TOURISM

Lincoln City has 7½ miles of public beaches. It is approximately a two-hour drive from Portland and one hour from Salem, Oregon's capital city. Attractions include year-round ocean and river fishing, and golfing on the five courses in the area, including the Lakeside Golf Club. The City owns and maintains 11 beach access points, some with parking lots. Boating and water sports are popular on Devils Lake along the City's eastern border.

Major resorts in the area include Salishan Lodge, the largest convention hotel in the area, located three miles south of the City on Highway 101.

Tanger Outlet Center has over 65 brand name manufacturer and designer outlet stores.

The Oregon Coast Aquarium is located in the City of Newport, approximately 25 miles south of the City. The aquarium is located in a 40,000 square-foot building with six acres of exhibits, adjacent to the Hatfield Marine Science Center. Indoor exhibits include four galleries replicating the plant and animal communities living in the wetlands, near-shore and marine environments along the Oregon coast. Outdoor exhibits include sea otters, harbor seals, sea lions, tide pools, a coastal cave, a seabird aviary, a nature trail and children's play area. The aquarium draws approximately 1 million visitors annually.

Chinook Winds Casino and Convention Center

The Confederated Tribes of the Siletz (the "Siletz") is a federally recognized confederation of 27 bands originally ranging from Northern California to Southern Washington. Achievement of Governance through congressional legislation occurred in 1992, allowing the Siletz to compact directly with the United States government, as well as control and accountability over tribal programs and funding. The Siletz occupies and manages a 3,666 acre reservation in Lincoln County. Resources managed include timber, water and fish.

In 1995 the Siletz opened the Chinook Winds Casino and Convention Center in temporary quarters, moving into permanent facilities in 1996. The 158,000 square-foot facility includes gaming, entertainment and a restaurant overlooking the ocean. The Casino purchased the Shilo Inn Hotel in June 2004 and made it a part of the Resort. It has 247 rooms and suites, and 7,000 square feet of meeting space. Events at the Casino and Convention Center auditorium include both local and internationally-known touring acts and performers.

INFORMATION SOURCES

Historical data has been collected from generally accepted standard sources, usually from public bodies. In Oregon, data are frequently available for counties and also, to a lesser degree, for cities. This statement presents data for the City, Lincoln County, and the State of Oregon.

THE INITIATIVE PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State's office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State's office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot.

PROPOSED INITIATIVE MEASURES WHICH QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a Governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2004 general election, the requirement was eight percent (100,840 signatures) for a constitutional amendment measure and six percent (75,630 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. However, State law prohibits payment based on the number of signatures obtained on an initiative petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact only.

Historically, a larger number of initiative measures have qualified to be placed on the ballot than have been approved by the electors. According to the Elections Division of the Oregon Secretary of State, the total number of initiative petitions that have qualified for the ballot and the numbers that have passed in recent general elections are as follows:

TABLE 27 -- Initiatives in Recent Oregon General Elections

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
1990	8	3
1992	7	0
1994	16	8
1996	16	4
1998	10	6
2000	18	5
2002	7	3
2004	6	3

Note: The Secretary of State posts a listing on its website: www.sos.or.us.

Sources: Elections Division, Oregon Secretary of State.

FUTURE INITIATIVE MEASURES

The recent experience in Oregon is that many more initiative measures are proposed in some form than receive the number of signatures required to be placed on a ballot. Consequently, the City cannot accurately predict whether specific future initiative measures that may have an adverse effect on the City's financial operations will be proposed, obtain sufficient signatures, and be placed on a ballot for voter approval, or if placed on a ballot, will be approved by voters.

The Oregon Secretary of State's office maintains a list of all initiative petitions that have been submitted to that office. The office can be reached by telephone at (503) 986-1518.

CURRENT INITIATIVE MEASURES

MEASURE 37: REQUIRES GOVERNMENTS TO PAY PROPERTY OWNERS, OR FORGO ENFORCEMENT, WHEN CERTAIN LAND USE RESTRICTIONS REDUCE PROPERTY VALUE

At the November 2004 General Election, Oregon voters approved ballot Measure 37. The Measure adds several new statutory provisions to Oregon law. The measure entitles certain property owners either (a) to compensation for the reduction in the market value of their property as the result of certain land use regulations (the "Restrictions") that are enacted or enforced against the property; or (b) to have their land released from the Restrictions.

"Restrictions" do not include regulation of nuisances, public health and safety regulations, regulations required to comply with federal law, regulations restricting or prohibiting the use of a property for the purpose of selling pornography or performing nude dancing or regulations enacted prior to the date the current property owner or a member of that owner's family acquired the property. The Measure indicates that a government is not required to pay claims that arise under the Measure unless the government affirmatively acts to fund those claims. If claims are not paid within two years after they accrue, Measure 37 releases the property from the Restrictions, and it is not clear whether the government imposing the Restriction have any residual liability. Claims for Restrictions enacted prior to the effective date of the Measure must be filed within two years of the effective date of the Measure or the date the government(s) applies the Restriction to the property, whichever is later.

The measure does not change the Oregon Constitution, and the Oregon Legislative Assembly has the power to modify Measure 37. The Oregon Legislative Assembly convened its 73rd regular session on January 10, 2005.

The City has acted to enforce Restrictions; however, it is extremely difficult to predict the cost to the City because: (1) Measure 37 only applies to some property owners and to some land use regulations; (2) Measure 37 allows governments to release property from Restrictions instead of paying claims; (3) Measure 37 may not require governments to pay claims that governments choose not to fund; (4) the City can not predict how Measure 37 will be interpreted; and, (5) the Oregon Legislative Assembly may change the provisions of Measure 37 during its current session.

The City reports that as of the date of this Statement, there have been no claims and the City Council has not approved a formal policy on the handling of claims.

RECENT STATE OF OREGON DEVELOPMENTS

The State's tax receipts have been less than the amounts the State has budgeted to receive. Although the City receives a variety of revenues from the State, the State's revenue shortfall and the State's actions to address that shortfall do not currently appear likely to have a material and adverse impact on the financial condition of the City.

TAX EXEMPTION

In the opinion of Preston Gates & Ellis LLP, Bond Counsel to the City, assuming compliance with certain covenants of the City, the Bond interest is excluded from the gross income of the owners of the Bonds for federal income tax purposes under existing law. Bond interest is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Bond owned by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond owned by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion as to any such collateral federal income tax consequences. Purchasers of the Bonds should consult their own tax advisors as to collateral federal income tax consequences.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to remain excludible from the gross income of the owners of the Bonds for federal income tax purposes. The City has covenanted to comply with such requirements. Noncompliance with such requirements may cause the Interest on the Bonds to be includible in the gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants and Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

LITIGATION

There is no litigation pending or threatened against the City that contests the validity of the Bonds. In addition, there is no litigation pending against the City, which, if successfully prosecuted against the City, would have a material and adverse effect on the general financial condition of the City.

APPENDIX A

BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2004



BOLDT, CARLISLE & SMITH LLC

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERSHIP ■ ASSURANCE ■ INNOVATION

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the City Council
CITY OF LINCOLN CITY
Lincoln City, Oregon**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF LINCOLN CITY**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF LINCOLN CITY**, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General, Transient Room Tax, Urban Renewal, Urban Renewal Property Rehabilitation Program and Public Safety Police Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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Established - 1968

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Honorable Mayor and Members of the City Council
CITY OF LINCOLN CITY
Lincoln City, Oregon

INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **CITY OF LINCOLN CITY** basic financial statements. The combining and individual fund statements and schedules and other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Boldt, Carlisle & Smith, LLC
Certified Public Accountants
Salem, Oregon
August 11, 2004

By: 

Douglas C. Parham, Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the City of Lincoln City (City) and the Lincoln City Urban Renewal Agency (Agency), a component unit of the City, for the fiscal year ended June 30, 2004. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget. Please read this analysis in conjunction with the City's financial statements, which follow:

FINANCIAL HIGHLIGHTS

The City's combined net assets (total assets less total liabilities) were \$59,977,641 at June 30, 2004 an increase of \$2,934,940 (or 5%) over the prior year.

Land, Construction in Progress and Other Capital Assets, net of Depreciation increased \$3,630,782 (or 7%).

The City's Urban Renewal Agency issued \$3,000,000 of new bonds.

The City's governmental funds reported combined ending fund balances of \$11,184,704, an increase of \$39,693.

The City's general fund balance totaled \$1,938,500, an increase of \$350,099 (or 22%).

The City's proprietary funds reported combined ending fund balances of \$3,846,050, an increase of \$219,892 (or 6%).

REPORT LAYOUT

This discussion and analysis are intended to serve as an introduction to the City of Lincoln City's basic financial statements. The City's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the City. The components of the report include the following:

Independent auditor's report

Management's discussion and analysis (this report)

Basic Financial Statements

Includes Statement of Net Assets, Statements of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the City.

The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds (water/sewer). Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental funds." Budgetary comparison statements are presented for all of the major governmental funds. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses, changes in net assets and cash flow.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

Other Supplementary Information

Major funds are included in the governmental fund section, non-major funds are included in this section. These statements include balance sheets, statements of revenues and expenses, changes in fund balances and budgetary information.

The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Other financial information

This section contains annual disclosure information in conformance with SEC Rule 15c2-12 and System Development Charges in accordance with ORS 223.311.

Reports by independent certified public accountants. Supplemental communication on City compliance and internal controls as required by Oregon statutes.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Assets

The City's combined net assets (total assets less total liabilities) were \$59,977,641 at June 30, 2004 an increase of \$2,934,940 (or 5%) over the prior year.

Table 1

Net Assets

	June 30, 2004			June 30, 2003		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Cash and Investments	\$ 11,248,481	\$ 3,730,670	\$ 14,979,151	\$ 11,114,972	\$ 3,579,215	\$ 14,694,187
Receivables	2,474,372	317,698	2,792,070	2,250,913	300,786	2,551,699
Inventories	-	68,586	68,586	-	60,381	60,381
Capital Assets, net of depreciation	<u>26,691,793</u>	<u>31,013,480</u>	<u>57,705,273</u>	<u>22,830,001</u>	<u>31,244,490</u>	<u>54,074,491</u>
Total Assets	<u>40,414,646</u>	<u>35,130,434</u>	<u>75,545,080</u>	<u>36,195,886</u>	<u>35,184,872</u>	<u>71,380,758</u>
Accounts Payable and Accrued Expenses	935,675	175,967	1,111,642	769,113	226,531	995,644
Accrued Interest Payable	27,374	-	27,374	29,827	-	29,827
Landfill Closure and Postclosure Costs	760,000	-	760,000	760,000	-	760,000
Long Term Debt Outstanding	<u>10,878,486</u>	<u>2,789,937</u>	<u>13,668,423</u>	<u>9,644,893</u>	<u>2,907,693</u>	<u>12,552,586</u>
Total Liabilities	<u>12,601,535</u>	<u>2,965,904</u>	<u>15,567,439</u>	<u>11,203,833</u>	<u>3,134,224</u>	<u>14,338,057</u>
Net Assets:						
Invested in Capital Assets, net of related debt	16,103,762	28,318,480	44,422,242	14,233,001	28,424,490	42,657,491
Restricted for:						
Capital Projects	1,156,545	2,520,239	3,676,784	2,057,804	2,310,235	4,368,039
Debt Service	1,578,959	279,076	1,858,035	926,032	279,208	1,205,240
Other Purposes	472,672	-	472,672	178,132	-	178,132
Unrestricted	<u>8,501,173</u>	<u>1,046,735</u>	<u>9,547,908</u>	<u>7,597,084</u>	<u>1,036,715</u>	<u>8,633,799</u>
Total Net Assets	<u>\$ 27,813,111</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,641</u>	<u>\$ 24,992,053</u>	<u>\$ 32,050,648</u>	<u>\$ 57,042,701</u>

Approximately 75% of the City's total assets are invested in capital assets. 10% of the City's net assets are restricted. \$3,676,784 represents proceeds from system development charges and bond proceeds, when spent, are restricted for capital projects. \$1,858,035 represents reserves in the bond funds and can only be spent in repaying outstanding debt. \$9,547,908 of the City's net assets were unrestricted and represents resources available to fund the programs of the City next year.

Changes in Net Assets: The City's total revenues were \$17,463,931, an increase of 11%. Of this, \$8,832,061 (or 51%) is from various taxes, \$5,436,459 (or 31%) is from charges for services and \$3,195,411 (or 18%) is from grants, interest earnings and other non-tax sources. More detailed information is presented in table 2 below.

The total cost of all programs and services was \$14,528,991. Of this, \$3,520,508 (or 24%) was for water and sewer and \$11,008,483 (or 76%) was for general government, public safety, highways and streets, cultural and recreation and interest.

Table 2

	Change in Net Assets					
	June 30, 2004			June 30, 2003		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Program Revenues:						
Charges for Services	\$ 1,459,556	\$ 3,976,903	\$ 5,436,459	\$ 1,099,162	\$ 3,737,528	\$ 4,836,690
Operating Grants and Contributions	43,635	-	43,635	37,545	-	37,545
Capital Grants and Contributions	401,890	-	401,890	858,081	-	858,081
General Revenues:						
Property Taxes, General Purposes	2,837,199	-	2,837,199	2,692,304	-	2,692,304
Property Taxes, Debt Service	2,415,756	-	2,415,756	2,323,863	-	2,323,863
Franchise Taxes	734,301	-	734,301	857,449	-	857,449
Transient Room Taxes	2,844,805	-	2,844,805	2,786,826	-	2,786,826
Other	<u>2,652,255</u>	<u>97,631</u>	<u>2,749,886</u>	<u>1,307,731</u>	<u>(962)</u>	<u>1,306,769</u>
Total Revenues	<u>13,389,397</u>	<u>4,074,534</u>	<u>17,463,931</u>	<u>11,962,961</u>	<u>3,736,566</u>	<u>15,699,527</u>
Program Expenses:						
General Government	3,449,336	-	3,449,336	3,636,868	-	3,636,868
Public Safety	2,516,001	-	2,516,001	2,400,548	-	2,400,548
Highways and Streets	1,151,875	-	1,151,875	1,151,658	-	1,151,658
Cultural and Recreation	3,490,528	-	3,490,528	1,869,743	-	1,869,743
Water and Sewer	-	3,520,508	3,520,508	-	3,566,136	3,566,136
Interest on Long-term Debt	<u>400,744</u>	<u>-</u>	<u>400,744</u>	<u>402,425</u>	<u>-</u>	<u>402,425</u>
Total Expenses	<u>11,008,484</u>	<u>3,520,508</u>	<u>14,528,992</u>	<u>9,461,242</u>	<u>3,566,136</u>	<u>13,027,378</u>
Change in Net Assets						
Before Transfers	2,380,913	554,026	2,934,939	2,501,719	170,430	2,672,149
Transfers	<u>440,144</u>	<u>(440,144)</u>	<u>-</u>	<u>488,972</u>	<u>(488,972)</u>	<u>-</u>
Change in Net Assets	<u>2,821,057</u>	<u>113,882</u>	<u>2,934,939</u>	<u>2,990,691</u>	<u>(318,542)</u>	<u>2,672,149</u>
Net Assets - Beginning						
Net Assets - Beginning	<u>24,992,053</u>	<u>32,050,648</u>	<u>57,042,701</u>	<u>22,001,362</u>	<u>32,369,190</u>	<u>54,370,552</u>
Net Assets - Ending	<u>\$ 27,813,110</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,640</u>	<u>\$ 24,992,053</u>	<u>\$ 32,050,648</u>	<u>\$ 57,042,701</u>

BUDGETARY HIGHLIGHTS

City Council approved three changes to the adopted budget. The first was a supplemental budget to (1) accept grant funds and purchase property for a future industrial park, (2) to provide additional funds for building inspections and plan checks. The City continues to have significant growth in new construction and remodels. This is reflected in increased building permit and system development charge revenues. (3) To provide additional funds for the expansion and remodel of the Community Center. The second change was to provide an outside stairway for the second floor of the public safety building. The third change moved amounts from contingency into operating expenditure categories to reflect actual spending patterns. These changes were less than 1.8% of total appropriations for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2004, the city had a net investment of \$57,705,273 in a broad range of capital assets, including land, infrastructure, equipment, buildings and vehicles. This amount represents a net increase (including additions and deductions) of \$3,630,782 (or 7%). More detailed information is presented in the notes to the financial statements.

Table 3

Change in Capital Assets

	June 30, 2004			June 30, 2003		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Beginning Balances	\$ 22,830,001	\$ 31,244,490	\$ 54,074,491	\$ 18,130,054	\$ 31,556,230	\$ 49,686,284
Additions	5,295,829	2,168,678	7,464,507	5,799,588	1,012,813	6,812,401
Retirements	(179,180)	(1,121,925)	(1,301,105)	(102,321)	(44,738)	(147,059)
Depreciation	<u>(1,254,857)</u>	<u>(1,277,763)</u>	<u>(2,532,620)</u>	<u>(997,320)</u>	<u>(1,279,815)</u>	<u>(2,277,135)</u>
Ending Balances	<u>\$ 26,691,793</u>	<u>\$ 31,013,480</u>	<u>\$ 57,705,273</u>	<u>\$ 22,830,001</u>	<u>\$ 31,244,490</u>	<u>\$ 54,074,491</u>

Governmental Activities

Capital assets from governmental activities increased \$3,861,792. These additions were mostly for the (1) planning and design costs in the Oceanlake area by the City's Urban Renewal Agency. This major project for streetscape, undergrounding of utilities and other infrastructure improvements will begin in the fall of 2004. (2) A major expansion and remodel of the Community Center is reflected in the construction in progress category and will be completed in 2004-05. (3) The Parks Department completed a trail system in the Spring Lake area, an additional \$1,082,465 of open space was purchased during the year and the purchase of property for a future industrial park.

Business-type Activities

Capital assets from business-type activities decreased \$231,010 due to depreciation, however the Schooner Creek intake system to the water treatment plant and the Wastewater Facilities Plan were completed.

Long Term Debt

At the end of fiscal year 2004, the City had \$13,283,031 in debt outstanding, an increase of \$1,106,031. Subsequently, the City's Urban Renewal Agency issued \$5,000,000 of additional bonds in July 2004.

Table 4

	Long Term Debt	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Governmental:		
General Obligation		
Civic Center, Series 2003	\$ 1,747,000	\$ 1,962,000
Open Space, Series 1999	2,215,000	2,395,000
Urban Renewal Bonds		
Series 2002	3,750,000	5,000,000
Series 2003	<u>2,876,031</u>	<u>-</u>
Total Governmental	<u>10,588,031</u>	<u>9,357,000</u>
Business-type:		
Revenue Bonds		
Water Treatment Plant, Series 1997	<u>2,695,000</u>	<u>2,820,000</u>
Total Long Term Debt	<u>\$ 13,283,031</u>	<u>\$ 12,177,000</u>

Governmental Activities

The City's Urban Renewal Agency issued \$3,000,000 of new tax increment bonds in November 2003. The City's Series 1999 Open Space bonds carry a Moody's A3 rating and are insured. See Other Financial Information for the annual disclosure statement in conformance with SEC Rule 15c2-12.

Business-type Activities

The City's Series 1997 Water Treatment Plant bonds are insured revenue bonds. The City is in compliance with the covenants of these bonds. See Other Financial Information for the annual disclosure statement in conformance with SEC Rule 15c2-12.

The City's voters approved a General Obligation bond in November 2000 in an amount not to exceed \$4,000,000 to purchase additional water rights and to construct a pipeline to the existing water treatment plant. Bonds are anticipated to be sold in calendar year 2005.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

Governmental Activities

The City's general fund revenue is 48% dependent upon property taxes. Since 1997 property taxes have been limited by state statute to an increase of 3% a year plus new construction. The City's projected total general fund revenue for fiscal year 2005 is \$5,600,637 and expenditures of \$5,623,399. The general fund reserves total \$1,756,642 (or 31%). The other major source of revenue for governmental activities is the Transient Room Tax. This tax has increased 3% a year for the past four years and is anticipated to continue.

The City's Urban Renewal Agency has budgeted \$5,647,200 for capital projects, principally for infrastructure improvements in the Oceanlake area. The Agency and the Parks Department combined resources to fund a \$2,500,000 expansion of the Community and Senior Center in 2003-04 and will be completed in 2004-05. We anticipate continuing with our Open Space acquisition program. \$1,070,000 of grants and prior bond proceeds have been budgeted.

Business-type Activities

All of the revenue for business-type activities is from user charges and system development charges. Water and Sewer rates have been increased 5% for fiscal year 2005. This continues the City's program to increase rates in small increments each year. The Urban Renewal Agency and the City's Water Capital funds are combining resources to fund the replacement of three miles of water mains from the D River Bridge south into the Taft area. The Sewer Capital funds have budgeted \$1,886,040 for replacement and expansion of the collection system and the initial costs of a new wastewater treatment plant.

REQUESTS FOR INFORMATION

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional information, please contact the City's Finance Director at 801 HWY 101, Lincoln Square, Lincoln City, Oregon 97367. Copies of this report are also available at the Driftwood Library.

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN CITY
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	\$ 11,248,481	\$ 3,730,670	\$ 14,979,151
Receivables	2,474,372	317,698	2,792,070
Inventories	--	68,586	68,586
Land, improvements and construction in progress	13,807,129	814,269	14,621,398
Other capital assets, net of depreciation	12,884,664	30,199,211	43,083,875
TOTAL ASSETS	40,414,646	35,130,434	75,545,080
LIABILITIES			
Accounts payable and accrued expenses	935,675	175,967	1,111,642
Accrued interest payable	27,374	--	27,374
Landfill closure and postclosure care costs	760,000	--	760,000
Long-term obligations			
Due within one year	2,210,728	229,937	2,440,665
Due in more than one year	8,667,758	2,560,000	11,227,758
TOTAL LIABILITIES	12,601,535	2,965,904	15,567,439
NET ASSETS			
Invested in capital assets, net of related debt	16,103,762	28,318,480	44,422,242
Restricted for:			
Capital projects	1,156,545	2,520,239	3,676,784
Debt service	1,578,959	279,076	1,858,035
Other purposes	472,672	--	472,672
Unrestricted	8,501,173	1,046,735	9,547,908
TOTAL NET ASSETS	\$ 27,813,111	\$ 32,164,530	\$ 59,977,641

See notes to basic financial statements

CITY OF LINCOLN CITY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Totals
	Expenses	Charges	Operating	Capital	Governmental	Business- type	
		for Services	Grants and Contributions	Grants and Contributions			
Functions/Programs							
Governmental activities							
General government	\$ 3,455,891	\$ 653,850	\$ 30,000	\$ 100,000	\$ (2,672,041)		\$ (2,672,041)
Public safety	2,516,001	121,265	13,635	11,196	(2,369,905)		(2,369,905)
Highways and streets	1,151,875	52,185	--	--	(1,099,690)		(1,099,690)
Culture and recreation	3,490,528	632,256	--	290,694	(2,567,578)		(2,567,578)
Interest on long-term debt	400,743	--	--	--	(400,743)		(400,743)
TOTAL GOVERNMENTAL ACTIVITIES	<u>11,015,038</u>	<u>1,459,556</u>	<u>43,635</u>	<u>401,890</u>	<u>(9,109,957)</u>		<u>(9,109,957)</u>
Business-type activities							
Water	1,565,237	2,168,456	--	--	\$ 603,219		603,219
Sewer	1,955,271	1,808,447	--	--	(146,824)		(146,824)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>3,520,508</u>	<u>3,976,903</u>	<u>--</u>	<u>--</u>	<u>456,395</u>		<u>456,395</u>
Totals	<u>\$ 14,535,546</u>	<u>\$ 5,436,459</u>	<u>\$ 43,635</u>	<u>\$ 401,890</u>	<u>(9,109,957)</u>	<u>456,395</u>	<u>(8,653,562)</u>
General revenues							
Property taxes levied for:							
General purposes					2,837,199	--	2,837,199
Debt service					2,415,756	--	2,415,756
Franchise taxes					740,856	--	740,856
Transient room taxes					2,844,805	--	2,844,805
Other grants and contributions not restricted to specific programs					688	--	688
Unrestricted investment earnings					138,728	40,309	179,037
Miscellaneous					2,510,339	43,266	2,553,605
Gain on sale of property					2,500	14,056	16,556
Transfers					440,144	(440,144)	--
TOTAL GENERAL REVENUES AND TRANSFERS					<u>11,931,015</u>	<u>(342,513)</u>	<u>11,588,502</u>
CHANGE IN NET ASSETS					2,821,058	113,882	2,934,940
NET ASSETS - BEGINNING					<u>24,992,053</u>	<u>32,050,648</u>	<u>57,042,701</u>
NET ASSETS - ENDING					<u>\$ 27,813,111</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,641</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

	<u>General</u>	<u>Transient Room Tax</u>	<u>Urban Renewal</u>	<u>Urban Renewal Property Rehabilitation Program</u>
<u>ASSETS</u>				
Cash and investments	\$ 2,033,939	\$ --	\$ 3,489,741	\$ 113,303
Receivables	<u>408,220</u>	<u>644,205</u>	<u>--</u>	<u>728,093</u>
TOTAL ASSETS	<u>\$ 2,442,159</u>	<u>\$ 644,205</u>	<u>\$ 3,489,741</u>	<u>\$ 841,396</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 179,914	\$ --	\$ 433,734	\$ --
Other accrued liabilities	--	--	--	--
Deferred revenue	<u>323,745</u>	<u>--</u>	<u>--</u>	<u>728,093</u>
TOTAL LIABILITIES	<u>503,659</u>	<u>--</u>	<u>433,734</u>	<u>728,093</u>
<u>FUND BALANCES</u>				
Reserved for debt service	--	--	--	--
Unreserved reported in:				
General fund	1,938,500	--	--	--
Special revenue funds	--	644,205	3,056,007	113,303
Capital projects funds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL FUND BALANCES	<u>1,938,500</u>	<u>644,205</u>	<u>3,056,007</u>	<u>113,303</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,442,159</u>	<u>\$ 644,205</u>	<u>\$ 3,489,741</u>	<u>\$ 841,396</u>

Public Safety Police	Urban Renewal Tax Increment	Parks System Development Charge Improvement	Other Governmental Funds	Total Governmental
\$ 278,880	\$ 1,402,248	\$ 280,767	\$ 3,649,603	\$ 11,248,481
--	198,904	--	494,950	2,474,372
<u>\$ 278,880</u>	<u>\$ 1,601,152</u>	<u>\$ 280,767</u>	<u>\$ 4,144,553</u>	<u>\$ 13,722,853</u>
\$ 11,982	--	\$ 105,587	\$ 121,913	\$ 853,130
56,913	--	--	25,632	82,545
--	198,904	--	351,732	1,602,474
<u>68,895</u>	<u>198,904</u>	<u>105,587</u>	<u>499,277</u>	<u>2,538,149</u>
--	1,402,248	175,180	176,711	1,754,139
--	--	--	--	1,938,500
209,985	--	--	2,121,891	6,145,391
--	--	--	1,346,674	1,346,674
<u>209,985</u>	<u>1,402,248</u>	<u>175,180</u>	<u>3,645,276</u>	<u>11,184,704</u>
<u>\$ 278,880</u>	<u>\$ 1,601,152</u>	<u>\$ 280,767</u>	<u>\$ 4,144,553</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,195,021

26,691,793

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property taxes earned but not available	\$ 502,052	
Assessments earned but not available	68,998	
Fines earned but not available	33,991	
Notes receivable earned but not available	<u>997,433</u>	1,602,474

Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.

(290,455)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(11,375,405)

Net assets of governmental activities

\$ 27,813,111

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

	General	Transient Room Tax	Urban Renewal	Urban Renewal Property Rehabilitation Program
REVENUES				
Property taxes	\$ 2,883,068	\$ -	\$ -	\$ -
Franchises and fees	1,032,242	-	-	-
Transient room tax	-	2,844,805	-	-
Fines and forfeitures	118,112	-	-	-
Rents	-	-	-	-
Loan repayments	-	-	-	85,034
Charges for services	-	-	849	-
Intergovernmental	265,890	-	30,000	-
Reimbursement from other funds	-	-	-	-
Interest on investments	22,994	91	38,329	1,514
Miscellaneous	482,650	-	-	-
TOTAL REVENUES	<u>4,804,956</u>	<u>2,844,896</u>	<u>69,178</u>	<u>86,548</u>
EXPENDITURES				
Current:				
General government	1,793,099	-	350,412	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Culture and recreation	1,028,330	-	1,600,000	-
Capital outlay	163,223	-	1,013,140	500,104
Debt service	-	-	-	-
TOTAL EXPENDITURES	<u>2,984,652</u>	<u>-</u>	<u>2,963,552</u>	<u>500,104</u>
Excess (deficiency) of revenues over expenditures	<u>1,820,304</u>	<u>2,844,896</u>	<u>(2,894,374)</u>	<u>(413,556)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	3,000,000	-
Transfers in	786,633	-	-	460,000
Transfers out	(2,256,838)	(2,833,086)	(460,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,470,205)</u>	<u>(2,833,086)</u>	<u>2,540,000</u>	<u>460,000</u>
Net change in fund balances	350,099	11,810	(354,374)	46,444
Fund Balances at beginning of year	<u>1,588,401</u>	<u>632,395</u>	<u>3,410,381</u>	<u>66,859</u>
Fund Balances at end of year	<u>\$ 1,938,500</u>	<u>\$ 644,205</u>	<u>\$ 3,056,007</u>	<u>\$ 113,303</u>

*See notes to basic financial statements
Continued on page 6*

Public Safety Police	Urban Renewal Tax Increment	Parks System Development Charge Improvement	Other Governmental Funds	Total Governmental
\$ -	\$ 2,173,983	\$ -	\$ 295,419	\$ 5,352,470
-	-	-	10,089	1,042,331
-	-	-	-	2,844,805
-	-	-	-	118,112
-	-	-	177,355	177,355
-	-	-	-	85,034
14,559	-	355,966	70,717	442,091
17,504	-	40,694	739,415	1,093,503
-	-	1,600,000	13,440	1,613,440
1,824	15,356	7,022	54,134	141,264
1,319	-	-	190,169	674,138
<u>35,206</u>	<u>2,189,339</u>	<u>2,003,682</u>	<u>1,550,738</u>	<u>13,584,543</u>
-	-	-	972,002	3,115,513
1,885,009	-	-	500,000	2,385,009
-	-	-	636,773	636,773
-	-	-	402,793	3,031,123
74,666	-	2,384,098	1,509,180	5,644,411
-	1,583,665	-	588,500	2,172,165
<u>1,959,675</u>	<u>1,583,665</u>	<u>2,384,098</u>	<u>4,609,248</u>	<u>16,984,994</u>
<u>(1,924,469)</u>	<u>605,674</u>	<u>(380,416)</u>	<u>(3,058,510)</u>	<u>(3,400,451)</u>
-	-	-	-	3,000,000
2,076,429	-	100,000	2,915,259	6,338,321
(15,947)	-	-	(332,306)	(5,898,177)
<u>2,060,482</u>	<u>-</u>	<u>100,000</u>	<u>2,582,953</u>	<u>3,440,144</u>
136,013	605,674	(280,416)	(475,557)	39,693
73,972	796,574	455,596	4,120,833	11,145,011
<u>\$ 209,985</u>	<u>\$ 1,402,248</u>	<u>\$ 175,180</u>	<u>\$ 3,645,276</u>	<u>\$ 11,184,704</u>

CITY OF LINCOLN CITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS**

TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 39,693

*Amounts reported for governmental activities in the
Statement of Activities are different because of the following:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is:

Capital outlay	\$ 5,144,324	
Depreciation	<u>(1,282,532)</u>	3,861,792

Governmental funds report loans made as expenditures while governmental activities report the loan as a receivable on the statement of net assets	339,304
---	---------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds as follows:

Taxes	(99,515)	
Special assessments	(12,973)	
Fines and forfeitures	16,858	
Loan repayments	<u>(92,961)</u>	(188,591)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments:

Bond proceeds	(3,000,000)	
Principal payments	<u>1,768,969</u>	(1,231,031)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest	2,453	
Compensated absences	<u>(2,562)</u>	(109)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,821,058

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Property taxes	\$ 2,806,176	\$ 2,806,176	\$ 2,883,068	\$ 76,892
Franchises and fees	908,200	988,200	1,032,242	44,042
Fines and forfeitures	122,700	122,700	118,112	(4,588)
Intergovernmental	193,350	193,350	265,890	72,540
Interest	25,200	25,200	22,994	(2,206)
Miscellaneous	463,480	463,480	482,650	19,170
TOTAL REVENUES	<u>4,519,106</u>	<u>4,599,106</u>	<u>4,804,956</u>	<u>205,850</u>
EXPENDITURES				
City council	8,600	8,600	8,313	287
City administration	255,099	255,099	242,422	12,677
Finance	549,215	549,215	547,110	2,105
Library	551,801	551,801	508,311	43,490
Municipal court	80,630	80,630	76,731	3,899
City attorney	109,100	109,100	106,969	2,131
Community development	413,655	493,655	463,881	29,774
Recreation	688,274	688,274	664,115	24,159
Vehicle maintenance	91,813	91,813	74,624	17,189
City hall operations	293,556	293,556	292,176	1,380
Contingency	522,235	522,235	--	522,235
TOTAL EXPENDITURES	<u>3,563,978</u>	<u>3,643,978</u>	<u>2,984,652</u>	<u>659,326</u>
Excess (deficiency) of revenues over expenditures	<u>955,128</u>	<u>955,128</u>	<u>1,820,304</u>	<u>865,176</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	782,479	782,479	786,633	4,154
Transfers out	(2,257,007)	(2,257,007)	(2,256,838)	(169)
OTHER FINANCING SOURCES (USES)	<u>(1,474,528)</u>	<u>(1,474,528)</u>	<u>(1,470,205)</u>	<u>(4,323)</u>
Net change in fund balances	(519,400)	(519,400)	350,099	869,499
Fund Balances at beginning of year	<u>1,519,400</u>	<u>1,519,400</u>	<u>1,588,401</u>	<u>69,001</u>
Fund Balances at end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,938,500</u>	<u>\$ 938,500</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRANSIENT ROOM TAX - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Transient room tax	\$ 2,750,000	\$ 2,844,805	\$ 94,805
Interest on investments	--	91	91
TOTAL REVENUES	2,750,000	2,844,896	94,896
EXPENDITURES			
Material and services	10,000	--	10,000
Excess (deficiency) of revenues over expenditures	2,740,000	2,844,896	104,896
OTHER FINANCING SOURCES (USES)			
Transfers out	(2,740,000)	(2,833,086)	(93,086)
Net change in fund balances	--	11,810	11,810
Fund balance at beginning of year	--	632,395	632,395
Fund balance at end of year	\$ --	\$ 644,205	\$ 644,205

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
URBAN RENEWAL - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Charges for services	\$ --	\$ 849	\$ 849
Intergovernmental	15,000	30,000	15,000
Interest on investments	70,000	38,329	(31,671)
TOTAL REVENUES	<u>85,000</u>	<u>69,178</u>	<u>(15,822)</u>
EXPENDITURES			
Personal services	220,330	161,178	59,152
Material and services	1,822,490	1,789,234	33,256
Capital outlay	4,227,269	1,013,140	3,214,129
TOTAL EXPENDITURES	<u>6,270,089</u>	<u>2,963,552</u>	<u>3,306,537</u>
Excess (deficiency) of revenues over expenditures	<u>(6,185,089)</u>	<u>(2,894,374)</u>	<u>3,290,715</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	3,500,000	3,000,000	(500,000)
Transfers out	(510,000)	(460,000)	50,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,990,000</u>	<u>2,540,000</u>	<u>(450,000)</u>
Net change in fund balances	(3,195,089)	(354,374)	2,840,715
Fund balance at beginning of year	3,195,089	3,410,381	215,292
Fund balance at end of year	<u>\$ --</u>	<u>\$ 3,056,007</u>	<u>\$ 3,056,007</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
URBAN RENEWAL PROPERTY REHABILITATION PROGRAM -
MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Interest on investments	\$ 3,000	\$ 1,514	\$ (1,486)
Loan repayments	<u>70,000</u>	<u>85,034</u>	<u>15,034</u>
TOTAL REVENUES	73,000	86,548	13,548
EXPENDITURES			
Capital outlay	<u>754,826</u>	<u>500,104</u>	<u>254,722</u>
Excess (deficiency) of revenues over expenditures	(681,826)	(413,556)	268,270
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>510,000</u>	<u>460,000</u>	<u>(50,000)</u>
Net change in fund balance	(171,826)	46,444	218,270
Fund balance at beginning of year	<u>171,826</u>	<u>66,859</u>	<u>(104,967)</u>
Fund balance at end of year	<u>\$ --</u>	<u>\$ 113,303</u>	<u>\$ 113,303</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
PUBLIC SAFETY - POLICE - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Charges for services	\$ 19,000	\$ 19,000	\$ 14,559	\$ (4,441)
Intergovernmental	24,086	24,086	17,504	(6,582)
Interest on investments	500	500	1,824	1,324
Miscellaneous	250	250	1,319	1,069
TOTAL REVENUES	<u>43,836</u>	<u>43,836</u>	<u>35,206</u>	<u>(8,630)</u>
EXPENDITURES				
Personal services	1,739,311	1,739,311	1,649,494	89,817
Material and services	267,187	267,187	235,515	31,672
Capital outlay	78,720	88,720	74,666	14,054
Contingency	29,619	19,619	--	19,619
TOTAL EXPENDITURES	<u>2,114,837</u>	<u>2,114,837</u>	<u>1,959,675</u>	<u>155,162</u>
Excess (deficiency) of revenues over expenditures	<u>(2,071,001)</u>	<u>(2,071,001)</u>	<u>(1,924,469)</u>	<u>146,532</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,065,312	2,065,312	2,076,429	11,117
Transfers out	16,332	16,332	15,947	(385)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,048,980</u>	<u>2,048,980</u>	<u>2,060,482</u>	<u>11,502</u>
Net change in fund balance	(22,021)	(22,021)	136,013	158,034
Fund balance at beginning of year	22,021	22,021	73,972	51,951
Fund balance at end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 209,985</u>	<u>\$ 209,985</u>

See notes to basic financial statements

CITY OF LINCOLN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Enterprise Funds			Totals
	Water	Sewer	Other	
<u>ASSETS</u>				
Current assets				
Cash and investments	\$ 462,596	\$ 372,126	\$ 2,895,948	\$ 3,730,670
Receivables	165,482	152,216	--	317,698
Inventories	65,580	3,006	--	68,586
Total current assets	693,658	527,348	2,895,948	4,116,954
Noncurrent assets				
Land, improvements and construction in progress	734,618	79,651	--	814,269
Other capital assets, net of depreciation	15,657,982	14,541,229	--	30,199,211
Total noncurrent assets	16,392,600	14,620,880	--	31,013,480
TOTAL ASSETS	17,086,258	15,148,228	2,895,948	35,130,434
<u>LIABILITIES</u>				
Current liabilities				
Accounts payable	58,645	61,718	55,604	175,967
Accumulated unpaid vacation	51,585	43,352	--	94,937
Current portion of long-term obligations	135,000	--	--	135,000
Total current liabilities	245,230	105,070	55,604	405,904
Long-term obligations	2,560,000	--	--	2,560,000
TOTAL LIABILITIES	2,805,230	105,070	55,604	2,965,904
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	13,697,600	14,620,880	--	28,318,480
Restricted for:				
Capital Projects	--	--	2,520,239	2,520,239
Debt service	--	--	279,076	279,076
Unrestricted	583,428	422,278	41,029	1,046,735
TOTAL NET ASSETS	\$ 14,281,028	\$ 15,043,158	\$ 2,840,344	\$ 32,164,530

See notes to basic financial statements

CITY OF LINCOLN CITY, OREGON

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	Enterprise Funds			Totals
	Water	Sewer	Other	
OPERATING REVENUES				
Charges for services	\$ 1,995,953	\$ 1,557,599	\$ 423,351	\$ 3,976,903
OPERATING EXPENSES				
Personal services	542,278	637,116	--	1,179,394
Material and services	314,731	575,678	--	890,409
Depreciation	708,228	606,468	--	1,314,696
Total operating expenses	1,565,237	1,819,262	--	3,384,499
Operating income (loss)	430,716	(261,663)	423,351	592,404
NONOPERATING REVENUES (EXPENSES)				
Interest	4,911	3,179	32,219	40,309
Miscellaneous	208	43,058	--	43,266
Gain on disposal of capital assets	14,056	--	--	14,056
Interest	--	--	(136,009)	(136,009)
Total nonoperating revenues (expenses)	19,175	46,237	(103,790)	(38,378)
Income (loss) before transfers	449,891	(215,426)	319,561	554,026
TRANSFERS				
Transfers in	1,001,620	90,074	883,000	1,974,694
Transfers out	(999,012)	(274,132)	(1,141,694)	(2,414,838)
Total transfers	2,608	(184,058)	(258,694)	(440,144)
Change in net assets	452,499	(399,484)	60,867	113,882
Net assets - beginning of year	13,828,529	15,442,642	2,779,477	32,050,648
Net assets - end of year	\$ 14,281,028	\$ 15,043,158	\$ 2,840,344	\$ 32,164,530

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	Enterprise Funds			Totals
	Water	Sewer	Other	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,989,720	\$ 1,590,186	\$ 423,351	\$ 4,003,257
Payments to suppliers	(317,564)	(604,843)	-	(922,407)
Payments to employees	(539,443)	(632,707)	-	(1,172,150)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,132,713</u>	<u>352,636</u>	<u>423,351</u>	<u>1,908,700</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	883,000	883,000
Transfers out	(999,012)	(274,132)	(50,000)	(1,323,144)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>(999,012)</u>	<u>(274,132)</u>	<u>833,000</u>	<u>(440,144)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	16,000	-	-	16,000
Acquisition of capital assets	(96,411)	(22,525)	(993,465)	(1,112,401)
Principal paid on long-term obligations	-	-	(125,000)	(125,000)
Interest paid on long-term obligations	-	-	(136,009)	(136,009)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(80,411)</u>	<u>(22,525)</u>	<u>(1,254,474)</u>	<u>(1,357,410)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	4,911	3,179	32,219	40,309
Net increase (decrease) in cash	58,201	59,158	34,096	151,455
Cash - beginning of year	404,395	312,968	2,861,852	3,579,215
Cash - end of year	<u>\$ 462,596</u>	<u>\$ 372,126</u>	<u>\$ 2,895,948</u>	<u>\$ 3,730,670</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 430,716	\$ (261,663)	\$ 423,351	\$ 592,404
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	708,228	606,468	-	1,314,696
Other	208	43,058	-	43,266
Decrease (increase) in assets				
Receivables	(6,441)	(10,471)	-	(16,912)
Inventories	(9,729)	1,524	-	(8,205)
Increase (decrease) in liabilities				
Accounts payable	6,896	(30,689)	-	(23,793)
Accumulated unpaid vacation	2,835	4,409	-	7,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,132,713</u>	<u>\$ 352,636</u>	<u>\$ 423,351</u>	<u>\$ 1,908,700</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	\$ 13,042
Receivables	<u>2,890</u>
TOTAL ASSETS	<u>\$ 15,932</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 4,531
Funds held in trust	<u>11,401</u>
TOTAL LIABILITIES	<u>\$ 15,932</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2004

1. Summary of significant accounting policies

The financial statements of **CITY OF LINCOLN CITY** have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting standards.

In June 1999, the GASB approved Statement No. 34 (GASB 34), *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement provides for significant changes in financial reporting, including new reporting requirements relating to the City's infrastructure (roads, bridges, sidewalks, and similar items). The City has implemented GASB 34 and the related *Omnibus* Statement 37, as well as GASB Statement No. 36, *Certain Financial Statement Note Disclosures*.

A. Organization

The City was incorporated as a home-rule city on March 3, 1965, consolidating the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

Control of the City is vested in its mayor and council members who are elected to office by voters within the City. Administrative functions are delegated to individuals who report to and are responsible to the council. The chief administrative officer is the city manager.

B. Reporting entity

The accompanying financial statements present the government and component units for which the City is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government.

The city council serves as the governing board of the **LINCOLN CITY URBAN RENEWAL AGENCY**. Therefore, the accounts of the agency are included in the financial statements of the City.

Complete financial statements for the **LINCOLN CITY URBAN RENEWAL AGENCY** may be obtained from the City's finance department.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting

The basic financial statements include both government-wide and fund based financial statements. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide Financial Statements

The government-wide financial statements display information about all of the nonfiduciary activities of the City, and its component unit.

The statement of activities presents a comparison between direct expenses and program revenues for the City's programs. Direct expenses are those that are clearly allocable with a specific function or segment. The City does not allocate indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary funds financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government-wide statements and proprietary funds have applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the functions of the City, the elimination of which would distort the direct costs and program revenues reported for the various functions concerned.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting (continued)

Measurement Focus and Basis of Accounting (continued)

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

The basis of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within thirty days after year end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent they have been incurred. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt are reported as other financing sources.

The basis of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

Fund Financial Statements

The fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

The City reports the following major governmental funds:

- *General*
This is the City's primary operating fund. It accounts for the financial operations of the City except those required to be accounted for in another fund. Principal sources of revenue are property taxes, fees, licenses and state apportionments.
- *Transient Room Tax*
Accounts for room taxes collected which are transferred to other funds.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting (continued)

Fund Financial Statements (continued)

- *Urban Renewal*
Accounts for the general administration of the City's urban renewal areas. Resources are primarily provided from bond sales.
- *Urban Renewal Property Rehabilitation Program*
Accounts for the rehabilitation loan program. Resources are primarily provided from interest and proceeds from various borrowings.
- *Public Safety Police*
Accounts for the operation of the police department. Resources are primarily provided from transfers from other funds.
- *Urban Renewal Tax Increment*
Accounts for the payment of principal and interest on Urban Renewal Bonds. Resources are provided from tax increment proceeds and interest earnings.
- *Parks System Development*
Accounts for park and playground improvements. Resources are primarily provided from system development charges.

The City reports the following major proprietary funds:

- *Water*
Accounts for the water system operations. This fund is predominantly self-supported through user charges to customers.
- *Sewer*
Accounts for the sewer system operations. This fund is predominantly self-supported through user charges to customers.

Additionally, the City reports the following fiduciary fund:

- *Agency Funds*
Account for assets held in a purely custodial capacity for others (assets equal liabilities).

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

D. Budget policies and budgetary control

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds except agency funds. The modified accrual basis of accounting is used for all budgets. All annual appropriations lapse at fiscal year end.

The City begins its budgeting process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The City adopts the budget, makes appropriations, and declares the tax levy no later than June 30.

Expenditure appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The City establishes levels of budgetary control at personal services, materials and services, capital outlay, operating contingencies, and debt service for all funds, except the General Fund, where budgetary control is established at the department level.

Budget amounts shown in the basic financial statements have been revised since the original budget amounts were adopted. The City must authorize all appropriation transfers and supplementary budgetary appropriations.

E. Inventories

Inventories consisting of water and sewer system supplies and materials are stated at cost, on a first-in, first-out basis.

F. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

G. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are recorded at estimated fair value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more, and an estimated useful life of greater than five years. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	25-40
Improvements other than buildings	10-20
Machinery and equipment	5-10
Vehicles	5-10
Utility systems	25-40
Infrastructure	20-40

Depreciation is taken in the year the assets are acquired or retired based upon the number of months held. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

H. Long-term debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses.

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

I. Compensated absences

1. *Sick leave*

The City has a policy which permits full-time employees to accumulate unused sick leave at the rate of one day per month over their working careers. The City does not compensate the employees for unused accumulations upon termination of employment.

Sick leave, which does not vest, is recognized in funds when leave is taken.

2. *Vacation leave*

Each employee earns vacation at rates determined by their length of employment. An employee can accumulate a maximum of 320 hours.

Accumulated vested vacation leave is accrued as it is earned. For governmental funds, the non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. Only the current portion is reported in the governmental funds, and is calculated based on historical trends. In business-type/enterprise funds, both the current and long-term liabilities are recorded

J. Cash equivalents

For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

K. User Charges

User charges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to user charges receivable. Changes in the valuation allowance have not been material to the financial statements.

2. Deposits and investments

At June 30, 2004, the carrying amount of the City's deposits was \$367,498 and the bank balance was \$801,978. Of the bank balance, \$206,786 was covered by federal depository insurance, \$148,566 was collateralized with securities held by the pledging financial institution's agent in the City's name, and \$446,626 was not collateralized.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Deposits and investments (continued)

Statutes authorize the City to invest in obligations of the U. S. Treasury and U. S. agencies, banker's acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

The City invests in the State Treasurer's Investment Pool, which has regulatory oversight by the Oregon Short Term Fund Board and whose investments are approved by the Oregon Investment Council. The fair value of the City's position in the pool is the same as the value of the pool shares.

The City's deposits and investments at June 30, 2004, are shown below:

Deposits	\$ 367,498
Investments	<u>14,624,695</u>
Total deposits and investments	<u>\$ 14,992,193</u>
Deposits and investments by activity	
Governmental activities	\$ 11,248,481
Business-type activities	3,730,670
Fiduciary funds	<u>13,042</u>
	<u>\$ 14,992,193</u>

Investments

The City's investments as of June 30, 2004 are categorized below to give an indication of the level of custodial credit risk assumed by the City. Category (1) includes investments that are insured or registered, or held by the City or its agent in the City's name. Category (2) includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

The City's investments in U.S. Government Securities at June 30, 2004, totaled \$2,498,594 in Category 2. The City's investment in certificates of deposit at June 30, 2004, totaled \$1,000,000 in Category 1. The Oregon State Local Government Investment Pool is not required to be categorized.

	<u>Carrying Value</u>	<u>Fair Value</u>
Investments:		
U.S. Government securities	\$ 2,498,594	\$ 2,479,070
Certificate of deposits	1,000,000	1,000,000
Oregon State Local Government Investment Pool	<u>11,126,101</u>	<u>11,126,101</u>
	<u>\$ 14,624,695</u>	<u>\$ 14,605,171</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Receivables

Receivables as of June 30, 2004, for the City's governmental funds, net of applicable allowances for uncollectible accounts are as follows:

	General	Transient Room Tax	Urban Renewal Property Rehabili- tation Program	Urban Renewal Tax Increment	Other Governmental Funds	Totals
Property taxes	\$ 289,754	\$ -	\$ -	\$ 198,904	\$ 13,394	\$ 502,052
Intergovernmental	11,351	-	-	-	140,648	151,999
Fines and warrants	33,116	-	-	-	-	33,116
Franchise fees	69,125	-	-	-	2,570	71,695
Room taxes	-	644,205	-	-	-	644,205
Unbonded assessments	-	-	-	-	68,998	68,998
Notes-housing rehabilitation	-	-	728,093	-	269,340	997,433
Other	4,874	-	-	-	-	4,874
	<u>\$ 408,220</u>	<u>\$644,205</u>	<u>\$ 728,093</u>	<u>\$ 198,904</u>	<u>\$ 494,950</u>	<u>\$ 2,474,372</u>

Receivables as of June 30, 2004, for the City's proprietary funds are as follows:

	Water	Sewer	Totals
User charges	\$ 175,044	\$ 149,251	\$ 324,295
Allowance for doubtful accounts	(9,562)	(1,027)	(10,589)
Miscellaneous	-	3,992	3,992
	<u>\$ 165,482</u>	<u>\$ 152,216</u>	<u>\$ 317,698</u>

A. Property taxes

i. Collection procedures

Taxes are levied on July 1 and are payable in three installments due November 15, February 15 and May 15. Lincoln County bills and collects property taxes for the City.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Receivables (continued)

ii. Transactions

	Balances July 1, 2003	2003-04 Levy	Adjust- ments	Net Interest (Dis- counts)	Collec- tions	Balances June 30, 2004
Current	\$	\$ 5,436,405	\$ (71,168)	\$(125,100)	\$ 4,997,417	\$ 242,720
Prior	<u>601,567</u>	--	<u>(103,900)</u>	<u>56,961</u>	<u>295,296</u>	<u>259,332</u>
Totals	<u>\$ 601,567</u>	<u>\$ 5,436,405</u>	<u>\$ (175,068)</u>	<u>\$ (68,139)</u>	5,292,713	<u>\$ 502,052</u>
Tax offsets and adjustments					<u>59,757</u>	
Total property tax revenue					<u>\$ 5,352,470</u>	
			General	Urban Renewal Tax Increment	Other Govern- mental Funds	Totals
<u>Analysis of property tax revenue</u>						
Current			\$ 2,680,719	\$2,033,478	\$ 275,339	\$4,989,536
Prior			<u>202,349</u>	<u>140,505</u>	<u>20,080</u>	<u>362,934</u>
			<u>\$ 2,883,068</u>	<u>\$2,173,983</u>	<u>\$ 295,419</u>	<u>\$ 5,352,470</u>

iii. Ensuing year's levy

The permanent tax rate is 4.0996 per \$1,000 assessed value as limited by the Constitution of the State of Oregon.

The Lincoln City Urban Renewal Agency will levy 100 percent of the amount of its authority under option one of ORS 457.435(2)(a) for the retirement of long-term obligations principal and interest without making a special levy in 2004-05.

The tax rate limit of \$10.00 per thousand of assessed value imposed by the Oregon Constitution is not expected to affect these levies.

In addition, the City will levy \$300,000 for retirement of long-term debt principal and interest due in 2004-05.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. Capital Assets

A. Transactions for the year ended June 30, 2004 of the governmental activities, were as follows:

Description	Beginning Balances	Increases	Decreases	Ending Balances
Non-depreciable capital assets				
Land	\$ 8,743,388	\$ 1,990,672	\$ -	\$ 10,734,060
Construction in progress	<u>301,508</u>	<u>2,923,066</u>	<u>(151,505)</u>	<u>3,073,069</u>
Total non-depreciable capital assets	<u>9,044,896</u>	<u>4,913,738</u>	<u>(151,505)</u>	<u>13,807,129</u>
Depreciable capital assets				
Buildings	7,791,150	8,789	-	7,799,939
Heavy equipment	508,472	-	(27,675)	480,797
Urban renewal projects	501,866	6,156	-	508,022
System improvements	9,867,112	77,914	-	9,945,026
Vehicles	531,226	43,468	-	574,694
Equipment and furnitures	2,009,109	185,372	-	2,194,481
Books and art	<u>771,191</u>	<u>60,392</u>	<u>-</u>	<u>831,583</u>
Total depreciable capital assets	<u>21,980,126</u>	<u>382,091</u>	<u>(27,675)</u>	<u>22,334,542</u>
Accumulated depreciation	<u>(8,195,021)</u>	<u>(1,282,532)</u>	<u>27,675</u>	<u>(9,449,878)</u>
Total depreciable capital assets, net	<u>13,785,105</u>	<u>(900,441)</u>	<u>-</u>	<u>12,884,664</u>
Governmental activities capital assets, net				
	<u>\$ 22,830,001</u>	<u>\$ 4,013,297</u>	<u>\$ (151,505)</u>	<u>\$ 26,691,793</u>

B. Depreciation expense for governmental activities is charged to functions as follows:

General government	\$ 340,378
Public safety	128,430
Highways and streets	515,102
Culture and recreation	<u>298,622</u>
Total depreciation expense for governmental activities	<u>\$ 1,282,532</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. Capital assets (continued)

C. Transactions for the year ended June 30, 2004 of the business-type activities, were as follows:

Description	Beginning Balances	Increases	Decreases	Ending Balances
Non-depreciable capital assets				
Land and improvements	\$ 186,798	\$ -	\$ -	\$ 186,798
Construction in progress	<u>767,021</u>	<u>943,498</u>	<u>(1,083,048)</u>	<u>627,471</u>
Total non-depreciable capital assets	<u>953,819</u>	<u>943,498</u>	<u>(1,083,048)</u>	<u>814,269</u>
Depreciable capital assets				
Buildings	482,078	-	-	482,078
Facilities	48,144,047	1,106,346	-	49,250,393
Equipment	<u>1,168,484</u>	<u>118,834</u>	<u>(38,877)</u>	<u>1,248,441</u>
Total depreciable capital assets	<u>49,794,609</u>	<u>1,225,180</u>	<u>(38,877)</u>	<u>50,980,912</u>
Accumulated depreciation	<u>(19,503,938)</u>	<u>(1,314,696)</u>	<u>36,933</u>	<u>(20,781,701)</u>
Total depreciable capital assets, net	<u>30,290,671</u>	<u>(89,516)</u>	<u>(1,944)</u>	<u>30,199,211</u>
Business-type activities capital assets, net	<u>\$ 31,244,490</u>	<u>\$ 853,982</u>	<u>\$ (1,084,992)</u>	<u>\$ 31,013,480</u>

D. Depreciation expense for business-type activities is charged to functions as follows:

Water	\$ 708,228
Sewer	<u>606,468</u>
Total depreciation expense for business-type activities	<u>\$ 1,314,696</u>

E. Infrastructure

GASB 34 requires the City to report the cost of infrastructure (e.g., roads, bridges, sidewalks, and similar items), acquired or substantially reconstructed since 1980, net of applicable depreciation in the presentation of capital assets in the government-wide financial statements. GASB 34 allows a deferral for implementing the infrastructure reporting requirement of up to an additional four years. The City has elected to delay the reporting of infrastructure as allowed.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations

A. Transactions for the year ended June 30, 2004 of the governmental activities, were as follows:

	Balances July 1, 2003	Issued	Additions	Reductions	Balances June 30, 2004	Balances Due Within One year
<u>General Obligation Bonds</u>						
Civic Center, Series 2003 A and B, interest from 3.4 to 4.1 percent						
Principal	\$1,962,000	\$ -	\$ -	\$ 215,000	\$ 1,747,000	\$ 230,000
Interest	15,362	-	78,492	82,068	11,786	-
	<u>1,977,362</u>	<u>-</u>	<u>78,492</u>	<u>297,068</u>	<u>1,758,786</u>	<u>230,000</u>
Open Area Bonds, Series 1999, interest from 4.0 to 5.0 percent						
Principal	2,395,000	-	-	180,000	2,215,000	185,000
Interest	9,286	-	110,803	111,433	8,656	-
	<u>2,404,286</u>	<u>-</u>	<u>110,803</u>	<u>291,433</u>	<u>2,223,656</u>	<u>185,000</u>
<u>Tax Increment Bonds</u>						
Urban Renewal Bonds, Series 2002, interest at 3.39 percent						
Principal	5,000,000	-	-	1,250,000	3,750,000	1,250,000
Interest	5,179	-	147,253	148,548	3,884	-
	<u>5,005,179</u>	<u>-</u>	<u>147,253</u>	<u>1,398,548</u>	<u>3,753,884</u>	<u>1,250,000</u>
Urban Renewal Bonds, Series 2003, interest at 3.94 percent						
Principal	-	3,000,000	-	123,969	2,876,031	255,273
Interest	-	-	64,197	61,149	3,048	-
	<u>-</u>	<u>3,000,000</u>	<u>64,197</u>	<u>185,118</u>	<u>2,879,079</u>	<u>255,273</u>
<u>Accumulated vacation</u>	<u>287,893</u>	<u>2,562</u>	<u>-</u>	<u>-</u>	<u>290,455</u>	<u>290,455</u>
	<u>9,674,720</u>	<u>\$3,002,562</u>	<u>\$400,745</u>	<u>\$2,172,167</u>	<u>10,905,860</u>	<u>\$2,210,728</u>
Less accrued interest payable	<u>29,827</u>				<u>27,374</u>	
Total long-term obligations	<u>\$9,644,893</u>				<u>\$10,878,486</u>	

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations (continued)

B. Transactions for the year ended June 30, 2004 of the business-type activities, were as follows:

<u>Revenue Bonds</u>	Balances July 1, 2003	Additions	Reduction	Balances June 30, 2004	Balances Due Within One year
Water Treatment Plant Bonds, Series 1997, interest from 4.25 to 5.2 percent					
Principal	\$ 2,820,000	\$ -	\$ 125,000	\$ 2,695,000	\$ 135,000
Interest	-	136,009	136,009	-	-
	<u>2,820,000</u>	<u>136,009</u>	<u>261,009</u>	<u>2,695,000</u>	<u>135,000</u>
Accumulated vacation	87,693	7,244	-	94,937	94,937
	<u>\$ 2,907,693</u>	<u>\$ 143,253</u>	<u>\$ 261,009</u>	<u>\$ 2,789,937</u>	<u>\$ 229,937</u>

C. The future maturities for governmental activity long-term obligations outstanding as of June 30, 2004, are as follows:

Fiscal Year	Totals		Civic Center Series 2003 A and B		Open Area Bond, Series 1999		Urban Renewal Bonds, Series 2002		Urban Renewal Bonds, Series 2003		Accumulated Vacation
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004-05	\$ 2,210,728	\$ 385,715	\$ 230,000	\$ 67,442	\$ 185,000	\$ 103,873	\$ 1,250,000	\$ 105,938	\$ 255,273	\$ 108,462	\$ 290,455
2005-06	1,923,375	316,727	223,000	58,886	185,000	95,917	1,250,000	63,564	265,375	98,360	-
2006-07	1,959,877	246,219	239,000	49,395	195,000	87,778	1,250,000	21,188	275,877	87,858	-
2007-08	740,794	195,405	249,000	39,463	205,000	79,002	-	-	286,794	76,940	-
2008-09	773,144	164,243	260,000	29,079	215,000	69,573	-	-	298,144	65,591	-
2010-14	<u>3,270,568</u>	<u>352,659</u>	<u>546,000</u>	<u>25,399</u>	<u>1,230,000</u>	<u>185,022</u>	<u>-</u>	<u>-</u>	<u>1,494,568</u>	<u>142,238</u>	<u>-</u>
	<u>\$ 10,878,486</u>	<u>\$ 1,660,968</u>	<u>\$ 1,747,000</u>	<u>\$ 269,664</u>	<u>\$ 2,215,000</u>	<u>\$ 621,165</u>	<u>\$ 3,750,000</u>	<u>\$ 190,690</u>	<u>\$ 2,876,031</u>	<u>\$ 579,449</u>	<u>\$ 290,455</u>

D. The future maturities of business-type activity long-term obligations outstanding as of June 30, 2004, are as follows:

Fiscal Year	Water Treatment Plant Bonds, Series 1997		Accumulated Vacation	Totals	
	Principal	Interest		Principal	Interest
2004-05	\$ 135,000	\$ 130,286	\$ 94,937	\$ 229,937	\$ 130,286
2005-06	140,000	124,133	-	140,000	124,133
2006-07	145,000	117,684	-	145,000	117,684
2007-08	155,000	110,781	-	155,000	110,781
2008-09	165,000	103,300	-	165,000	103,300
20010-14	960,000	384,763	-	960,000	384,763
2015-19	<u>995,000</u>	<u>106,933</u>	<u>-</u>	<u>995,000</u>	<u>106,933</u>
	<u>\$ 2,695,000</u>	<u>\$ 1,077,880</u>	<u>\$ 94,937</u>	<u>\$ 2,789,937</u>	<u>\$ 1,077,880</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations (continued)

E. Revenue bond covenants

The City is in compliance with the covenants of the Water Treatment Plant Bonds, Series 1997.

6. Landfill closure and postclosure care costs

The City is a member of the Lincoln County Consortium for Solid Waste Management, which was organized in 1984 to assume responsibility for the management and closure of the Agate Beach Landfill site.

State and federal laws and regulations require the Consortium to place a final cover on its Agate Beach Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$760,000 reported as landfill closure and postclosure care costs liability at June 30, 2004, represents the City's 24.6 percent share of the Consortium's estimated unfunded costs and is based on submissions of engineering estimates, construction bids and projected monitoring costs over the next 30 years. The estimated liability is based on the assumption that the least expensive leachate disposal alternative will be used. These amounts are based on what it would cost to perform all closure and postclosure care in 1998. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

During 1993-94, the City began charging a surcharge to its solid waste franchisee in order to fund its share of closure and postclosure care costs. This surcharge was discontinued July 1, 2003. At June 30, 2004, the City's Agate Beach Closure Fund had a fund balance of \$844,324.

7. Deferred revenue

Resources owned by the City, which are measurable but not available and are deferred in the governmental funds, consist of the following:

	General	Urban Renewal Property Rehabili- tation Program	Urban Renewal Tax Increment	Other Governmental Funds	Totals
Property taxes	\$ 289,754	\$ -	\$ 198,904	\$ 13,394	\$ 502,052
Fines and warrants	33,991	-	-	-	33,991
Assessments	-	-	-	68,998	68,998
Notes - housing rehabilitation	-	728,093	-	269,340	997,433
Totals	\$ 323,745	\$ 728,093	\$ 198,904	\$ 351,732	\$1,602,474

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

8. Lease obligations

The City has entered into a number of operating leases for office equipment, land rent, and police cars. The minimum future requirements of the leases are as follows:

<u>Year Ended June 30,</u>	
2005	\$ 1,965
2006	840
2007	840
2008	840
2009	840
2010-2012	3,360

Current year expenditures under lease agreements were \$55,411.

9. Segment information for Enterprise Funds

The City has issued revenue bonds to finance its water department. The water department is comprised of the water fund, water capital fund, water treatment plant construction fund and water treatment plant bond fund. Summary financial information for the water department is as follows:

CONDENSED STATEMENT OF NET ASSETS

Current assets	\$ 1,897,178
Capital assets	<u>16,392,600</u>
Total assets	<u>18,289,778</u>
Current liabilities	273,015
Long-term obligations	<u>2,560,000</u>
Total liabilities	<u>2,833,015</u>
Net assets	
Invested in capital assets, net of related debt	13,697,600
Restricted	1,134,706
Unrestricted	<u>624,457</u>
Total net assets	<u>\$ 15,456,763</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

9. Segment information for Enterprise Funds (continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues (pledged against bonds)	\$ 2,168,456
Depreciation expense	708,228
Other operating expenses	<u>857,009</u>
Operating income	603,219
Nonoperating revenues (expenses)	(103,321)
Transfers in	808,000
Transfers out	<u>(1,049,012)</u>
Change in net assets	258,886
Beginning net assets	<u>15,197,877</u>
Ending net assets	<u>\$ 15,456,763</u>

CONDENSED SYSTEM OF CASH FLOWS:

Net cash provided (used) by:

Operating activities	\$ 1,260,706
Noncapital financing activities	(191,012)
Capital and related financing activities	(1,268,040)
Investing activities	<u>18,424</u>
Net (decrease) in cash	(179,922)
Beginning cash	<u>1,846,038</u>
Ending cash	<u>\$ 1,666,116</u>

10. Defined benefit pension plan

A. Cost-sharing multiple-employer plan

Plan description

The City contributes to the Oregon Public Employees Retirement System (PERS) which is governed by the provisions of Oregon Revised Statutes Chapter 238. PERS is a cost-sharing multiple-employer defined benefit pension plan which provides retirement and disability benefits, cost of living adjustments and death benefits to members and beneficiaries. Prior to July 1, 2002 the City's PERS plan was an agent multiple-employer defined benefit pension plan.

The governing authority of the system is the Public Employees Retirement Board (PERB) which is required to take actions necessary to maintain the system as a qualified governmental retirement plan under the Internal Revenue Code and related regulations. In this regard, PERB may impose limits on contributions, benefit payments and other limitations or procedures.

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees System, P.O. Box 23700, Tigard, OR 97281-3700 or by calling (503) 598-7377.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

A. Cost-sharing multiple-employer plan (continued)

Funding policy

The contribution rate of 6 percent of salary for members is set by state statute. The contribution rate for Oregon cities is set by PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits. The City's current rate is 4.72 percent of member salaries.

The City's contributions to the system for the years ending June 30, 2004 and 2003, were equal to the City's required contributions for each year as follows:

<u>Years Ended</u> <u>June 30</u>		<u>City</u> <u>Contribution</u>
2004	\$	188,348
2003		311,137

B. Agent multiple-employer plan

Plan Description

Prior to July 1, 2002 the City's PERS plan was an agent multiple-employer defined benefit pension plan with the following provisions:

Funding Policy

The contribution rate of 6 percent of salary for members is set by state statute. The contribution rate for the City is set by PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

B. Agent multiple-employer plan (continued)

Annual Pension Cost

The required contributions were determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included:

- (a) 8 percent rate of return on the investment of present and future assets (net of administrative expenses).
- (b) Projected salary increases of 4.25 percent per year attributable to general wage adjustments, with additional increases for promotion and longevity that vary by age and service.
- (c) Projected automatic cost-of-living benefit increases of 2 percent per year.

Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open thirty-year basis.

Three-year Trend Information

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual Pension Cost (APC)	\$ N/A	\$ N/A	\$ 42,748
Percentage of APC contributed	N/A	N/A	100
Net pension obligation	\$ N/A	\$ N/A	\$ --

Schedule of Funding Progress

	<u>Valuation Date</u>	
	<u>December 31,</u>	
	<u>1999</u>	<u>1997</u>
Actuarial Value of Assets (AVA)	\$ 12,981,597	\$ 8,275,754
Actuarial Accrued Liability (AAL)	10,509,595	6,292,498
Excess AVA over AAL (EAVAAAL)	\$ 2,472,002	\$ 1,983,256
Funded Percent	124	132
Covered Payroll (CP)	\$ 3,674,715	\$ 3,336,731
EAVAAAL as a percentage of CP	67.3	59.4

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

11. Contingency – sick leave

Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment, however, such redemptions cannot be reasonably estimated. As of June 30, 2004, employees of the City had accumulated 2,959 days of sick leave.

12. 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. In 1981, the League of Oregon Cities joined together with the Association of Oregon Cities to form City County Insurance Services (CCIS), a public entity risk pool currently operating as a common risk management and insurance program for approximately 265 municipal corporations and associated entities in the State of Oregon. CCIS is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$2 million for each insured event.

The City continues to carry commercial insurance for other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Subsequent events

On July 28, 2004, the City issued the Year 2000 Development Area Urban Renewal Bond, Series 2004 in the amount \$5,000,000. Interest is 4% with quarterly principal and interest payments commencing September 20, 2004.

14. Lease income

The City leases a building for \$153,000 annually plus management fees. The lease will expire April 16, 2005; however, the lessee has affirmed its desire to exercise a 5 year renewal option with annual rent of \$159,751.32. Rental revenue for the year ended June 30, 2004 was \$153,000. Future minimum rentals are as follows:

2004-05	\$	167,438
2005-06		159,751
2006-07		159,751
2007-08		159,751
2008-09		159,751
2009-10		133,126

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

15. Commitments

As of June 30, 2004, the City has construction contracts in process as follows:

	<u>Expended To Date</u>	<u>Total Commitment</u>	<u>Remaining Commitment</u>
Community Center	<u>\$ 1,964,332</u>	<u>\$ 2,226,579</u>	<u>\$ 262,247</u>

16. Interfund Transfers

Cash transfers are indicative of funding for capital projects, debt service, subsidies of various city operations and re-allocations of special revenues. The following schedule briefly summarizes the City's transfer activity:

	Transfers In:									
	Cash							Non-cash		
	Urban Renewal Property Rehabilitation General	Public Safety - Police Program	Parks System Development Charge Improvement	Other Govern- mental Funds	Other Enterprise Funds	Total cash Transfers	Water	Sewer	Total Transfers Out	
General	\$ -	\$ -	\$ 1,740,000	\$ -	\$ 516,838	\$ -	\$ 2,256,838	\$ -	\$ -	\$ 2,256,838
Transient Room Tax	266,054	-	336,429	-	2,230,603	-	2,833,086	-	-	2,833,086
Urban Renewal	-	460,000	-	-	-	-	460,000	-	-	460,000
Public Safety - Police	-	-	-	-	15,947	-	15,947	-	-	15,947
Other governmental funds	124,922	-	-	100,000	107,384	-	332,306	-	-	332,306
Water	220,312	-	-	-	20,700	758,000	999,012	-	-	999,012
Sewer	175,345	-	-	-	23,787	75,000	274,132	-	-	274,132
Other enterprise funds	-	-	-	-	-	50,000	50,000	1,001,620	90,074	1,141,694
Total transfers in	<u>\$ 786,633</u>	<u>\$ 460,000</u>	<u>\$ 2,076,429</u>	<u>\$ 100,000</u>	<u>\$ 2,915,259</u>	<u>\$ 883,000</u>	<u>\$ 7,221,321</u>	<u>\$ 1,001,620</u>	<u>\$ 90,074</u>	<u>\$ 8,313,015</u>

APPENDIX B
FORM OF BOND COUNSEL OPINION

_____, 2005

City of Lincoln City
P. O. Box 50
Lincoln City, Oregon 97367

[Initial Purchaser]

Subject: \$_____ City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Lincoln City, Oregon (the "City") of its General Obligation Sewer Bonds, Series 2005 (the "Bonds"), in the aggregate principal amount of _____ Dollars (\$_____). The Bonds are issued pursuant to the authority granted by the voters of the City at an election held on November 2, 2004, a Bond Declaration that is dated the date of delivery of the Bonds, and Resolution 2005-03 of the City adopted on January 24, 2005 (collectively, the "Resolution"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the Bonds, and we express no opinion relating thereto.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The Bonds constitute valid and legally binding general obligations of the City enforceable in accordance with their terms. The City has pledged its full faith and credit to the payment of the Bonds. The Bonds are payable from ad valorem taxes which may be levied without limitation as to rate or amount on all taxable property within the boundaries of the City.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under existing law.

3. Interest on the Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals or corporations. Interest on a Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

4. Interest on the Bonds is exempt from Oregon personal income tax under existing law.

We note that the City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

|

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral federal income tax consequences.

Under the Code, the City is required to comply with certain requirements relating to the investment and use of the proceeds of the Bonds, and the City has covenanted to comply with these requirements. Failure to comply with these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Our opinion assumes compliance with such covenants, and we do not undertake to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

These opinions are based on existing law and we assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

The opinions set forth above are qualified only to the extent that enforceability of the Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on the opinions expressed. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to our attention or any change in law that may hereafter occur.

The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Preston Gates & Ellis LLP.

We have served only as bond counsel to the City in connection with the Bonds and have not represented any other party in connection with the Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Our opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

Lawyers

APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

§ _____
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the City of Lincoln City, Oregon (the "City") in connection with the issuance of the City's General Obligation Sewer Bonds, Series 2005 (the "Obligations").

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders of the Obligations and to assist the underwriter(s) of the Obligations in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). This Certificate constitutes the City's written undertaking for the benefit of the owners of the Obligations as required by Section (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Obligations, including persons holding Obligations through nominees or depositories.

"Commission" means the United States Securities and Exchange Commission.

"MSRB" means the United States Municipal Securities Rulemaking Board or any successor to its functions.

"NRMSIR" means a nationally recognized municipal securities information repository.

"Official Statement" means the final official statement for the Obligations dated _____, 2005.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means a state information depository for the State of Oregon (if one is created).

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the City's latest publicly available annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting

Standards Board (or its successors) and generally of the type included in the Official Statement for the Obligations under the heading " Basic Financial Statements For Year Ended June 30, 2004 (Appendix A)." To the extent not included in its annual financial statements, the City shall also provide a statement containing: (1) the total real market value and total assessed value of property within the City (as indicated in the records of the county assessors) of the type presented in Table 13 of the Official Statement; (2) the amount or rate of property taxes levied by the City for the fiscal year, and the amount of property taxes the City received during the fiscal year of the type presented in Table 19 of the Official Statement; (3) information regarding the representative aggregate tax rate for all ad valorem property taxes levied within the City of the type presented in Table 16 of the Official Statement; and, (4) the total principal amount of general obligation bonds and other tax-supported bonds of the City which are outstanding at the end of the fiscal year of the type presented in Table 9 of the Official Statement.

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the City's fiscal year, commencing with information for fiscal year 2004-2005. The City's current fiscal year ends June 30. The City may adjust this fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing this annual financial information separately, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to the appropriate SID, if any, notice of its failure to provide the annual financial information described in Section 3 on or prior to the date set forth in the preceding paragraph.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Oregon Local Budget Law (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Obligations, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves for the Obligations reflecting financial difficulties;
4. Unscheduled draws on credit enhancements for the Obligations reflecting financial difficulties;

5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Obligations;
7. Modifications to the rights of Obligation owners;
8. Optional redemption of Obligations prior to their maturity;
9. Defeasance of the Obligations;
10. Release, substitution or sale of property securing repayment of the Obligations; and
11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Obligations; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections 3 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the Obligations, or the type of business conducted;

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

C. The amendment or waiver either (i) is approved by the owners of the Obligations or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners of the Obligations.

In the event of any amendment or waiver of a provision of this Certificate, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or

operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Obligation Owner's Remedies Under This Certificate. The right of any Obligation Owner or Beneficial Owner of Obligations to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Obligations hereunder.

Section 8. DisclosureUSA. Any filing required to be made with any NRMSIR or SID under this Certificate may be made by transmitting such filing solely to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 9. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the ____ day of _____, 2005.

City of Lincoln City, Oregon

City Official

APPENDIX D
BOOK-ENTRY-ONLY SYSTEM

BOOK-ENTRY ONLY SYSTEM

DTC LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$400 million, one certificate will be issued with respect to each \$400 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.]
- [6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in

bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

10:38:33 a.m. PDST [Upcoming Calendar](#) [Overview](#) [Compare](#) [Summary](#)

Bid Results

**Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005**

The following bids were submitted using *PARITY*[®] and displayed ranked by lowest TIC.
Click on the name of each bidder to see the respective bids.

Bid Award*	Bidder Name	TIC
<input checked="" type="checkbox"/> Reoffering	Morgan Stanley	4.509445
<input type="checkbox"/>	Banc of America Securities LLC	4.575443
<input type="checkbox"/>	UBS Financial Services Inc.	4.600079
<input type="checkbox"/>	Merrill Lynch & Co.	4.605160
<input type="checkbox"/>	ABN AMRO Financial Services, Inc.	4.608681
<input type="checkbox"/>	Davenport & Company LLC	4.636156

*Awarding the Bonds to a specific bidder will provide you with the Reoffering Prices and Yields.

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Morgan Stanley's Reoffering Scale



**Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005**

Maturity Date	Amount \$	Coupon %	Yield %	Dollar Price	Call Date
06/01/2006	255M	3.0000	2.4000	100.666	
06/01/2007	305M	3.0000	2.6000	100.824	
06/01/2008	370M	3.0000	2.7500	100.744	
06/01/2009	380M	3.0000	3.0000	100.000	
06/01/2010	395M	4.0000	3.1500	103.998	
06/01/2011	405M	4.0000	3.3000	103.856	
06/01/2012	425M	4.0000	3.5000	103.129	
06/01/2013	440M	4.0000	3.7000	102.087	
06/01/2014	465M	4.0000	3.8000	101.527	
06/01/2015	490M	4.0000	3.9000	100.826	
06/01/2016	510M	4.0000	4.0000	100.000	
06/01/2017	540M	4.0000	4.1000	99.047	
06/01/2018	565M	4.2000	4.2000	100.000	
06/01/2019	595M	4.2500	4.2500	100.000	
06/01/2020	620M	4.2500	4.3000	99.443	
06/01/2021	655M	4.3000	4.3500	99.419	
06/01/2022	685M	4.3750	4.3750	100.000	
06/01/2023	720M	4.4000	4.4000	100.000	
06/01/2024	755M	4.4000	4.4500	99.355	
06/01/2025	795M	4.5000	4.5000	100.000	
06/01/2026	835M	4.5000	4.5500	99.320	
06/01/2027	875M	4.6000	4.6000	100.000	
06/01/2028	920M	4.6250	4.6500	99.642	
06/01/2029	1,000M	4.7000	4.7000	100.000	
06/01/2030	1,000M	4.6250	4.8400	96.887	

Accrued Interest: \$0.00

Gross Production: \$15,014,625.70

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Morgan Stanley - San Francisco, CA's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005



For the aggregate principal amount of \$15,000,000.00, we will pay you \$14,785,500.00, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	3.0000
06/01/2007	305M	3.0000
06/01/2008	370M	3.0000
06/01/2009	380M	3.0000
06/01/2010	395M	4.0000
06/01/2011	405M	4.0000
06/01/2012	425M	4.0000
06/01/2013	440M	4.0000
06/01/2014	465M	4.0000
06/01/2015	490M	4.0000
06/01/2016	510M	4.0000
06/01/2017	540M	4.0000
06/01/2018	565M	4.2000
06/01/2019	595M	4.2500
06/01/2020	620M	4.2500
06/01/2021	655M	4.3000
06/01/2022	685M	4.3750
06/01/2023	720M	4.4000
06/01/2024	755M	4.4000
06/01/2025	795M	4.5000
06/01/2026	835M	4.5000
06/01/2027	875M	4.6000
06/01/2028	920M	4.6250
06/01/2029	1,000M	4.7000
06/01/2030	1,000M	4.6250

Total Interest Cost: \$10,346,399.75
 Discount: \$214,500.00
 Net Interest Cost: \$10,560,899.75
 TIC: 4.509445
 Time Last Bid Received On:03/29/2005 9:52:56 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: Morgan Stanley, San Francisco, CA
Contact: MICHAEL COCHRANE
Title: SVP MANAGER
Telephone: 415-693-6393
Fax: 415-788-3520

Issuer Name: City of Lincoln City Company Name: _____

Accepted By: _____ Accepted By: _____

Date: _____ Date: _____

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**Banc of America Securities LLC - Seattle, WA's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005**



For the aggregate principal amount of \$15,000,000.00, we will pay you \$14,861,387.44, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	3.0000
06/01/2007	305M	3.0000
06/01/2008	370M	3.0000
06/01/2009	380M	3.2500
06/01/2010	395M	3.5000
06/01/2011	405M	3.5000
06/01/2012	425M	3.7500
06/01/2013	440M	4.0000
06/01/2014	465M	4.0000
06/01/2015	490M	4.0000
06/01/2016	510M	4.0000
06/01/2017	540M	4.1250
06/01/2018	565M	4.1250
06/01/2019	595M	4.2500
06/01/2020	620M	4.2500
06/01/2021	655M	4.2500
06/01/2022	685M	4.3750
06/01/2023	720M	4.3750
06/01/2024	755M	4.5000
06/01/2025	795M	4.5000
06/01/2026	835M	4.5000
06/01/2027		
06/01/2028	1,795M	5.0000
06/01/2029	1,000M	5.0000
06/01/2030	1,000M	5.0000

Total Interest Cost: \$10,652,666.35
 Discount: \$138,612.56
 Net Interest Cost: \$10,791,278.91
 TIC: 4.575443
 Time Last Bid Received On: 03/29/2005 9:54:47 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: Banc of America Securities LLC, Seattle, WA
Contact: Judith Cochrane
Title:
Telephone: 206-358-8722
Fax:

Issuer Name: City of Lincoln City Company Name: _____

Accepted By: _____ Accepted By: _____

Date: _____ Date: _____

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**UBS Financial Services Inc. - New York, NY's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005**



For the aggregate principal amount of \$15,000,000.00, we will pay you \$15,053,401.70, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	3.0000
06/01/2007	305M	3.0000
06/01/2008	370M	3.0000
06/01/2009	380M	3.0000
06/01/2010	395M	3.5000
06/01/2011	405M	3.7500
06/01/2012	425M	3.7500
06/01/2013	440M	4.0000
06/01/2014	465M	4.0000
06/01/2015	490M	4.5000
06/01/2016	510M	5.0000
06/01/2017	540M	4.1250
06/01/2018	565M	4.2000
06/01/2019	595M	4.7500
06/01/2020	620M	4.7500
06/01/2021	655M	4.7500
06/01/2022	685M	4.7500
06/01/2023	720M	4.7500
06/01/2024	755M	5.0000
06/01/2025	795M	5.0000
06/01/2026	835M	5.0000
06/01/2027	875M	5.0000
06/01/2028		
06/01/2029		
06/01/2030	2,920M	4.6250

Total Interest Cost: \$10,952,885.16
 Premium: \$53,401.70
 Net Interest Cost: \$10,899,483.46
 TIC: 4.600079
 Time Last Bid Received On: 03/29/2005 9:59:48 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: UBS Financial Services Inc., New York, NY
Contact: Michael Azzinaro
Title: VP
Telephone: 212-713-2880
Fax: 212-969-7795

Issuer Name: City of Lincoln City Company Name: _____

Accepted By: _____ Accepted By: _____

Date: _____ Date: _____

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Merrill Lynch & Co. - New York, NY's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005



For the aggregate principal amount of \$15,000,000.00, we will pay you \$14,969,897.55, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	4.0000
06/01/2007	305M	4.0000
06/01/2008	370M	4.0000
06/01/2009	380M	4.0000
06/01/2010	395M	4.0000
06/01/2011	405M	4.0000
06/01/2012	425M	4.2500
06/01/2013	440M	4.2500
06/01/2014	465M	4.5000
06/01/2015	490M	4.5000
06/01/2016	510M	5.0000
06/01/2017	540M	5.0000
06/01/2018	565M	5.0000
06/01/2019	595M	5.0000
06/01/2020	620M	5.0000
06/01/2021	655M	4.3750
06/01/2022	685M	4.3750
06/01/2023	720M	4.5000
06/01/2024	755M	4.5000
06/01/2025	795M	4.5000
06/01/2026	835M	4.5000
06/01/2027		
06/01/2028		
06/01/2029		
06/01/2030	3,795M	4.6250

Total Interest Cost: \$10,783,082.10
 Discount: \$30,102.45
 Net Interest Cost: \$10,813,184.55
 TIC: 4.605160
 Time Last Bid Received On: 03/29/2005 9:59:14 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: Merrill Lynch & Co., New York, NY
Contact: Paul Kuhns
Title: Managing Director
Telephone: 212-449-5081
Fax: 212-449-3733

Issuer Name: City of Lincoln City

Company Name: _____

Accepted By: _____

Accepted By: _____

Date: _____

Date: _____

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ABN AMRO Financial Services, Inc. - New York, NY's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005



For the aggregate principal amount of \$15,000,000.00, we will pay you \$14,864,718.10, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	3.0000
06/01/2007	305M	3.0000
06/01/2008	370M	3.0000
06/01/2009	380M	3.5000
06/01/2010	395M	3.5000
06/01/2011	405M	3.7500
06/01/2012	425M	4.0000
06/01/2013	440M	4.0000
06/01/2014	465M	4.0000
06/01/2015	490M	4.0000
06/01/2016	510M	4.0000
06/01/2017	540M	4.1250
06/01/2018	565M	4.2500
06/01/2019	595M	5.0000
06/01/2020	620M	5.0000
06/01/2021	655M	5.0000
06/01/2022	685M	5.0000
06/01/2023	720M	4.5000
06/01/2024	755M	4.5000
06/01/2025	795M	4.6000
06/01/2026		
06/01/2027		
06/01/2028	2,630M	4.6250
06/01/2029		
06/01/2030	2,000M	4.6250

Total Interest Cost: \$10,682,932.90
 Discount: \$135,281.90
 Net Interest Cost: \$10,818,214.80
 TIC: 4.608681
 Time Last Bid Received On: 03/29/2005 9:57:50 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: ABN AMRO Financial Services, Inc., New York, NY
Contact: charles massaro
Title: director
Telephone: 212-409-7007
Fax: 212-409-7705

Issuer Name: City of Lincoln City

Company Name: _____

Accepted By: _____

Accepted By: _____

Date: _____

Date: _____

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**Davenport & Company LLC - Richmond, VA's Bid
Lincoln City
\$15,000,000 General Obligation Sewer Bonds
Series 2005**



For the aggregate principal amount of \$15,000,000.00, we will pay you \$15,107,711.85, plus accrued interest from the date of issue to the date of delivery. The Bonds are to bear interest at the following rate(s):

Maturity Date	Amount \$	Coupon %
06/01/2006	255M	3.0000
06/01/2007	305M	3.0000
06/01/2008	370M	3.0000
06/01/2009	380M	3.2500
06/01/2010	395M	3.5000
06/01/2011	405M	3.5000
06/01/2012	425M	3.6250
06/01/2013	440M	4.0000
06/01/2014	465M	4.0000
06/01/2015	490M	4.0000
06/01/2016	510M	5.0000
06/01/2017	540M	5.0000
06/01/2018	565M	5.0000
06/01/2019	595M	4.7500
06/01/2020	620M	4.7500
06/01/2021	655M	4.7500
06/01/2022	685M	4.7500
06/01/2023	720M	4.7500
06/01/2024	755M	5.0000
06/01/2025	795M	5.0000
06/01/2026	835M	5.0000
06/01/2027	875M	5.0000
06/01/2028	920M	5.0000
06/01/2029		
06/01/2030	2,000M	4.6250

Total Interest Cost: \$11,118,515.05
 Premium: \$107,711.85
 Net Interest Cost: \$11,010,803.20
 TIC: 4.636156
 Time Last Bid Received On: 03/29/2005 9:59:40 PST

This proposal is made subject to all of the terms and conditions of the Official Bid Form, the Official Notice of Sale, and the Preliminary Official Statement, all of which are made a part hereof.

Bidder: Davenport & Company LLC, Richmond, VA
Contact: Joe Paucke
Title: Vice President
Telephone: 804-644-4200
Fax: 804-780-2003

Issuer Name: City of Lincoln City Company Name: _____

Accepted By: _____ Accepted By: _____

Date: _____ Date: _____

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NEW ISSUE
Book-Entry-Only

RATING: Moody's Aaa
Financial Guaranty Insured
See "Rating and Insurance" herein.

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, the interest on the Bonds ("Interest") is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law. Interest is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "Tax Exemption" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the Bonds is exempt from Oregon personal income tax under existing law.

CITY OF LINCOLN CITY
LINCOLN COUNTY, OREGON
\$15,000,000 General Obligation Sewer Bonds, Series 2005

Dated: Date of Delivery

Due: JUNE 1, as shown inside cover

Security: The \$15,000,000* General Obligation Sewer Bonds, Series 2005 (the "Bonds") are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

The scheduled payment of principal of and interest on the Bonds, when due will be insured by a financial guaranty insurance policy issued concurrently with the delivery of the Bonds by Financial Guaranty Insurance Company ("Financial Guaranty").



Use of Proceeds: The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

Payment Provisions: The Bonds will be issued initially in book-entry-only form in denominations of \$5,000 or integral multiples thereof. The Bonds are registered certificates issued in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. The interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2005. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The principal and interest on the Bonds will be remitted by The Bank of New York Trust Company, N.A. (the "Paying Agent") to DTC which, in turn, will be required to distribute such payments to the DTC Participants for ultimate distribution to the Beneficial Owners of the Bonds. See "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM".

Maturity schedule appears on inside cover

Redemption Provisions: The Bonds are subject to optional redemption prior to their stated maturities as described herein. See "THE BONDS – Redemption of the Bonds."

Not Bank Qualified: The Bonds are *not* "qualified tax-exempt obligations" as defined in the Internal Revenue Code of 1986, as amended.

Delivery: The Bonds are offered for sale to the original purchaser subject to the final approving opinion of Preston, Gates & Ellis LLP, Bond Counsel to the City. It is expected that the Bonds will be available for delivery through the facilities of DTC or to the Registrar and Paying Agent for Fast Automated Securities Transfer on behalf of DTC, on or about April 12, 2005.

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

Morgan Stanley DW Inc.

Maturity Schedule

Due June 1	Principal Amount	Interest Rates	Price or Yield	CUSIP No. 533079	Due June 1	Principal Amount	Interest Rates	Price or Yield	CUSIP No. 533079
2006	\$255,000	3.000%	2.400%	BD 0	2019	\$595,000	4.250%	4.250%	BS 7
2007	305,000	3.000	2.600	BE 8	2020	620,000	4.250	4.300	BT 5
2008	370,000	3.000	2.750	BF 5	2021	655,000	4.300	4.350	BU 2
2009	380,000	3.000	3.000	BG 3	2022	685,000	4.375	4.375	BV 0
2010	395,000	4.000	3.150	BH 1	2023	720,000	4.400	4.400	BW 8
2011	405,000	4.000	3.300	BJ 7	2024	755,000	4.400	4.450	BX 6
2012	425,000	4.000	3.500	BK 4	2025	795,000	4.500	4.500	BY 4
2013	440,000	4.000	3.700	BL 2	2026	835,000	4.500	4.550	BZ 1
2014	465,000	4.000	3.800	BM 0	2027	875,000	4.600	4.600	CA 5
2015	490,000	4.000	3.900	BN 8	2028	920,000	4.625	4.650	CB 3
2016	510,000	4.000	4.000	BP 3	2029	1,000,000	4.700	4.700	CC 1
2017	540,000	4.000	4.100	BQ 1	2030	1,000,000	4.625	4.840	CD 9
2018	565,000	4.200	4.200	BR 9					

**OFFICIAL STATEMENT
OF
CITY OF LINCOLN CITY, OREGON**

P.O. Box 50
Lincoln City, Oregon 97367
(541) 996-2152

Website: www.lincolncity.org*

RELATING TO

\$15,000,000 GENERAL OBLIGATION SEWER BONDS, SERIES 2005

CITY COUNCIL

Mayor	Lori Hollingsworth
Council Member	Rick Brissette
Council Member	Wes Ryan
Council Member	Chester Noreikis
Council Member	Doug Holbrook
Council Member	Ed Kuntz
Council Member	Gary Ellingson

ADMINISTRATIVE STAFF

David Hawker	City Manager
Mark Nicholson	Finance Director
Joan Kelsey	City Attorney
Lila Bradley	Public Works Operations Manager
Joe Whisler	Wastewater Treatment Supervisor

BOND COUNSEL

Preston, Gates & Ellis, LLP, Portland, Oregon

FINANCIAL ADVISOR

Regional Financial Advisors, Inc., Portland, Oregon

PAYING AGENT

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

* The City's website is not part of this Official Statement, and investors should not rely on information which is presented in the City's website in determining whether to purchase Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website, by reference.

TABLE OF CONTENTS

SUMMARY STATEMENT	i
THE BONDS	1
General Description	1
Security for the Bonds	1
Authorization	1
Payment of the Bonds	1
Redemption of the Bonds	1
Bond Insurance	2
Use of Bond Proceeds	4
TABLE 1 -- Sources and Uses of Funds	4
The Sewer System	4
THE CITY	5
General Description	5
Government	5
TABLE 2 -- City Council	5
Administration	5
Staff	6
TABLE 3 -- Bargaining Units	6
Accrued Vacation	6
FINANCIAL INFORMATION	7
Basis of Accounting	7
Fiscal Year	7
Audits	7
TABLE 4 -- Summary of 2003-04 and 2004-05 General Fund Adopted Budgets	7
TABLE 5 -- Five-Year General Fund Consecutive Balance Sheets	8
TABLE 6 -- Five-Year General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Pension Plan and Deferred Compensation	10
Budgeting Process	11
GASB 34	11
Deposits and Investments	11
TABLE 7 -- Investments as of June 30, 2004	11
Insurance	11
DEBT INFORMATION	12
TABLE 8 -- Debt Ratios	12
Debt Limitations	12
Payment of Debt Service on the Bonds	12
Debt Management	12
Future Debt Plans	12
TABLE 9 -- Outstanding Obligations	13
TABLE 10 -- Future General Obligation Bond Debt Service Payments	14
TABLE 11 -- Overlapping Debt	14
PROPERTY TAX INFORMATION	15
General	15
Bond and Levy Election Record	15
TABLE 12 -- Bond and Levy Election History	15
Property Tax Limitation	15
TABLE 13 -- Real Market Value of Taxable Property in City of Lincoln City	17
TABLE 14 -- Tax Collection Record	17
Impact of Tax Limitation on The City	17
TABLE 15 -- Historical Impact of the \$10/\$1,000 Tax Limitation on City Property Tax Revenues	17
Consolidated Tax Rates	18
TABLE 16 -- 2004-05 Representative Consolidated Tax Rates for Levy Code Area 402	18
TABLE 17 -- 2004-05 Major Taxpayers in the City of Lincoln City	19
ECONOMIC AND DEMOGRAPHIC INFORMATION	20
Land Use Planning	20
Population	20
TABLE 18 -- Population Estimates	20
Employment	21
TABLE 19 -- Lincoln County Labor Force, Unemployment & Total Employment by Place of Residence	21
TABLE 20 -- Lincoln County Nonfarm Employment (NAICS) ¹	22
Unemployment	23

TABLE 21 -- Lincoln County Average Annual Unemployment as a Percent of Labor Force	23
TABLE 22 -- Lincoln County Major Employers	23
Development Activity	24
Income	24
TABLE 23 -- Income Estimates	24
Agriculture	25
TABLE 24 -- Lincoln County Gross Farm Sales (\$000)	25
Forestry	25
TABLE 25 -- Timber Harvest (in thousand board feet)	25
Housing	26
TABLE 26 -- Building Activity	26
Transportation	26
Utilities	26
Public Facilities	26
Tourism	27
Information Sources	27
THE INITIATIVE PROCESS	28
Proposed Initiative Measures Which Qualify To Be Placed On The Ballot	28
TABLE 27 -- Initiatives in Recent Oregon General Elections	28
Future Initiative Measures	28
Current Initiative Measures	29
Measure 37: Requires Governments to Pay Property Owners, or Forgo Enforcement, When Certain Land Use Restrictions Reduce Property Value	29
Recent State of Oregon Developments	29
TAX EXEMPTION	29
Original Issue Premium	29
Original Issue Discount	30
LITIGATION	29
LEGALITY	30
NOT QUALIFIED TAX EXEMPT BONDS	30
RATING AND INSURANCE	30
FINANCIAL ADVISOR	30
OFFICIAL STATEMENT	30
CONTINUING DISCLOSURE	30
MISCELLANEOUS	30
CONCLUDING STATEMENT	31
BASIC FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30, 2004	APPENDIX A
FORM OF BOND COUNSEL OPINION	APPENDIX B
FORM OF CONTINUING DISCLOSURE CERTIFICATE	APPENDIX C
BOOK-ENTRY-ONLY SYSTEM	APPENDIX D
SPECIMEN BOND INSURANCE POLICY	APPENDIX E

City of Lincoln City
Lincoln County, Oregon
\$15,000,000 General Obligation Sewer Bonds, Series 2005
SUMMARY STATEMENT

This Summary is subject in all respects to more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the appendices hereto. No person is authorized to detach this Summary from this Official Statement or otherwise to use it without this entire Official Statement, including the appendices hereto.

The Issuer of the Bonds

The City of Lincoln City, Oregon, incorporated as a home-rule city in 1965, is issuing the Bonds.

Security

The \$15,000,000 General Obligation Sewer Bonds, Series 2005 (the "Bonds") are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

Authorization

The Bonds are authorized by Resolution No. 2005-03, adopted on January 24, 2005 (the "Resolution"), pursuant to the Constitution and Statutes of the State of Oregon, specifically Oregon Revised Statutes ("ORS") Chapters 287 and 288 (collectively, the "Act").

Use of Proceeds

The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

Interest Schedule

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year until maturity or prior redemption, commencing on December 1, 2005, through the principal corporate trust offices of the registrar and paying agent of the City, currently The Bank of New York Trust Company, N.A., Los Angeles, California. Interest on the Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

Redemption

The Bonds are subject to optional redemption prior to their stated maturities as described herein. See "DESCRIPTION OF THE BONDS – Redemption of the Bonds."

Denominations

The Bonds will be issued in denominations of \$5,000 or integral multiples thereof.

Registration

The Bonds will be issued in fully registered form.

Book-Entry-Only

The Bonds will be issued as fully registered bonds, registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") and subject to a Book-Entry System of registration and transfer. Individual purchasers of the Bonds will not receive physical delivery of Bond certificates. Transfer of the Bonds will be made through the Book-Entry System described in Appendix D.

Tax Exempt Status

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, the Bond interest is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Bond interest is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations as more fully described under the caption "Tax Exemption" herein. Under the laws of the State of Oregon, as currently enacted and construed, Bond interest is exempt from Oregon personal income tax.

Not Bank Qualified

The City has **NOT** designated the Bonds as "qualified tax exempt obligations" as defined in the Internal Revenue Code of 1986, as amended.

Paying Agent/Registrar

The Bonds will be registered and payable upon presentation at the principal corporate trust offices of The Bank of New York Trust Company, N.A., Los Angeles, California as paying agent. Interest on the Bonds is remitted by the paying agent to DTC, who in turn will be required to distribute such payments to DTC Participants for ultimate distribution to Owners.

Rating and Insurance

Moody's Investors Service ("Moody's") has assigned a rating of Aaa to the Bonds, with the understanding that, upon delivery of the Bonds, a policy insuring the payment when due of the principal and interest on the Bonds will be delivered by Financial Guaranty Insurance Company ("Financial Guaranty"). An explanation of the significance of the ratings can be obtained from the rating agency. There are no assurances that the ratings will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Bonds. Also, Moody's has assigned an underlying rating of A3 to the Bonds.

Legal Opinion

The City has retained Preston, Gates & Ellis LLP, Portland, Oregon, as its Bond Counsel. Bond Counsel will render an opinion with respect to the validity of and tax exemption on the Bonds, in substantially the form attached hereto as Appendix B.

Financial Advisor

The City has retained Regional Financial Advisors, Inc., Portland, Oregon as Financial Advisor with respect to the authorization and issuance of the Bonds.

Financial Statements

The most recent audit report is for the fiscal year ended June 30, 2004, and was rendered by Boldt, Carlisle & Smith LLC, Salem, Oregon, independent certified public accountants. The auditors were not requested to review this Official Statement and have not completed any additional auditing or review procedures subsequent to the issuance of their report on the 2004 fiscal year. The City's Basic Financial Statements for fiscal year ended June 30, 2004 are included in Appendix A. Copies of the complete fiscal year 2004 audit are available upon request.

Continuing Disclosure

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix C for the benefit of the Bondholders. (See "CONTINUING DISCLOSURE" for more information).

Additional Information

For additional information regarding the Bonds, contact Regional Financial Advisors, Inc., 733 SW Vista Avenue, Portland, Oregon 97205; telephone (503) 227-2009; fax (503) 227-2510; email jbiery@r-f-a.com.

**OFFICIAL STATEMENT FOR
CITY OF LINCOLN CITY
LINCOLN COUNTY, OREGON**

\$15,000,000 GENERAL OBLIGATION SEWER BONDS, SERIES 2005

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the sale and delivery of the General Obligation Sewer Bonds, Series 2005 (the "Bonds") in the aggregate principal amounts shown on the cover hereof.

THE BONDS

GENERAL DESCRIPTION

The General Obligation Sewer Bonds, Series 2005 (the "Bonds") are being executed and delivered in the aggregate principal amount of \$15,000,000* and mature as set forth on the inside cover. The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 each or any integral multiple thereof.

SECURITY FOR THE BONDS

The Bonds are valid general obligations of the City of Lincoln City, Oregon (the "City"). The full faith and credit of the City are pledged to the successive owners of each of the Bonds for the punctual payment of such obligations, when due. The City covenants with the Bondowners to levy annually a direct ad valorem tax upon all of the taxable property within the City in an amount without limitation as to rate or amount, and outside of limitations of sections 11 and 11b, Article XI of the Oregon Constitution, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay interest accruing and the principal maturing on the Bonds promptly when and as they become due.

AUTHORIZATION

The Bonds are authorized by Resolution No. 2005-03, adopted on January 24, 2005 (the "Resolution"), pursuant to the Constitution and Statutes of the State of Oregon, specifically Oregon Revised Statutes ("ORS") Chapters 287 and 288 (collectively, the "Act").

PAYMENT OF THE BONDS

The Bonds will mature on June 1 of the years and in the principal amounts shown on the inside front cover, and will bear interest from the date of delivery (payable on June 1 and December 1 of each year, commencing December 1, 2005) at the rates set forth on the inside cover. The Bonds will be issued initially in book-entry-only form. Principal and interest components due with respect to the Bonds will be payable by the Paying Agent, currently The Bank of New York Trust Company, N.A., Los Angeles, California, to The Depository Trust Company which, in turn, will remit such principal and interest components to The Depository Trust Company Participants for subsequent disbursement to the beneficial owners of the Bonds.

Transfer and payment of the Bonds will be made through the Book-Entry-Only System described in Appendix D.

REDEMPTION OF THE BONDS

Optional Redemption

Bonds maturing on and after June 1, 2016 are subject to redemption prior to maturity at the option of the City, in whole or in part, on any date on or after June 1, 2015 (with maturities selected by the City and by lot within a maturity) at par, plus accrued interest to the date of redemption.

Notice of Redemption

Unless the book-entry-only system is discontinued (See "APPENDIX D - BOOK-ENTRY-ONLY SYSTEM"), notice of any call for redemption shall be given to DTC not less than thirty days prior to the redemption date. DTC shall be responsible for notifying the DTC participants; Beneficial Owners are responsible for making arrangements with the DTC participants to receive redemption notices. Interest on any Bonds called for redemption shall cease on the redemption date designated in the notice.

BOND INSURANCE

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

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

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the years ended December 31, 2004, and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$59.5 billion and \$42.4 billion par value of securities, respectively (of which

approximately 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$323.6 million and \$260.3 million, respectively. For the year ended December 31, 2004, Financial Guaranty had reinsured, through facultative and excess of loss arrangements, approximately 2.3% of the risks it had written.

As of December 31, 2004, Financial Guaranty had net admitted assets of approximately \$3.116 billion, total liabilities of approximately \$1.943 billion, and total capital and policyholders' surplus of approximately \$1.173 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The audited financial statements of Financial Guaranty as of December 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

USE OF BOND PROCEEDS

The proceeds of the sale of the Bonds will be used to finance the improvement and expansion of the City's sewage treatment plant and collection system, and to pay certain costs of issuance.

At the November 2, 2004 general election, voters of the City authorized the issuance of \$22,000,000 of general obligation bonds for sewer improvements. The 2005 Bonds will be the first issuance under that authorization. The second bond issue of approximately \$7,000,000 is expected to take place in fiscal year 2007-08.

The wastewater capital improvement program requires multiple projects to be completed in the collection system and at the treatment plant. The collection system projects of approximately \$5,000,000 will bring the system and pumping stations up to the required capacity to pass the 5-year, 24-hour winter storm standard. The treatment plant projects of approximately \$17,000,000 will correct existing problems with aeration basin leakage, will increase treatment capacity to meet the demands of growth in the service area and will develop a Class A solids handling program.

Repayment Revenues for the Bonds

The Bonds are general obligations of the City to which the City has pledged its full faith, credit and resources and for which the City covenants to levy annually an ad valorem tax upon all taxable property to pay principal and interest when due. (See "Security for the Bonds" herein.) However, the City also has identified certain other revenues including sewer fees and charges and system development charges which it anticipates using to repay portions of debt service on the Bonds. These revenues are not specifically pledged to the Bonds and the City may substitute other revenues and may use these revenues for other purposes.

TABLE 1 -- Sources and Uses of Funds

Sources of Funds	Series 2005
Par Amount	\$15,000,000.00
Net Premium	14,625.70
Total sources of funds	\$15,014,625.70
Uses of Funds	
Projects	\$14,740,125.70
Costs of Issuance	60,000.00
Underwriter's Discount ¹	214,500.00
Total uses of funds	\$15,014,625.70

1. Includes Bond Insurance premium.

Source: City of Lincoln City.

THE SEWER SYSTEM

The City owns, operates and maintains its own sewage collection and treatment system. The sewer system (the "System") provides municipal sewer services for the City, and the Roads End Sanitary District. The total number of accounts was 4,608 for fiscal year 2004. Facilities of the System include 29 pump stations and a sewage treatment plant. Total gross System sales revenue for fiscal year 2004 was \$1,557,599. The City reviews its sewer rates on a regular basis. Sewer rates for 2004 increased by 5.0 percent, effective 7/1/04. The City intends to use a mix of system development charges, sewer fees and charges and tax levies to make improvements to the System. While the City intends to use various portions of these revenues to pay debt service on the Bonds, the City does not pledge or commit the System revenues to the payment of debt service on the Bonds and may use them for other purposes.

THE CITY

GENERAL DESCRIPTION

The City, with an estimated 2004 population of 7,470, is located on the Pacific Coast in Lincoln County, Oregon, about 81 miles southwest of Portland. Incorporated as a home-rule city on March 3, 1965, the City consolidated the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

GOVERNMENT

The government of the City is vested in a mayor and six council members. Two council members are elected from each of three wards for four-year terms. The mayor is elected for a four-year term.

The City Council appoints a City Manager who is the chief administrative officer of the City. The City Manager appoints the heads of all City departments, including a Finance Director who supervises the financial affairs of the City. The Finance Director is responsible for operating a general accounting system for City government in conformity with generally accepted accounting principles and practice, and for receipt, custody and disbursement of all City funds and monies. Current members of the City Council are shown in the following table.

TABLE 2 -- City Council

City Council	Occupation	Service Began	Term Expires
Lori Hollingsworth, Mayor	Massage therapist	6/1995	12/31/06
Rick Brissette	Retail Mall Owner	1/2005	12/31/08
Wes Ryan	Motel manager	1/1999	12/31/06
Chester Noreikis	Contractor	1/2003	12/31/06
Doug Holbrook	Attorney	5/2003	12/31/08
Ed Kuntz	Bed & Breakfast owner	1/2002	12/31/08
Gary Ellingson	Motel owner	11/2003	12/31/06

Source: City of Lincoln City.

ADMINISTRATION

Lori Hollingsworth, Mayor, has been Mayor since 2003 and on the City Council since 1995. She has a Bachelor of Science degree from Mary Washington College and is a licensed massage therapist.

David Hawker, City Manager, has been with the City since December 1999. He holds a Masters of Public Administration from the University of Colorado. He has 25 years experience as a city manager with previous positions in the Colorado cities of Rifle, Northglen and Federal Heights.

Mark Nicholson, Finance Director, has served the City as Assistant Finance Director since January 2002 and became Finance Director in January 2005. He holds a Masters of Business Administration and a Bachelor of Science degree in Computer Science. His professional experience has focused upon financial information systems and financial analysis. He is a member of the Oregon Municipal Finance Officers Association.

Ron Tierney has served the City since January 1991, and has served as Finance Director for the last 10 years. He holds a Bachelor of Business Administration degree in Public Accounting from Gonzaga University. Currently, he is still employed on a part-time basis by the City as a financial advisor for special projects.

Joan Kelsey, City Attorney, has practiced government and municipal law in Oregon for ten years and for the City since January 2005.

Lila Bradley, Public Works Director, has served the City for the past 16 years. She has developed the experience and technical skills in operations and maintenance, geographic information systems and capital project management that include all aspects of public works. She has been involved with American Public Works' Oregon Chapter since 1993 and is the President Elect for 2005.

Joe Whisler, Wastewater Treatment Plant Supervisor, has been with the City since 1981 and in his current position since 1990. He holds an Associates of Applied Science degree in Water/Wastewater Treatment from Linn Benton Community College.

STAFF

As of December 31, 2004, the City employed a total of 144 people, including 95 full-time career employees, 12 part-time career employees, and 37 seasonal and part-time temporary employees. The majority of City employees who are eligible under State law to be represented by a labor organization are employed under provisions of negotiated contracts with two major labor organizations. The City enters into written bargaining agreements with each of the bargaining organizations; agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions and grievance procedures. Labor relations between the City and the bargaining staffs are good. The bargaining units which represent City employees, the number of employees represented by each and the date each current contract expires are shown in the following table.

TABLE 3 -- Bargaining Units

Bargaining Unit	Number of Employees	Termination Date of Current Contract	Status of Contract
Lincoln City Police Association	29	June 30, 2005	Settled
Oregon AFSCME Council 75	56	June 30, 2006	Settled

Source: City of Lincoln City.

ACCRUED VACATION

Each employee earns vacation at rates determined by their length of employment. An employee can accumulate a maximum of 320 hours. Accumulated vested vacation is accrued as it is earned. As of June 30, 2004, the audited total accrued leave liability in the General Fund and Other Funds was \$385,392. Citywide accrued leave is fully funded.

FINANCIAL INFORMATION

BASIS OF ACCOUNTING

The City's governmental fund types and agency funds are maintained on the modified accrual basis of accounting. The proprietary fund types are accounted for using the accrual basis of accounting. The City's accounting practices conform to generally accepted accounting principles.

FISCAL YEAR

July 1 to June 30.

AUDITS

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination to be made of the accounts and financial affairs of every municipal corporation at least once a year. Unless the municipality elects to have the audit performed by the State Division of Audits, the audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy.

The City's audit for fiscal year 2003-04 was performed by Boldt, Carlisle & Smith LLC, Salem, Oregon. The auditors were not requested to review the official statement and offer no opinion regarding the official statement. A complete copy of the City's annual financial statements may be obtained from the City upon request.

TABLE 4 -- Summary of 2003-04 and 2004-05 General Fund Adopted Budgets

	Adopted 2003-04	Adopted 2004-05
Revenues		
Taxes	\$2,998,176	\$3,107,832
Fees, Licenses & Permits	796,200	753,125
Intergovernmental	193,350	264,000
Fines and Forfeitures	122,700	122,200
Miscellaneous Revenue	488,680	551,742
Transfers In	782,479	801,738
Total revenues	\$5,381,585	\$5,600,637
Expenditures		
City Council	\$8,600	\$8,600
Administration	255,099	253,334
Finance	549,215	603,811
Library	551,801	573,311
Municipal court	80,630	78,980
City attorney	109,100	135,600
Planning	492,155	444,786
Vehicle maintenance	91,813	100,689
Transfers out	2,257,007	2,256,394
Total expenditures	\$5,377,250	\$5,623,399

Source: City of Lincoln City Adopted Budgets.

TABLE 5 -- Five-Year General Fund Consecutive Balance Sheets

	1999-00	2000-01	2001-02	2002-03	2003-04
Assets					
Cash and investments	\$1,064,748	\$1,012,267	\$1,299,632	\$1,631,013	\$2,033,939
Receivables	409,200	415,801	402,575	433,147	408,220
Total Assets	<u>\$1,473,948</u>	<u>\$1,428,068</u>	<u>\$1,702,207</u>	<u>\$2,064,160</u>	<u>\$2,442,159</u>
Liabilities & Fund Balances					
Liabilities					
Accounts payable	\$89,251	\$144,296	\$160,103	\$123,003	\$179,914
Deferred revenue	342,429	335,634	321,370	352,756	323,745
Total liabilities	<u>431,680</u>	<u>479,930</u>	<u>481,473</u>	<u>475,759</u>	<u>503,659</u>
Fund Balances					
Unreserved	1,042,268	948,138	1,220,734	1,588,401	1,938,500
Total Fund Balances	<u>\$1,042,268</u>	<u>\$948,138</u>	<u>\$1,220,734</u>	<u>\$1,588,401</u>	<u>\$1,938,500</u>
Total liabilities and Fund Balances	<u>\$1,473,948</u>	<u>\$1,428,068</u>	<u>\$1,702,207</u>	<u>\$2,064,160</u>	<u>\$2,442,159</u>

Source: Derived from the City's audited financial statements for fiscal years 2000-2004.

TABLE 6 -- Five-Year General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances

	1999-00	2000-01	2001-02	2002-03 ¹	2003-04
Revenues					
Property Taxes	\$2,410,428	\$2,477,544	\$2,568,287	\$2,657,106	\$2,883,068
Franchises and fees	706,483	717,207	870,846	947,168	1,032,242
Fines and forfeitures	114,635	115,607	119,189	101,270	118,112
Intergovernmental	287,179	319,130	310,664	264,724	265,890
Interest on investments	63,800	62,388	25,791	25,827	22,994
Miscellaneous	420,456	411,944	554,701	483,238	482,650
Total revenues	4,002,981	4,103,820	4,449,478	4,479,333	4,804,956
Expenditures					
Personal services	3,729,611	3,856,762	3,795,132	--	--
General government	--	--	--	1,652,538	1,793,099
Materials and services	984,596	1,093,899	1,174,171	--	--
Culture and recreation	--	--	--	1,041,074	1,028,330
Capital outlay	159,978	202,900	252,126	223,626	163,223
Debt service	61,420	62,108	44,738	--	--
Total expenditures	4,935,605	5,215,669	5,266,167	2,917,238	2,984,652
Excess (deficiency) of revenues over expenditures	(932,624)	(1,111,849)	(816,689)	1,562,095	1,820,304
Other Financing Sources (Uses)					
Operating transfers in ²	932,696	1,028,194	1,090,639	948,553	786,633
Operating transfers out ²	--	(10,475)	(1,354)	(2,142,981)	(2,256,838)
Total other financing sources (uses)	932,696	1,017,719	1,089,285	(1,194,428)	(1,470,205)
Net change in fund balances	72	(94,130)	272,596	367,667	350,099
Fund Balances at beginning of year	1,042,196	1,042,268	948,138	1,220,734	1,588,401
Fund Balances at end of year	\$1,042,268	\$948,138	\$1,220,734	\$1,588,401	\$1,938,500

1. Reflects implementation of GASB 34.

2. 'Operating transfers in' consists of reimbursements from other funds for time spent by General Fund staff for administration, legal services, accounting, billing and collection of revenues of the Water and Sewer utilities and Vehicle Maintenance. 'Operating transfers out' consists of General Fund contributions to the Public Safety funds (Police and Dispatch Center).

Source: Derived from the City's audited financial statements for fiscal years 2000-2004.

PENSION PLAN AND DEFERRED COMPENSATION

Pension Plan

The Oregon Public Employees Retirement System (“PERS”) and the Oregon Public Service Retirement Plan (“OPSRP” and together with PERS, the “System”) collect contributions from both employers and employees for the purpose of funding retirement benefits. PERS is a defined benefits pension plan for public employees who joined prior to August 29, 2003. OPSRP is a hybrid (defined contribution/defined benefit) pension plan for public employees hired on or after August 29, 2003, unless membership was previously established in PERS. A PERS member who has a six-month service break becomes a member of OPSRP for any subsequent employment upon rehire. The systems are administered by the Oregon Public Employees’ Retirement Board (the “PERS Board”).

OPSRP was created as a part of significant changes to the retirement system enacted by the 2003 Legislative Assembly. Many of these legislative changes were challenged in legal proceedings filed in the Oregon Supreme Court and in federal court by a number of unions and individual employees. A federal district court judge has held the 2003 legislative changes to PERS (the “2003 PERS Legislation”) do not violate the federal constitution. The plaintiffs have appeals that decision to the Ninth Circuit Court of Appeals. On March 8, 2005, the Oregon Supreme Court released its opinion in the state court litigation (the “PERS Decision”) and declared that certain portions of the 2003 PERS Legislation violate the Oregon Constitution and affirmed the validity of others.

The benefits administered by the System are paid from the Oregon Public Employees’ Retirement Fund (“OPERF”), and the Oregon Investment Council (“OIC”) invests System assets.

Unfunded Actuarial Liability

Oregon statutes require an actuarial valuation of the System at least once every two years. Under current practice, actuarial valuations are normally performed every two years as of December 31 of each odd-numbered year. The valuations are released approximately one year after the valuation date. The most recent valuation is contained in a report prepared by the System’s actuary, the “Oregon Public Employees Retirement System – Actuarial Valuation December 31, 2003” (the “2003 Actuarial Report”).

An employer’s UAL is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. According to the 2003 Actuarial Report, the unfunded actuarial liability (“UAL”) for the System is as follows:

PERS Unfunded Actuarial Liability \$(millions)

UAL as of December 31, 2003 (Actuarial Value of Assets)	\$ 42,874.4
UAL as of December 31, 2003 (Actuarial Liability of Assets)	\$ 44,625.6

The City is a member of a pool with the State of Oregon, Oregon community college districts, and other local governments for purposes of setting its employer contribution rate. The assets and liabilities of employers in a pool are not tracked or calculated on an employer basis or allocated to individual employers; therefore, the City is not currently able to determine its share of the UAL.

The UAL may change depending on the market performance of the securities in which the OIC invests, future changes in compensation and benefits of covered employees, demographic characteristics of members, and assumptions used by the actuary in estimating the assets and liabilities of the System. The System’s current assumed actuarial rate of return is 8%. No assurance can be given that the UAL of the System will not materially increase.

Contribution Rates

Employers are required to contribute an actuarially determined rate that is based upon the expected obligations of the System (determined by calculating the amount necessary to provide each pool member’s retirement, health and other benefits) and a smoothing of investment losses and gains in OPERF over a period of four years to determine the level of funding available to pay the System’s obligations. Even though OPERF may have significant investment gains and losses in one calendar year, all of those gains or losses may not be reflected in the adjustment to the employer contribution rate. Instead, the gains and losses may be offset against prior gains and losses in the smoothing process and lead to a change in employer rates that is not in direct correlation to OPERF’s most recent investment performance.

The City also pays the employee’s contribution to the System in an amount that is equal to 6% of salaries.

Preliminary PERS’ employer contribution rates were presented to the PERS Board at its January 25, 2005 meeting. The PERS Board opted to implement a portion of the rate increase as of July 1, 2005 and the rest in 2007.

The City’s contribution rate as of June 30, 2004 was 4.72 percent and its contribution rate as of July 1, 2005 will be 8.81 percent. The employer contribution rates are based, in part, on the 2003 PERS Legislation.

The City’s contribution to PERS for the years ending June 30, 2004, 2003, and 2002 were \$426,890, \$548,147, and \$467,653, respectively, and were equal to the required contributions for each year according to the City’s audited financial statements.

PERS Litigation

The City is not able to estimate the effect of the PERS Decision on PERS, the UAL of the System, or future contributions that the City may be required to make to PERS until PERS produces a new actuarial valuation for PERS and participating

employers. At its meeting on March 29, 2005, PERS indicated that it will wait for a decision on another pending Oregon Supreme Court case to produce a new actuarial valuation..

BUDGETING PROCESS

The City prepares an annual budget in accordance with provisions of the Oregon Local Budget Law (ORS Chapter 294), which provides standard procedures for the preparation, presentation, administration and appraisal of budgets. In the months of January through April of each year a proposed budget is prepared by the City's Budget Officer. The budget is presented to the City's Budget Committee in May. The committee consists of the seven elected Council Members (the Mayor and six Councilors), and an equal number of appointed citizens of the City. The Budget Committee receives the proposed budget from the City Manager, holds a public hearing to receive citizen comment, and deliberates on the budget proposal during a series of meetings open to the public. The approval of the budget requires a majority vote of the members with all members of the Budget Committee having an equal vote.

After the Budget Committee has approved the budget, the governing body enters into the adoption stage of the budget process. The City Council, by law, has the power (1) to limit the amount of tax that may be levied by the local government, and (2) to establish a maximum for total expenditures for each fund. A budget summary and notice of hearing are published following strict requirements as to time and mode. A final hearing is held at which time the City Council considers citizen testimony and, if necessary, alters the budget subject to statutory limitations upon increasing taxes or fund allocations without further publication and hearing.

Supplemental budgets may be prepared as needed during the fiscal year. Supplemental budgets are considered and adopted by the City Council.

GASB 34

The City has successfully implemented GASB 34 requirements with the issuance of its Audited Annual Financial Report for fiscal years ending June 30, 2003 and 2004.

DEPOSITS AND INVESTMENTS

ORS Chapter 294 authorizes the City to invest in U.S. Government obligations and its agencies or instrumentalities, collateralized repurchase agreements, insured or collateralized certificates of deposit, government pools and certain other types of investments. As of June 30, 2004, the City had \$11,126,101 in the State Treasurer's Local Government Investment Pool.

TABLE 7 -- Investments as of June 30, 2004

Investment Instrument	Carrying Value	Market Value
U.S. Government securities	\$2,498,594	\$2,479,070
Certificates of deposits	1,000,000	1,000,000
Oregon State Local Government Investment Pool	11,126,101	11,126,101
Total	\$14,624,695	\$14,605,171

Source: City of Lincoln City.

INSURANCE

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. In 1981, the League of Oregon Cities joined together with the Association of Oregon Cities to form City County Insurance Services ("CCIS"), a public entity risk pool currently operating as a common risk management and insurance program for approximately 265 municipal corporations and associated entities in the State of Oregon. CCIS is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$2 million for each insured event.

The City continues to carry commercial insurance for other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DEBT INFORMATION

TABLE 8 -- Debt Ratios¹

	<u>Values</u>	<u>Per Capita</u>	<u>Percent of RMV</u>
2004 estimated population	7,470	--	--
2004-05 Real Market Value (RMV)	\$1,067,743,042	\$142,937	--
Gross Direct Debt ²	18,782,000	2,514	1.76%
Net Direct Debt ³	11,215,000	1,501	1.05%
Net Overlapping Debt	11,399,006	1,526	1.07%
Net Direct Debt and Net Overlapping Debt	22,614,006	3,027	2.12%

1. Outstanding debt information is calculated as of March 1, 2005, except for the overlapping debt calculation. The overlapping debt calculation was performed by Municipal Debt Advisory Commission as of January 13, 2005.
2. Gross Direct Debt includes all voter approved general obligation bonds, limited tax bonds and any other bonds, Certificates of Participation or leases backed by the full faith and credit of the City, including the Bonds. Debt whose term is less than one year is not included.
3. Net Direct Debt is Gross Direct Debt less bonds or leases paid from non-tax sources.

Source: City of Lincoln City; Lincoln County Assessor's Office; Population Research Center, Portland State University.

DEBT LIMITATIONS

ORS 287.004 limits the general obligation debt which an Oregon city may have outstanding at any time to three percent of the real market value of the City. Self-supporting debt, revenue bonds, general obligation improvement bonds, bonds issued for water, sanitary or storm sewers, sewage disposal plants, hospitals, infirmaries, gas, power or lighting purposes, and certain parking facility bonds are legally exempt from this debt limitation. The Bonds are exempt from this limitation.

2004-05 RMV	\$1,067,743,042
Debt limitation (3.00 % of RMV)	32,032,291
Applicable bonded debt ¹	3,782,000
Debt margin	28,250,291
Percent of limit issued	11.81%

1. Includes the City's outstanding General Obligation Bonds, Series 1999 and General Obligation Civic Center Refunding Bonds, Series 2003A.

Under ORS 223.295, cities may issue additional assessment related bonds and notes subject to a separate three percent statutory limitation.

PAYMENT OF DEBT SERVICE ON THE BONDS

The Bonds are general obligations of the City to which the City has pledged its full faith, credit and resources and for which the City covenants to levy annually an ad valorem tax upon all taxable property to pay principal and interest when due. However, the City also has identified certain other revenues including sewer fees and charges and system development charges which it anticipates using to repay portions of debt service on the Bonds. These revenues are not specifically pledged to the Bonds and the City may substitute other revenues and may use these revenues for other purposes.

DEBT MANAGEMENT

The City has never defaulted on any debt or lease obligation.

FUTURE DEBT PLANS

The City's voters approved a general obligation bond in November 2000 in an amount not to exceed \$4,000,000 to purchase additional water rights and to construct a pipeline to the existing water treatment plant. Bonds are anticipated to be sold in calendar year 2006.

At the November 2, 2004 general election, voters of the City authorized the issuance of \$22,000,000 of general obligation bonds for sewer improvements. The 2005 Bonds will be the first issuance under that authorization. The second bond issue of approximately \$7,000,000 is expected to take place in fiscal year 2007-08.

TABLE 9 -- Outstanding Obligations

	Dated Date	Maturity Date	Amount Issued	Amount Outstanding as of 3/1/05
DEBT SECURED BY THE GENERAL FUND (paid from taxes)				
General Obligation Bonds (voter approved)				
Series 1999 Open Space	7/1/1999	6/1/2014	\$3,000,000	\$2,215,000
Series 2005 Sewer (this issue) (60% paid from property taxes) ¹	4/12/2005	6/1/2030	9,000,000 ¹	9,000,000
Total Tax-Supported General Obligation Bonds			\$12,000,000	\$11,215,000
TOTAL NET DIRECT DEBT²			\$12,000,000	\$11,215,000
DEBT SECURED BY THE GENERAL FUND (self-supporting)				
General Obligation Bonds (voter approved)				
Series 2003A Lincoln Square Refunding (100% paid from hotel taxes)	4/30/2003	6/1/2011	\$1,617,000	\$1,567,000
Series 2005 Sewer (this issue) (40% paid from sewer revenues) ¹	4/12/2005	6/1/2030	6,000,000 ¹	6,000,000
Total Self-Supporting Debt Secured by the General Fund			\$7,617,000	\$7,567,000
Short-term Debt			\$0	\$0
TOTAL GROSS DIRECT DEBT²			\$19,617,000	\$18,782,000
REVENUE BONDS				
Water Revenue Bonds, Series 1997	10/1/1997	10/1/2017	\$3,370,000	\$2,560,000
TOTAL REVENUE BONDS			\$3,370,000	\$2,560,000
TOTAL GO AND REVENUE BONDS³			\$22,987,000	\$21,342,000

1. The City anticipates that 40% of the annual debt service on the Bonds will be payable from revenues of the Sewer System. The remaining 60% will be payable from levied property taxes.
2. Net Direct Debt is all Gross Direct Debt directly paid from tax sources. Gross Direct Debt includes all voter approved General Obligation bonds, Limited Tax bonds and any other obligations, Certificates of Participation, notes, contracts or leases backed by the full faith and credit of the City. Debt whose term is less than one year is not included.
3. The City's Urban Renewal Agency has outstanding debt totaling \$10,044,054 as of March 1, 2005. Urban Renewal Agency debt is not a debt of the City.

Source: City of Lincoln City.

The following table presents the debt service on voter-approved general obligation bonds and the Bonds.

TABLE 10 -- Future General Obligation Bond Debt Service Payments ¹

Fiscal Year Ending 30-Jun	Outstanding General Obligation Bonds		2005 Bonds		Total Payments
	Principal	Interest	Principal	Interest	
2005	\$235,000	\$67,998	--	--	\$302,998
2006	408,000	154,804	\$255,000	\$720,182	1,537,986
2007	434,000	137,172	305,000	626,251	1,502,424
2008	454,000	118,465	370,000	617,101	1,559,566
2009	475,000	98,652	380,000	606,001	1,559,653
2010	494,000	77,841	395,000	594,601	1,561,442
2011	512,000	56,022	405,000	578,801	1,551,823
2012	245,000	37,608	425,000	562,601	1,270,209
2013	255,000	25,725	440,000	545,601	1,266,326
2014	270,000	13,230	465,000	528,001	1,276,231
2015	--	--	490,000	509,401	999,401
2016	--	--	510,000	489,801	999,801
2017	--	--	540,000	469,401	1,009,401
2018	--	--	565,000	447,801	1,012,801
2019	--	--	595,000	424,071	1,019,071
2020	--	--	620,000	398,784	1,018,784
2021	--	--	655,000	372,434	1,027,434
2022	--	--	685,000	344,269	1,029,269
2023	--	--	720,000	314,300	1,034,300
2024	--	--	755,000	282,620	1,037,620
2025	--	--	795,000	249,400	1,044,400
2026	--	--	835,000	213,625	1,048,625
2027	--	--	875,000	176,050	1,051,050
2028	--	--	920,000	135,800	1,055,800
2029	--	--	1,000,000	93,250	1,093,250
2030	--	--	1,000,000	46,250	1,046,250
	\$3,782,000	\$787,515	\$15,000,000	\$10,346,400	\$29,915,915

1. Outstanding debt is as of March 1, 2005. Any payments of principal or interest occurring prior to this date have been excluded from this table. Includes all voter-approved general obligation bonds secured by the General Fund. Leases and loans secured by the General Fund are not included. Columns may not foot due to rounding.

Source: City of Lincoln City.

The following table outlines the outstanding debt of overlapping entities.

TABLE 11 -- Overlapping Debt¹

Issuer	Real Market Value	Percent Overlapping	Gross	Net
Lincoln County	\$5,460,232,956	18.3483%	\$678,887	\$678,887
North Lincoln Fire & Rescue District #1	1,514,561,877	66.1484	1,514,798	1,514,798
Lincoln County Unified SD	5,493,006,055	18.2388	4,893,470	4,893,470
Oregon Coast Community College	5,460,232,956	18.3483	4,311,851	4,311,851
Total			\$11,399,006	\$11,399,006

1. As of January 13, 2005.

Source: Municipal Debt Advisory Commission, Oregon State Treasury.

PROPERTY TAX INFORMATION

GENERAL

The taxes levied to pay the Bonds will be exempt from the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution (Measure 50 and Measure 5).

Property tax administration governed by the Oregon Constitution, the State's taxation laws and regulations of the Department of Revenue, includes the process of assessment, equalization, levy and collection of taxes. A tax limitation measure ("Measure 50") that affects property tax collections was approved by the voters in the May 1997 special election. The Oregon Legislature implemented legislation for the constitutional provisions of Measure 50. The implementation legislation changed the property tax administration system substantially, including changes to levy rates, assessments and equalization.

See section entitled "Strategic Investment Program" within "FINANCIAL INFORMATION" for a description of this program which affects property tax collections for the City.

BOND AND LEVY ELECTION RECORD

TABLE 12 -- Bond and Levy Election History

Year	Purpose	Amount Requested	Votes			Passed (Failed)
			Yes	No	Margin	
03/20/97	Water Treatment Plant	\$4,700,000	1,311	453	858	74.32%
11/03/98	Open Space Acquisition	3,000,000	1,139	1,052	87	51.99
11/07/00	Purchase Water Rights and Pipeline Construction	4,000,000	1,413	1,282	131	52.43
11/02/04	Sanitary (Sewer System)	22,000,000	2,237	1,092	1,145	67.20

Source: City of Lincoln City.

PROPERTY TAX LIMITATION

The State has not levied property taxes for general fund purposes since 1941 and obtains its revenue principally from income taxation.

Property tax administration is governed by the Oregon Constitution, the State's taxation laws and regulations of the Department of Revenue, includes the process of assessment, equalization, levy and collection of taxes.

History

Article XI of the Oregon Constitution contains various limitations on property taxes levied by local jurisdictions. The Constitution calls for taxes imposed upon property to be segregated into two categories; one to fund the public school system (including community colleges) and one to fund government operations other than the public school system.

Measure 5, passed by voters in 1990, limits combined property tax rates for non-school government operations to \$10 per \$1,000 of Real Market Value ("RMV") per county-assigned tax code area. Similarly, combined property tax rates for the public school system are limited to \$5 per \$1,000 RMV for each tax code area. Property taxes are also subject to the limitations of Measure 50.

Measure 50 was approved by voters of the State at a special election held on May 20, 1997. Measure 50 included a reduction of property taxes with a rollback of property values, changed the property tax system to a rate-based system, and limited the annual growth in Assessed Value.

Measure 50 did not repeal Measure 5, and the limits of the two measures both apply to property tax collections. Measure 5's \$5/\$1,000 limit on school operating taxes and \$10/\$1,000 limit on non-school operating taxes (the "Measure 5 limitations") are calculated based on RMV. Measure 50 limits tax collections under permanent rate limits by preventing Assessed Values from increasing by more than three percent unless the condition of the property changes.

Specific provisions include:

Permanent Tax Rates

Each local taxing district which imposed operating ad valorem taxes in fiscal year 1997-98 received a permanent tax rate. The permanent tax rate was calculated by dividing the total operating ad valorem taxes imposed by local taxing districts in fiscal year 1997-98 (reduced by an average of approximately 17 percent statewide) by the Assessed Value of that property. Measure 50 prohibits increases in permanent tax rates. Permanent tax rates are subject to the Measure 5 limitations. The City's permanent tax rate in 2004-05 is \$4.0996/\$1,000 of Assessed Value. The operating tax levy for the City for fiscal year 2004-05 is \$3,325,501. Measure 5 limitations reduced the amount received from the levy by \$41.25.

Assessed Value Limitations

Measure 50 reduced property values for most property tax purposes (except calculation of the Measure 5 limitations) to "Assessed Value." In tax year 1997-98, each property was assigned an Assessed Value which was equal to its 1995-96 RMV, less ten percent.

Measure 50 limits any increase in Assessed Value (and therefore any increase in tax revenues from the new permanent tax rates) to 3 percent per year for tax years after 1997-98. There are special exceptions for property that is substantially improved, rezoned, subdivided or annexed, and when property ceases to qualify for a property tax exemption. Changed property will be assigned an Assessed Value equal to the Assessed Value of comparable property in the area.

Exemptions

The Bonds are exempt from Measure 50 limitations. Measure 50 exempted from its limitations taxes levied to pay voter approved general obligation bonds. Levies to pay general obligation bonds are also exempt from the Measure 5 limitations. See "General Obligation Bonded Indebtedness" below.

Measure 50 also exempted the following levies, which are subject to Measure 5 limitations:

1. Levies to pay bonds and other borrowings, if they were made before December 5, 1996, and were secured by a pledge or explicit commitment of ad valorem property taxes or a covenant to levy or collect ad valorem property taxes.
2. Certain local government pension levies.

The City has no levies of the type described in paragraphs 1 and 2, above.

Local Option Levies

Local governments are able to override Measure 50 for limited term local option levies with voter approval that meets the voter participation requirements discussed below. Local option levies may be up to five years for any purpose or ten years for capital projects.

Local option levies are subject to "special compression" under Measure 5. If operating taxes for non-school purposes exceed Measure 5's \$10/\$1,000 limit, local option levies are reduced first to bring operating taxes into compliance with this limit. This means that local option levies can be entirely displaced by future approval of permanent rate levies for new governments, or by urban renewal or certain pension levies.

Voter Participation

In order to be exempt from the limitation provisions of Measure 50, general obligation bonds other than refunding bonds must be approved by a majority of the voters voting on the question either: (i) at a general election in an even numbered year, or (ii) at any other election in which not less than fifty percent (50%) of the registered voters eligible to vote on the question cast a ballot.

General Obligation Bonded Indebtedness

Levies to pay the following general obligation bonds are exempt from the limitations of Measure 50 and the Measure 5 limitations:

1. General obligation bonds authorized by a provision of the Oregon Constitution;
2. General obligation bonds issued on or before November 6, 1990; or
3. General obligation bonds incurred for capital construction or capital improvements; and
 - a) if issued after November 6, 1990, and approved prior to December 5, 1996, by a majority of voters; or
 - b) if approved after December 5, 1996, in accordance with Measure 50's voter participation requirements, or obligations issued to refund the preceding bonds.

The Bonds are exempt general obligation bonds.

Collection

The County Tax Collector extends authorized levies, computes tax rates, bills and collects all taxes and makes periodic remittances of collections to tax levying units. County tax collectors are charged with calculating public school and local government taxes separately, calculating any tax rate reductions to comply with tax limitation law, and developing percentage distribution schedules. The tax collector then reports to each taxing district within five days the amount of taxes imposed.

Tax collections are now segregated into two pools, one for public schools and one for local governments, and each taxing body shares in its pool on the basis of its tax rate (adjusted as needed with tax limitation rate caps), regardless of the actual collection experience within each taxing body. Therefore, in application, the amount for each taxing body becomes a pro rata share of the total tax collection record of all taxing bodies within a county. Thus, an overall collection rate of 90 percent of the county-wide levy indicates a 90 percent tax levy collection for each taxing body.

Taxes are levied and become a lien on July 1 and tax payments are due November 15 of the same calendar year. Under the partial payment schedule, the first third of taxes are due November 15, the second third on February 15 and the remaining third on May 15. If property taxes are paid in full by November 15, a three-percent discount is allowed; if two-thirds of property

taxes are paid by November 15, a two-percent discount is allowed. For late payments interest accrues at a rate of 1.33 percent per month. Property is subject to foreclosure proceedings four years after the tax due date.

TABLE 13 -- Real Market Value of Taxable Property in City of Lincoln City

Fiscal Year	Real Market Value (RMV)	Percent Increase	Total Assessed Value (AV) ¹	Percent Increase	AV as Percent Of RMV
2000-01	\$928,439,148	N/A	\$745,516,106	N/A	80.30%
2001-02	938,953,191	1.13%	769,009,560	3.15%	81.90
2002-03	943,616,369	0.50	797,739,809	3.74	84.54
2003-04	1,001,857,980	6.17	855,730,360	7.27	85.41
2004-05	1,067,743,042	6.58	885,860,792	3.52	82.97

1. Total Assessed Value of the City includes urban renewal values and other offsets such as Non-Profit Housing Value. Table 14, which follows, reflects the Taxable AV which does not include urban renewal and other offsets as calculated by the Lincoln County tax assessor.

NOTE: In fiscal year 2003-04 three properties owned by the Confederated Tribes of the Siletz were removed from the tax roll. The Assessed Value of these three properties was approximately \$2.7 million. Properties owned by the Confederated Tribes of the Siletz valued at approximately \$18 million. They have applied for trust status of additional properties valued at \$18.9 million in fiscal year 2004-05. If the \$21.6 million removed from the tax rolls in fiscal years 2003-04 and 2004-05, \$9.6 million is in the Urban Renewal District and \$12.0 million would have been subject to the City's general fund tax levy. Additional properties could be removed from the tax rolls, but the City is unable to predict the values or timing of these potential changes, or their impact on tax collections.

Source: Lincoln County Assessor.

TABLE 14 -- Tax Collection Record

Fiscal Year	Taxable Assessed Value ¹	Percent Change	Total Levy	Tax Rate Per \$1000	Percent Collected Year of Levy ²	Percent Collected as of 06/30/2004 ²
2000-01	\$619,475,221	N/A	\$3,529,582	4.0996%	91.34%	99.46%
2001-02	638,947,588	3.14	3,529,418	4.0996	91.32	98.36
2002-03	661,582,167	3.54	3,012,187	4.0996	91.61	97.51
2003-04	712,457,843	7.69	3,220,807	4.0996	91.78	91.78
2004-05	738,016,108	3.59	3,325,570	4.0996	N/A	N/A

1. Excludes Urban Renewal Value and other Offsets.
2. Data shown is for Lincoln County. 2004-05 data will be available in June 2005.

Source: Lincoln County Assessor.

IMPACT OF TAX LIMITATION ON THE CITY

TABLE 15 -- Historical Impact of the \$10/\$1,000 Tax Limitation on City Property Tax Revenues

Fiscal Year	Taxes Imposed ¹	Compression Loss
2000-01	\$3,529,584	(\$3.09)
2001-02	3,529,419	(1.82)
2002-03	3,012,184	(79.03)
2003-04	3,220,737	(78.06)
2004-05	3,325,501	(41.25)

1. This is the amount estimated to be raised by the permanent levy before the Measure 5 limit is applied.

Source: Lincoln County Assessor.

CONSOLIDATED TAX RATES

The following table shows consolidated tax rates for one of many tax code areas located within the City of Lincoln City.

TABLE 16 -- 2004-05 Representative Consolidated Tax Rates for Levy Code Area 402¹

Area	Tax Rate for Operations ²	Tax Rate for Bonds	Tax Rate Total
Within the City of Lincoln City			
Education			
Lincoln County Unified School District No.	\$4.0899	\$0.7071	\$4.7970
Linn-Benton-Lincoln ESD	0.2541	--	0.2541
Oregon Coast Community College	0.1464	0.3134	0.4598
Total Education	\$4.4904	\$1.0205	\$5.5109
Local Government			
Lincoln County	\$2.3429	\$0.1354	\$2.4783
Lincoln County Extension	0.0376	--	0.0376
Lincoln County Transportation	0.0812	--	0.0812
City of Lincoln City	3.4155	0.3386	3.7541
Lincoln City Urban Renewal Agency	2.5763	--	2.5763
North Lincoln Fire and Rescue	0.5651	0.1831	0.7482
Devils Lake Water District	0.1010	--	0.1010
North Lincoln Hospital District	0.4319	--	0.4319
Total Local Government	\$9.5515	\$0.6571	\$10.2086
Total Consolidated Tax Rate	\$14.0419	\$1.6776	\$15.7195

1. The 2004-05 Assessed Value to compute the tax rate of code area 402 is \$495,487,405 which is 67.14 percent of the taxable Assessed Value of the City.
2. The Tax Rates for Operations are the combined Measure 50 permanent tax rates and local option levies which are then applied to the Assessed Value to obtain the amount of taxes to be collected. These are not the Measure 5 tax rates which determine if there is "compression" and which are calculated using Real Market Value; Measure 5 tax rates cannot exceed \$5 for schools and \$10 for local governments.

Source: Lincoln County Assessor.

TABLE 17 -- 2004-05 Major Taxpayers in the City of Lincoln City

Name	2004-05 Taxes²	Assessed Value²	Percent of City AV¹
COROC Holdings LLC ³	\$427,046	\$27,164,730	3.07%
Confederated Tribes	290,186	18,452,500	2.08
Gorge Leasing Co.	109,957	6,994,970	0.79
United Telephone Northwest	108,059	6,861,800	0.77
Northwest Natural Gas Co.	77,170	4,899,200	0.55
William T & Lorna Cho	69,317	4,409,620	0.50
Lakeside Associates LLC	67,463	4,258,690	0.48
Barnes Living Trust	63,846	4,058,940	0.46
Lighthouse Square LLC	63,889	4,033,030	0.46
Oak Brook Financial Corp	60,052	3,820,230	0.43
Totals	\$1,336,985	\$84,953,710	9.59%

-
1. The 2004-05 Total Assessed Valuation is \$885,860,792 for the City.
 2. Preliminary values as compiled and provided by the Lincoln County Assessor.
 3. COROC Holdings LLC is a joint-venture entered into by Tanger Factory Outlet Centers, Inc. in December 2003.

Source: Lincoln County Assessor.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The City is located on the Pacific Coast in Lincoln County, Oregon, about 81 miles southwest of Portland. Incorporated as a home-rule city on March 3, 1965, the City consolidated the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

LAND USE PLANNING

State law requires comprehensive land use planning to be accomplished at the city and county levels. To provide common direction and consistency within each city and county comprehensive plan, the Oregon Legislature directed the Department of Land Conservation and Development Commission (LCDC) to adopt statewide planning goals and guidelines. All zoning and development within a city or county must conform to the appropriate comprehensive plan. Fifteen statewide planning goals have been adopted, dealing with matters that include economy; air, water and land resources quality; housing; agricultural lands; urbanization; and public facilities. As part of a comprehensive plan, an urban growth boundary for the 20-year planning period must be established. This boundary is designed to contain urban sprawl and should encompass adequate land in each zoning category to support predicted population growth.

The City adopted its comprehensive plan in 1980, and LCDC acknowledged it in 1984 after revisions were made and a revised plan sent by the City in 1982. The City reviews the plan periodically.

POPULATION

The estimated population in 2004 for the City was 7,470.

TABLE 18 -- Population Estimates

Year	City of Lincoln City	Percent Change	Lincoln County	Percent Change	State of Oregon	Percent Change
1994	6,335	--	41,000	--	3,119,940	--
1995	6,570	3.71%	41,800	1.95%	3,182,690	2.01%
1996	6,665	1.45	42,200	0.96	3,245,100	1.96
1997	6,785	1.80	42,500	0.71	3,302,140	1.76
1998	6,855	1.03	43,200	1.65	3,350,080	1.45
1999	6,890	0.51	43,350	0.35	3,393,410	1.29
2000	7,480	8.56	44,600	2.88	3,436,750	1.28
2001 ¹	7,420	(0.80)	44,650	0.11	3,471,700	1.02
2002 ¹	7,420	0.00	44,700	0.11	3,504,700	0.95
2003 ¹	7,420	0.00	45,000	0.67	3,541,500	1.05
2004	7,470	0.67	44,400	(1.33)	3,582,600	1.16
1994-2004 Compound Annual Rate of Growth		1.66%		0.80%		1.39%
1999-2004 Compound Annual Rate of Growth		1.63%		0.48%		1.09%

The Federal Census figures, as of April 1 of the stated year, are as follows:

	1980	1990	2000
City of Lincoln City	5,469	5,903	7,437
Lincoln County	35,264	38,889	44,479
State of Oregon	2,633,156	2,842,321	3,421,399

1. U.S. Census population figures as of April 9, 2004, for cities and June 24, 2004, for counties are as follows:

	2001	2002	2003
City of Lincoln City	7,323	7,375	7,399
Lincoln County	44,057	44,494	44,667

Source: Under State law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty.

EMPLOYMENT

Lincoln County's economic and employment base relies on many elements, including the service industry, as well as government, retail trade and transportation.

TABLE 19 -- Lincoln County Labor Force, Unemployment & Total Employment by Place of Residence

Year	Civilian Labor Force	Unemployment	Unemployment as a Percent of Labor Force ¹	Total Employment ²
1993	20,642	1,581	7.7%	19,061
1994	21,141	1,281	6.1	19,860
1995	21,180	1,491	7.0	19,689
1996	21,890	1,633	7.5	20,257
1997	21,738	1,870	8.6	19,868
1998	21,961	1,770	8.1	20,191
1999	21,308	1,669	7.8	19,639
2000	21,360	1,330	6.2	20,030
2001	21,266	1,465	6.9	19,801
2002	21,583	1,650	7.6	19,933
2003	22,100	1,903	8.6	20,197

1. Totals may not foot due to rounding. 2004 figures will be available in April 2005. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available. Because tourism is an important contributor to employment in Lincoln County, monthly unemployment rates are typically higher in the non-peak winter months. See "UNEMPLOYMENT."
2. Includes nonagricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers, and labor disputants.

Source: Oregon Employment Department.

Lincoln County experienced a slight shift in nonfarm employment between 1993 and 2003. Employment in the manufacturing sector experienced a slight decrease over that period, while employment in the nonmanufacturing sector increased, particularly in the services and government sectors.

TABLE 20 -- Lincoln County Nonfarm Employment (NAICS)¹

	1993 Annual Average (000)	1993 Percent of Total	2003 Annual Average (000)	2003 Percent of Total	Compound Annual Rate of Change	2004² Monthly Average (000)
Total Nonfarm Wage & Salary Employment	15,300	100.00%	16,920	100.00%	1.01%	16,610
Manufacturing	1,380	9.02%	1,130	6.68%	(1.98%)	1,170
Durable goods	280	1.83	270	1.60	(0.36)	280
Nondurable goods	1,100	7.19	870	5.14	(2.41)	890
Nonmanufacturing	13,920	90.98%	15,790	93.32%	1.27%	15,440
Construction & mining	890	5.82	800	4.73	(1.06)	760
Trade, transportation & utilities	3,100	20.26	3,190	18.85	0.29	3,200
Information	230	1.50	250	1.48	0.84	210
Financial activities	650	4.25	660	3.90	0.15	660
Professional & business services	680	4.44	960	5.67	3.51	950
Educational & health services	850	5.56	1,450	8.57	5.49	1,450
Leisure & hospitality	3,750	24.51	4,210	24.88	1.16	3,970
Other services	650	4.25	600	3.55	(0.80)	500
Government	3,110	20.33	3,690	21.81	1.72	3,690

Note: Totals may not foot due to rounding. Annual 2004 data will be available in April 2005.

1. 2003 and 2004 data is based on the North American Industry Classification System ("NAICS"). Data for years prior to 2001 is based on the Standard Industrial Classification System ("SIC") but has been converted to the NAICS format by the Oregon Employment Department. Because of the conversion, minor inconsistencies may exist between current and historical (converted) data. For more information on the NAICS and SIC systems, please visit the Oregon Employment Department website at www.olmis.org.
2. Data shown for the month of December 2004. Because the Leisure and Hospitality category is a major component of employment in Lincoln County, monthly employment figures are typically deflated in the non-peak winter months.

Source: Oregon Employment Department.

UNEMPLOYMENT

As reflected in the table below, Lincoln County, like the State and the nation, experienced an increase in the jobless rate in 2001, 2002 and 2003. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available. Because tourism is an important contributor to employment in Lincoln County, monthly unemployment rates are typically higher in the non-peak winter months.

TABLE 21 -- Lincoln County Average Annual Unemployment as a Percent of Labor Force

Year	Lincoln County ¹	State of Oregon	USA
1993	7.7%	7.3%	6.9%
1994	6.1	5.4	6.1
1995	7.0	4.8	5.6
1996	7.5	5.9	5.4
1997	8.6	5.8	4.9
1998	8.1	5.6	4.5
1999	7.8	5.7	4.2
2000	6.2	4.9	4.0
2001	6.9	6.3	4.7
2002	7.6	7.5	5.8
2003	8.6	8.2	6.0

Note: 2004 data will be available in April 2005.

1. The State of Oregon Employment Department reported an unemployment rate of 7.6% in Lincoln County for the month of December 2004, the most current information available.

Source: Oregon Employment Department.

TABLE 22 -- Lincoln County Major Employers

Employer	Product or Service	Estimated Employment
Chinook Winds Casino ²	Casino	890
North Lincoln Hospital	Health Care	260
Salishan Lodge	Resort	200
Inn at Spanish Head	Resort Hotel	100
Public Employers		
Lincoln County School District	Education	540
State of Oregon	Government	360 ¹
Federal Government	Government	260 ¹
City of Lincoln City	Government	144

1. Lincoln County employment for 2003.
2. Owned by the Confederate Tribes of the Siletz.

Source: Lincoln City Chamber of Commerce and Regional Financial Advisors, Inc.

DEVELOPMENT ACTIVITY

The new Lifestyle Center at the Lincoln City Community Center opened in December 2004. The center is part of a \$2.6 million Community Center expansion project. Completion of the expansion is expected in February 2005, with the opening of the adjacent gymnasium. The gym will feature a padded, elevated running track, basketball and volleyball equipment, and will host a variety of classes and functions.

Please also see "TOURISM – Chinook Winds Casino and Convention Center."

According to the Oregon Employment Department's weekly newsletter, "Around the State", the following openings and expansions occurred in 2004:

- Two new hotels - Motel 6 which has 72 rooms, and Bel Aire Express, which has 62 rooms.
- Six restaurants and coffee shops, including Starbucks.
- Pacific Coast Limos provides services for special occasions and entertainers at the Chinook Winds Casino.
- Sears expanded with a new warehouse and more retail space.

INCOME

The following table shows personal income and per capita income for Lincoln County, compared to similar data for the State and nation. According to the Bureau of Economic Analysis, Lincoln County per capita personal income was estimated at \$26,029 in 2002.

TABLE 23 -- Income Estimates

Year	Lincoln County	Per Capita Income		
	Total Personal Income (millions)	Lincoln County	State of Oregon	United States
1992	\$703	\$17,223	\$19,235	\$20,854
1993	740	17,621	20,046	21,346
1994	793	18,415	21,060	22,172
1995	854	19,363	22,293	23,076
1996	916	20,492	23,398	24,175
1997	968	21,381	24,469	25,334
1998	1,019	22,591	25,542	26,883
1999	1,045	23,257	26,480	27,939
2000	1,083	24,442	28,100	29,847
2001	1,119	25,403	28,451	30,580
2002	1,158	26,029	28,530	30,795
2003	N/A ¹	N/A ¹	28,806	31,459

1. 2003 figures for Lincoln County will be released in May 2005.

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

AGRICULTURE

In Lincoln County, the top commodities include farm forest products and cattle. Gross Farm Sales for Lincoln County in 2003 were \$6,701,000.

TABLE 24 -- Lincoln County Gross Farm Sales (\$000)

Year	Lincoln County			State of Oregon		
	Crops	Animal Products	Total	Crops	Animal Products	Total
1993	19,312	2,243	21,555	2,205,922	780,011	2,985,933
1994	15,951	2,043	17,994	2,239,748	769,914	3,009,662
1995	21,761	1,743	23,504	2,413,502	699,261	3,112,763
1996	11,572	1,548	13,120	2,470,173	697,168	3,167,341
1997	11,866	1,930	13,796	2,557,583	776,566	3,334,149
1998	6,815	1,466	8,281	2,375,452	763,992	3,139,444
1999	8,047	1,012	9,059	2,422,866	815,609	3,238,475
2000	6,192	1,392	7,584	2,490,399	869,616	3,360,016
2001	5,090	1,434	6,524	2,394,989	934,410	3,329,399
2002	5,006	1,479	6,485	2,380,100	884,930	3,265,030
2003	5,192	1,509	6,701	2,489,436	978,136	3,467,572

Source: Oregon State University Extension Economic Information Office.

FORESTRY

Based on the Oregon Department of Forestry's Western Oregon Harvests report for calendar year 2003 (the most recent data available), 176,052 million board feet of timber was harvested in Lincoln County. Of this, the forest industry harvested 153,125 million board feet of timber in Lincoln County, with the remainder harvested by the State and other private and public entities.

TABLE 25 -- Timber Harvest (in thousand board feet)

Year	Lincoln County	State of Oregon
1993	268,760	5,293,967
1994	132,572	4,167,166
1995	179,232	4,304,158
1996	153,951	3,922,299
1997	157,720	4,081,415
1998	106,413	3,531,903
1999	113,160	3,759,338
2000	138,971	3,853,514
2001	91,827	3,439,794
2002	164,725	3,922,358
2003	176,052	4,001,818

Note: 2004 data will be available in July 2005.

Source: Oregon Department of Forestry.

HOUSING

Based on the Market Action report, a publication of RMLS, the December 2004 year-to-date median sales price of a home in the North Coastal Counties was \$185,000. The following table shows building permit activity in the area.

TABLE 26 -- Building Activity

Calendar Year	Lincoln City Building Permits		
	Single Family Units	Multi-family Units	Total Residential (\$000)
1994	45	167	\$12,254
1995	31	96	8,665
1996	30	27	5,259
1997	35	3	3,538
1998	36	7	4,648
1999	40	3	4,982
2000	32	10	5,910
2001	21	4	3,203
2002	34	7	6,142
2003	43	0	7,931
2004 ¹	79	0	16,061

1. As of November 2004.

Source: Center for Population Research & Census, Portland State University and U.S. Census Bureau.

TRANSPORTATION

Highway 101, the principal north-south highway on the West Coast, passes through the City. A small general aviation airport located in the City provides private and chartered air service from the City.

UTILITIES

NW Natural supplies natural gas to the area; electricity is provided by Pacific Power and Light Company. Sprint provides telephone service.

PUBLIC FACILITIES

Sewer and Water

The City owns and operates its own water system, drawing its water from Schooner Creek. The City provides water within city limits and in the unincorporated areas at Road's End and around Devils Lake, as well as all other areas within the urban growth boundary.

The City owns, operates and maintains its own sewage collection and treatment system. Proceeds from the 2005 Bonds in this issue will be used to upgrade the system.

Public Safety

The City's Police Department has mutual aid agreements with surrounding communities, as well as with the Lincoln County Sheriff's Office and the Oregon State Police. Beach and ocean emergencies are handled by the department, North Lincoln Fire & Rescue and the U.S. Coast Guard stationed in Newport and Depoe Bay, with rescue helicopters and boats. A privately-owned company provides ambulance service. The dispatch center handles fire, police and ambulance calls.

The North Lincoln Fire and Rescue District is staffed by volunteers and provides fire protection in the City and surrounding area. This new district was formed in early 1997 by merging the Devils Lake Rural Fire Protection District and the Taft-Nelscott-Delake Rural Fire Protection District.

Education

The Lincoln County School District serves the City. There are seven elementary schools, four middle schools and four high schools in the District.

Health Care

The North Lincoln Hospital is a 41-bed general hospital built in 1967 and expanded in 1982. The hospital was remodeled in 1990, adding an intensive care unit, and again in 1994, adding a family birthing center and a dialysis unit. The Hospital provides a wide range of health care services including laser treatments, MRIs, CT Scans and laparoscopy procedures, as well as a variety of programs for the community through ongoing health and wellness education programs, home health services, and Lifeline.

TOURISM

Lincoln City has 7½ miles of public beaches. It is approximately a two-hour drive from Portland and one hour from Salem, Oregon's capital city. Attractions include year-round ocean and river fishing, and golfing on the five courses in the area, including the Lakeside Golf Club. The City owns and maintains 11 beach access points, some with parking lots. Boating and water sports are popular on Devils Lake along the City's eastern border.

Major resorts in the area include Salishan Lodge, the largest convention hotel in the area, located three miles south of the City on Highway 101.

Tanger Outlet Center has over 65 brand name manufacturer and designer outlet stores.

The Oregon Coast Aquarium is located in the City of Newport, approximately 25 miles south of the City. The aquarium is located in a 40,000 square-foot building with six acres of exhibits, adjacent to the Hatfield Marine Science Center. Indoor exhibits include four galleries replicating the plant and animal communities living in the wetlands, near-shore and marine environments along the Oregon coast. Outdoor exhibits include sea otters, harbor seals, sea lions, tide pools, a coastal cave, a seabird aviary, a nature trail and children's play area. The aquarium draws approximately 1 million visitors annually.

Chinook Winds Casino and Convention Center

The Confederated Tribes of the Siletz (the "Siletz") is a federally recognized confederation of 27 bands originally ranging from Northern California to Southern Washington. Achievement of Governance through congressional legislation occurred in 1992, allowing the Siletz to compact directly with the United States government, as well as control and accountability over tribal programs and funding. The Siletz occupies and manages a 3,666 acre reservation in Lincoln County. Resources managed include timber, water and fish.

In 1995 the Siletz opened the Chinook Winds Casino and Convention Center in temporary quarters, moving into permanent facilities in 1996. The 158,000 square-foot facility includes gaming, entertainment and a restaurant overlooking the ocean. The Casino purchased the Shilo Inn Hotel in June 2004 and made it a part of the Resort. It has 247 rooms and suites, and 7,000 square feet of meeting space. Events at the Casino and Convention Center auditorium include both local and internationally-known touring acts and performers.

INFORMATION SOURCES

Historical data has been collected from generally accepted standard sources, usually from public bodies. In Oregon, data are frequently available for counties and also, to a lesser degree, for cities. This statement presents data for the City, Lincoln County, and the State of Oregon.

THE INITIATIVE PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State's office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State's office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot.

PROPOSED INITIATIVE MEASURES WHICH QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a Governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2004 general election, the requirement was eight percent (100,840 signatures) for a constitutional amendment measure and six percent (75,630 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. However, State law prohibits payment based on the number of signatures obtained on an initiative petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact only.

Historically, a larger number of initiative measures have qualified to be placed on the ballot than have been approved by the electors. According to the Elections Division of the Oregon Secretary of State, the total number of initiative petitions that have qualified for the ballot and the numbers that have passed in recent general elections are as follows:

TABLE 27 -- Initiatives in Recent Oregon General Elections

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
1990	8	3
1992	7	0
1994	16	8
1996	16	4
1998	10	6
2000	18	5
2002	7	3
2004	6	3

Note: The Secretary of State posts a listing on its website: www.sos.or.us.

Sources: Elections Division, Oregon Secretary of State.

FUTURE INITIATIVE MEASURES

The recent experience in Oregon is that many more initiative measures are proposed in some form than receive the number of signatures required to be placed on a ballot. Consequently, the City cannot accurately predict whether specific future initiative measures that may have an adverse effect on the City's financial operations will be proposed, obtain sufficient signatures, and be placed on a ballot for voter approval, or if placed on a ballot, will be approved by voters.

The Oregon Secretary of State's office maintains a list of all initiative petitions that have been submitted to that office. The office can be reached by telephone at (503) 986-1518.

CURRENT INITIATIVE MEASURES

MEASURE 37: REQUIRES GOVERNMENTS TO PAY PROPERTY OWNERS, OR FORGO ENFORCEMENT, WHEN CERTAIN LAND USE RESTRICTIONS REDUCE PROPERTY VALUE

At the November 2004 General Election, Oregon voters approved ballot Measure 37. The Measure adds several new statutory provisions to Oregon law. The measure entitles certain property owners either (a) to compensation for the reduction in the market value of their property as the result of certain land use regulations (the "Restrictions") that are enacted or enforced against the property; or (b) to have their land released from the Restrictions.

"Restrictions" do not include regulation of nuisances, public health and safety regulations, regulations required to comply with federal law, regulations restricting or prohibiting the use of a property for the purpose of selling pornography or performing nude dancing or regulations enacted prior to the date the current property owner or a member of that owner's family acquired the property. The Measure indicates that a government is not required to pay claims that arise under the Measure unless the government affirmatively acts to fund those claims. If claims are not paid within two years after they accrue, Measure 37 releases the property from the Restrictions, and it is not clear whether the government imposing the Restriction have any residual liability. Claims for Restrictions enacted prior to the effective date of the Measure must be filed within two years of the effective date of the Measure or the date the government(s) applies the Restriction to the property, whichever is later.

The measure does not change the Oregon Constitution, and the Oregon Legislative Assembly has the power to modify Measure 37. The Oregon Legislative Assembly convened its 73rd regular session on January 10, 2005.

The City has acted to enforce Restrictions; however, it is extremely difficult to predict the cost to the City because: (1) Measure 37 only applies to some property owners and to some land use regulations; (2) Measure 37 allows governments to release property from Restrictions instead of paying claims; (3) Measure 37 may not require governments to pay claims that governments choose not to fund; (4) the City can not predict how Measure 37 will be interpreted; and, (5) the Oregon Legislative Assembly may change the provisions of Measure 37 during its current session.

The City reports that as of the date of this Statement, there have been no claims and the City Council has not approved a formal policy on the handling of claims.

RECENT STATE OF OREGON DEVELOPMENTS

The State's tax receipts have been less than the amounts the State has budgeted to receive. Although the City receives a variety of revenues from the State, the State's revenue shortfall and the State's actions to address that shortfall do not currently appear likely to have a material and adverse impact on the financial condition of the City.

TAX EXEMPTION

In the opinion of Preston Gates & Ellis LLP, Bond Counsel to the City, assuming compliance with certain covenants of the City, the Bond interest is excluded from the gross income of the owners of the Bonds for federal income tax purposes under existing law. Bond interest is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Bond owned by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond owned by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion as to any such collateral federal income tax consequences. Purchasers of the Bonds should consult their own tax advisors as to collateral federal income tax consequences.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to remain excludible from the gross income of the owners of the Bonds for federal income tax purposes. The City has covenanted to comply with such requirements. Noncompliance with such requirements may cause the Interest on the Bonds to be includible in the gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants and Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

ORIGINAL ISSUE PREMIUM

The initial public offering price for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity. Bond counsel expresses no opinion with respect to the treatment of this excess. Investors should seek advice thereon from their own tax advisors.

ORIGINAL ISSUE DISCOUNT

The initial public offering price for certain maturities of the Bonds is less than the amount payable at maturity. This difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. In the opinion of Bond Counsel, the appropriate portion of the original issue discount that is allocable to the original and each subsequent holder is treated as interest upon sale, exchange, redemption, or payment at maturity of such Bonds and is excluded from gross income for federal income tax purposes under existing law to the same extent as the stated interest on the Bonds.

LITIGATION

There is no litigation pending or threatened against the City that contests the validity of the Bonds. In addition, there is no litigation pending against the City, which, if successfully prosecuted against the City, would have a material and adverse effect on the general financial condition of the City.

LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Preston, Gates & Ellis LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel Opinion is contained in Appendix B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

NOT QUALIFIED TAX EXEMPT BONDS

The City has **NOT** designated the Bonds as "**qualified tax-exempt obligations**" within the meaning of Section 265(b)(3) of the Code.

RATING AND INSURANCE

Moody's Investors Service ("Moody's") has assigned a rating of Aaa to the Bonds, with the understanding that, upon delivery of the Bonds, a policy insuring the payment when due of the principal and interest on the Bonds will be delivered by Financial Guaranty Insurance Company ("Financial Guaranty"). An explanation of the significance of the rating can be obtained from the rating agency. There are no assurances that the rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by a rating agency if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may adversely affect the market price of the Bonds. Also, Moody's has assigned an underlying rating of A3 to the Bonds.

FINANCIAL ADVISOR

The City has retained Regional Financial Advisors, Inc., Portland, Oregon, as Financial Advisor in connection with the authorization and issuance of the Bonds.

OFFICIAL STATEMENT

At the time of the original delivery of and payment for the Bonds, the City will deliver a certificate of the Finance Director, addressed to the Underwriter to the effect that the Finance Director has examined the Official Statement and the financial and other data concerning the City contained herein and that, to the Finance Director's actual knowledge and belief, (i) the Official Statement, both as of its date and as of the date of delivery of the Bonds, does not and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of the Official Statement and the date of the delivery of the Bonds there has been no material adverse change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in the Official Statement or an amendment thereto.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate, substantially in the form attached hereto as Appendix C for the benefit of Bondholders. The City previously has executed and delivered Continuing Disclosure Certificates with respect to debt issues for which the City is the "obligated person" as defined in the Rule and has not failed to comply with any prior such Continuing Disclosure Certificates.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete and reference is made to said laws for full and complete statements of their provisions.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters 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, since the date hereof.

APPENDIX A

BASIC FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2004

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BOLDT, CARLISLE & SMITH LLC

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERSHIP ■ ASSURANCE ■ INNOVATION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
CITY OF LINCOLN CITY
Lincoln City, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF LINCOLN CITY**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF LINCOLN CITY**, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General, Transient Room Tax, Urban Renewal, Urban Renewal Property Rehabilitation Program and Public Safety Police Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

A

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Established - 1968

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Honorable Mayor and Members of the City Council
CITY OF LINCOLN CITY
Lincoln City, Oregon

INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **CITY OF LINCOLN CITY** basic financial statements. The combining and individual fund statements and schedules and other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Boldt, Carlisle & Smith, LLC
Certified Public Accountants
Salem, Oregon
August 11, 2004

By: 

Douglas C. Parham, Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the City of Lincoln City (City) and the Lincoln City Urban Renewal Agency (Agency), a component unit of the City, for the fiscal year ended June 30, 2004. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget. Please read this analysis in conjunction with the City's financial statements, which follow:

FINANCIAL HIGHLIGHTS

The City's combined net assets (total assets less total liabilities) were \$59,977,641 at June 30, 2004 an increase of \$2,934,940 (or 5%) over the prior year.

Land, Construction in Progress and Other Capital Assets, net of Depreciation increased \$3,630,782 (or 7%).

The City's Urban Renewal Agency issued \$3,000,000 of new bonds.

The City's governmental funds reported combined ending fund balances of \$11,184,704, an increase of \$39,693.

The City's general fund balance totaled \$1,938,500, an increase of \$350,099 (or 22%).

The City's proprietary funds reported combined ending fund balances of \$3,846,050, an increase of \$219,892 (or 6%).

REPORT LAYOUT

This discussion and analysis are intended to serve as an introduction to the City of Lincoln City's basic financial statements. The City's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the City. The components of the report include the following:

Independent auditor's report

Management's discussion and analysis (this report)

Basic Financial Statements

Includes Statement of Net Assets, Statements of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the City.

The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds (water/sewer). Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental funds." Budgetary comparison statements are presented for all of the major governmental funds. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses, changes in net assets and cash flow.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

Other Supplementary Information

Major funds are included in the governmental fund section, non-major funds are included in this section. These statements include balance sheets, statements of revenues and expenses, changes in fund balances and budgetary information.

The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Other financial information

This section contains annual disclosure information in conformance with SEC Rule 15c2-12 and System Development Charges in accordance with ORS 223.311.

Reports by independent certified public accountants. Supplemental communication on City compliance and internal controls as required by Oregon statutes.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Assets

The City's combined net assets (total assets less total liabilities) were \$59,977,641 at June 30, 2004 an increase of \$2,934,940 (or 5%) over the prior year.

Table 1

Net Assets

	June 30, 2004			June 30, 2003		
	Governmental	Business-type	Total	Governmental	Business-type	Total
	Activities	Activities	Government	Activities	Activities	Government
Cash and Investments	\$ 11,248,481	\$ 3,730,670	\$ 14,979,151	\$ 11,114,972	\$ 3,579,215	\$ 14,694,187
Receivables	2,474,372	317,698	2,792,070	2,250,913	300,786	2,551,699
Inventories	-	68,586	68,586	-	60,381	60,381
Capital Assets, net of depreciation	<u>26,691,793</u>	<u>31,013,480</u>	<u>57,705,273</u>	<u>22,830,001</u>	<u>31,244,490</u>	<u>54,074,491</u>
Total Assets	<u>40,414,646</u>	<u>35,130,434</u>	<u>75,545,080</u>	<u>36,195,886</u>	<u>35,184,872</u>	<u>71,380,758</u>
Accounts Payable and Accrued Expenses	935,675	175,967	1,111,642	769,113	226,531	995,644
Accrued Interest Payable	27,374	-	27,374	29,827	-	29,827
Landfill Closure and Postclosure Costs	760,000	-	760,000	760,000	-	760,000
Long Term Debt Outstanding	<u>10,878,486</u>	<u>2,789,937</u>	<u>13,668,423</u>	<u>9,644,893</u>	<u>2,907,693</u>	<u>12,552,586</u>
Total Liabilities	<u>12,601,535</u>	<u>2,965,904</u>	<u>15,567,439</u>	<u>11,203,833</u>	<u>3,134,224</u>	<u>14,338,057</u>
Net Assets:						
Invested in Capital Assets, net of related debt	16,103,762	28,318,480	44,422,242	14,233,001	28,424,490	42,657,491
Restricted for:						
Capital Projects	1,156,545	2,520,239	3,676,784	2,057,804	2,310,235	4,368,039
Debt Service	1,578,959	279,076	1,858,035	926,032	279,208	1,205,240
Other Purposes	472,672	-	472,672	178,132	-	178,132
Unrestricted	<u>8,501,173</u>	<u>1,046,735</u>	<u>9,547,908</u>	<u>7,597,084</u>	<u>1,036,715</u>	<u>8,633,799</u>
Total Net Assets	<u>\$ 27,813,111</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,641</u>	<u>\$ 24,992,053</u>	<u>\$ 32,050,648</u>	<u>\$ 57,042,701</u>

Approximately 75% of the City's total assets are invested in capital assets. 10% of the City's net assets are restricted. \$3,676,784 represents proceeds from system development charges and bond proceeds, when spent, are restricted for capital projects. \$1,858,035 represents reserves in the bond funds and can only be spent in repaying outstanding debt. \$9,547,908 of the City's net assets were unrestricted and represents resources available to fund the programs of the City next year.

Changes in Net Assets: The City's total revenues were \$17,463,931, an increase of 11%. Of this, \$8,832,061 (or 51%) is from various taxes, \$5,436,459 (or 31%) is from charges for services and \$3,195,411 (or 18%) is from grants, interest earnings and other non-tax sources. More detailed information is presented in table 2 below.

The total cost of all programs and services was \$14,528,991. Of this, \$3,520,508 (or 24%) was for water and sewer and \$11,008,483 (or 76%) was for general government, public safety, highways and streets, cultural and recreation and interest.

Table 2

	Change in Net Assets					
	June 30, 2004			June 30, 2003		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Program Revenues:						
Charges for Services	\$ 1,459,556	\$ 3,976,903	\$ 5,436,459	\$ 1,099,162	\$ 3,737,528	\$ 4,836,690
Operating Grants and Contributions	43,635	-	43,635	37,545	-	37,545
Capital Grants and Contributions	401,890	-	401,890	858,081	-	858,081
General Revenues:						
Property Taxes, General Purposes	2,837,199	-	2,837,199	2,692,304	-	2,692,304
Property Taxes, Debt Service	2,415,756	-	2,415,756	2,323,863	-	2,323,863
Franchise Taxes	734,301	-	734,301	857,449	-	857,449
Transient Room Taxes	2,844,805	-	2,844,805	2,786,826	-	2,786,826
Other	<u>2,652,255</u>	<u>97,631</u>	<u>2,749,886</u>	<u>1,307,731</u>	<u>(962)</u>	<u>1,306,769</u>
Total Revenues	<u>13,389,397</u>	<u>4,074,534</u>	<u>17,463,931</u>	<u>11,962,961</u>	<u>3,736,566</u>	<u>15,699,527</u>
Program Expenses:						
General Government	3,449,336	-	3,449,336	3,636,868	-	3,636,868
Public Safety	2,516,001	-	2,516,001	2,400,548	-	2,400,548
Highways and Streets	1,151,875	-	1,151,875	1,151,658	-	1,151,658
Cultural and Recreation	3,490,528	-	3,490,528	1,869,743	-	1,869,743
Water and Sewer	-	3,520,508	3,520,508	-	3,566,136	3,566,136
Interest on Long-term Debt	<u>400,744</u>	<u>-</u>	<u>400,744</u>	<u>402,425</u>	<u>-</u>	<u>402,425</u>
Total Expenses	<u>11,008,484</u>	<u>3,520,508</u>	<u>14,528,992</u>	<u>9,461,242</u>	<u>3,566,136</u>	<u>13,027,378</u>
Change in Net Assets						
Before Transfers	2,380,913	554,026	2,934,939	2,501,719	170,430	2,672,149
Transfers	<u>440,144</u>	<u>(440,144)</u>	<u>-</u>	<u>488,972</u>	<u>(488,972)</u>	<u>-</u>
Change in Net Assets	<u>2,821,057</u>	<u>113,882</u>	<u>2,934,939</u>	<u>2,990,691</u>	<u>(318,542)</u>	<u>2,672,149</u>
Net Assets - Beginning						
Net Assets - Beginning	<u>24,992,053</u>	<u>32,050,648</u>	<u>57,042,701</u>	<u>22,001,362</u>	<u>32,369,190</u>	<u>54,370,552</u>
Net Assets - Ending	<u>\$ 27,813,110</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,640</u>	<u>\$ 24,992,053</u>	<u>\$ 32,050,648</u>	<u>\$ 57,042,701</u>

BUDGETARY HIGHLIGHTS

City Council approved three changes to the adopted budget. The first was a supplemental budget to (1) accept grant funds and purchase property for a future industrial park, (2) to provide additional funds for building inspections and plan checks. The City continues to have significant growth in new construction and remodels. This is reflected in increased building permit and system development charge revenues. (3) To provide additional funds for the expansion and remodel of the Community Center. The second change was to provide an outside stairway for the second floor of the public safety building. The third change moved amounts from contingency into operating expenditure categories to reflect actual spending patterns. These changes were less than 1.8% of total appropriations for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2004, the city had a net investment of \$57,705,273 in a broad range of capital assets, including land, infrastructure, equipment, buildings and vehicles. This amount represents a net increase (including additions and deductions) of \$3,630,782 (or 7%). More detailed information is presented in the notes to the financial statements.

Table 3

Change in Capital Assets

	June 30, 2004			June 30, 2003		
	Governmental Activities	Business-type Activities	Total Government	Governmental Activities	Business-type Activities	Total Government
Beginning Balances	\$ 22,830,001	\$ 31,244,490	\$ 54,074,491	\$ 18,130,054	\$ 31,556,230	\$ 49,686,284
Additions	5,295,829	2,168,678	7,464,507	5,799,588	1,012,813	6,812,401
Retirements	(179,180)	(1,121,925)	(1,301,105)	(102,321)	(44,738)	(147,059)
Depreciation	<u>(1,254,857)</u>	<u>(1,277,763)</u>	<u>(2,532,620)</u>	<u>(997,320)</u>	<u>(1,279,815)</u>	<u>(2,277,135)</u>
Ending Balances	<u>\$ 26,691,793</u>	<u>\$ 31,013,480</u>	<u>\$ 57,705,273</u>	<u>\$ 22,830,001</u>	<u>\$ 31,244,490</u>	<u>\$ 54,074,491</u>

Governmental Activities

Capital assets from governmental activities increased \$3,861,792. These additions were mostly for the (1) planning and design costs in the Oceanlake area by the City's Urban Renewal Agency. This major project for streetscape, undergrounding of utilities and other infrastructure improvements will begin in the fall of 2004. (2) A major expansion and remodel of the Community Center is reflected in the construction in progress category and will be completed in 2004-05. (3) The Parks Department completed a trail system in the Spring Lake area, an additional \$1,082,465 of open space was purchased during the year and the purchase of property for a future industrial park.

Business-type Activities

Capital assets from business-type activities decreased \$231,010 due to depreciation, however the Schooner Creek intake system to the water treatment plant and the Wastewater Facilities Plan were completed.

Long Term Debt

At the end of fiscal year 2004, the City had \$13,283,031 in debt outstanding, an increase of \$1,106,031. Subsequently, the City's Urban Renewal Agency issued \$5,000,000 of additional bonds in July 2004.

Table 4

	Long Term Debt	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Governmental:		
General Obligation		
Civic Center, Series 2003	\$ 1,747,000	\$ 1,962,000
Open Space, Series 1999	2,215,000	2,395,000
Urban Renewal Bonds		
Series 2002	3,750,000	5,000,000
Series 2003	<u>2,876,031</u>	<u>-</u>
Total Governmental	<u>10,588,031</u>	<u>9,357,000</u>
Business-type:		
Revenue Bonds		
Water Treatment Plant, Series 1997	<u>2,695,000</u>	<u>2,820,000</u>
Total Long Term Debt	<u>\$ 13,283,031</u>	<u>\$ 12,177,000</u>

Governmental Activities

The City's Urban Renewal Agency issued \$3,000,000 of new tax increment bonds in November 2003. The City's Series 1999 Open Space bonds carry a Moody's A3 rating and are insured. See Other Financial Information for the annual disclosure statement in conformance with SEC Rule 15c2-12.

Business-type Activities

The City's Series 1997 Water Treatment Plant bonds are insured revenue bonds. The City is in compliance with the covenants of these bonds. See Other Financial Information for the annual disclosure statement in conformance with SEC Rule 15c2-12.

The City's voters approved a General Obligation bond in November 2000 in an amount not to exceed \$4,000,000 to purchase additional water rights and to construct a pipeline to the existing water treatment plant. Bonds are anticipated to be sold in calendar year 2005.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

Governmental Activities

The City's general fund revenue is 48% dependent upon property taxes. Since 1997 property taxes have been limited by state statute to an increase of 3% a year plus new construction. The City's projected total general fund revenue for fiscal year 2005 is \$5,600,637 and expenditures of \$5,623,399. The general fund reserves total \$1,756,642 (or 31%). The other major source of revenue for governmental activities is the Transient Room Tax. This tax has increased 3% a year for the past four years and is anticipated to continue.

The City's Urban Renewal Agency has budgeted \$5,647,200 for capital projects, principally for infrastructure improvements in the Oceanlake area. The Agency and the Parks Department combined resources to fund a \$2,500,000 expansion of the Community and Senior Center in 2003-04 and will be completed in 2004-05. We anticipate continuing with our Open Space acquisition program. \$1,070,000 of grants and prior bond proceeds have been budgeted.

Business-type Activities

All of the revenue for business-type activities is from user charges and system development charges. Water and Sewer rates have been increased 5% for fiscal year 2005. This continues the City's program to increase rates in small increments each year. The Urban Renewal Agency and the City's Water Capital funds are combining resources to fund the replacement of three miles of water mains from the D River Bridge south into the Taft area. The Sewer Capital funds have budgeted \$1,886,040 for replacement and expansion of the collection system and the initial costs of a new wastewater treatment plant.

REQUESTS FOR INFORMATION

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional information, please contact the City's Finance Director at 801 HWY 101, Lincoln Square, Lincoln City, Oregon 97367. Copies of this report are also available at the Driftwood Library.

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN CITY
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	\$ 11,248,481	\$ 3,730,670	\$ 14,979,151
Receivables	2,474,372	317,698	2,792,070
Inventories	--	68,586	68,586
Land, improvements and construction in progress	13,807,129	814,269	14,621,398
Other capital assets, net of depreciation	12,884,664	30,199,211	43,083,875
TOTAL ASSETS	40,414,646	35,130,434	75,545,080
LIABILITIES			
Accounts payable and accrued expenses	935,675	175,967	1,111,642
Accrued interest payable	27,374	--	27,374
Landfill closure and postclosure care costs	760,000	--	760,000
Long-term obligations			
Due within one year	2,210,728	229,937	2,440,665
Due in more than one year	8,667,758	2,560,000	11,227,758
TOTAL LIABILITIES	12,601,535	2,965,904	15,567,439
NET ASSETS			
Invested in capital assets, net of related debt	16,103,762	28,318,480	44,422,242
Restricted for:			
Capital projects	1,156,545	2,520,239	3,676,784
Debt service	1,578,959	279,076	1,858,035
Other purposes	472,672	--	472,672
Unrestricted	8,501,173	1,046,735	9,547,908
TOTAL NET ASSETS	\$ 27,813,111	\$ 32,164,530	\$ 59,977,641

See notes to basic financial statements

CITY OF LINCOLN CITY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Totals
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Functions/Programs							
Governmental activities							
General government	\$ 3,455,891	\$ 653,850	\$ 30,000	\$ 100,000	\$ (2,672,041)		\$ (2,672,041)
Public safety	2,516,001	121,265	13,635	11,196	(2,369,905)		(2,369,905)
Highways and streets	1,151,875	52,185	--	--	(1,099,690)		(1,099,690)
Culture and recreation	3,490,528	632,256	--	290,694	(2,567,578)		(2,567,578)
Interest on long-term debt	400,743	--	--	--	(400,743)		(400,743)
TOTAL GOVERNMENTAL ACTIVITIES	<u>11,015,038</u>	<u>1,459,556</u>	<u>43,635</u>	<u>401,890</u>	<u>(9,109,957)</u>		<u>(9,109,957)</u>
Business-type activities							
Water	1,565,237	2,168,456	--	--		\$ 603,219	603,219
Sewer	1,955,271	1,808,447	--	--		(146,824)	(146,824)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>3,520,508</u>	<u>3,976,903</u>	<u>--</u>	<u>--</u>		<u>456,395</u>	<u>456,395</u>
Totals	<u>\$ 14,535,546</u>	<u>\$ 5,436,459</u>	<u>\$ 43,635</u>	<u>\$ 401,890</u>	<u>(9,109,957)</u>	<u>456,395</u>	<u>(8,653,562)</u>
General revenues							
Property taxes levied for:							
General purposes					2,837,199	--	2,837,199
Debt service					2,415,756	--	2,415,756
Franchise taxes					740,856	--	740,856
Transient room taxes					2,844,805	--	2,844,805
Other grants and contributions not restricted to specific programs					688	--	688
Unrestricted investment earnings					138,728	40,309	179,037
Miscellaneous					2,510,339	43,266	2,553,605
Gain on sale of property					2,500	14,056	16,556
Transfers					440,144	(440,144)	--
TOTAL GENERAL REVENUES AND TRANSFERS					<u>11,931,015</u>	<u>(342,513)</u>	<u>11,588,502</u>
CHANGE IN NET ASSETS					2,821,058	113,882	2,934,940
NET ASSETS - BEGINNING					<u>24,992,053</u>	<u>32,050,648</u>	<u>57,042,701</u>
NET ASSETS - ENDING					<u>\$ 27,813,111</u>	<u>\$ 32,164,530</u>	<u>\$ 59,977,641</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

	<u>General</u>	<u>Transient Room Tax</u>	<u>Urban Renewal</u>	<u>Urban Renewal Property Rehabilitation Program</u>
<u>ASSETS</u>				
Cash and investments	\$ 2,033,939	\$ --	\$ 3,489,741	\$ 113,303
Receivables	<u>408,220</u>	<u>644,205</u>	<u>--</u>	<u>728,093</u>
TOTAL ASSETS	<u>\$ 2,442,159</u>	<u>\$ 644,205</u>	<u>\$ 3,489,741</u>	<u>\$ 841,396</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 179,914	\$ --	\$ 433,734	\$ --
Other accrued liabilities	--	--	--	--
Deferred revenue	<u>323,745</u>	<u>--</u>	<u>--</u>	<u>728,093</u>
TOTAL LIABILITIES	<u>503,659</u>	<u>--</u>	<u>433,734</u>	<u>728,093</u>
<u>FUND BALANCES</u>				
Reserved for debt service	--	--	--	--
Unreserved reported in:				
General fund	1,938,500	--	--	--
Special revenue funds	--	644,205	3,056,007	113,303
Capital projects funds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL FUND BALANCES	<u>1,938,500</u>	<u>644,205</u>	<u>3,056,007</u>	<u>113,303</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,442,159</u>	<u>\$ 644,205</u>	<u>\$ 3,489,741</u>	<u>\$ 841,396</u>

Public Safety Police	Urban Renewal Tax Increment	Parks System Development Charge Improvement	Other Governmental Funds	Total Governmental
\$ 278,880	\$ 1,402,248	\$ 280,767	\$ 3,649,603	\$ 11,248,481
--	198,904	--	494,950	2,474,372
<u>\$ 278,880</u>	<u>\$ 1,601,152</u>	<u>\$ 280,767</u>	<u>\$ 4,144,553</u>	<u>\$ 13,722,853</u>
\$ 11,982	--	\$ 105,587	\$ 121,913	\$ 853,130
56,913	--	--	25,632	82,545
--	198,904	--	351,732	1,602,474
<u>68,895</u>	<u>198,904</u>	<u>105,587</u>	<u>499,277</u>	<u>2,538,149</u>
--	1,402,248	175,180	176,711	1,754,139
--	--	--	--	1,938,500
209,985	--	--	2,121,891	6,145,391
--	--	--	1,346,674	1,346,674
<u>209,985</u>	<u>1,402,248</u>	<u>175,180</u>	<u>3,645,276</u>	<u>11,184,704</u>
<u>\$ 278,880</u>	<u>\$ 1,601,152</u>	<u>\$ 280,767</u>	<u>\$ 4,144,553</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,195,021	26,691,793
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property taxes earned but not available	\$ 502,052
Assessments earned but not available	68,998
Fines earned but not available	33,991
Notes receivable earned but not available	<u>997,433</u>
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(290,455)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(11,375,405)</u>
Net assets of governmental activities	<u>\$ 27,813,111</u>

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

	General	Transient Room Tax	Urban Renewal	Urban Renewal Property Rehabilitation Program
REVENUES				
Property taxes	\$ 2,883,068	\$ -	\$ -	\$ -
Franchises and fees	1,032,242	-	-	-
Transient room tax	-	2,844,805	-	-
Fines and forfeitures	118,112	-	-	-
Rents	-	-	-	-
Loan repayments	-	-	-	85,034
Charges for services	-	-	849	-
Intergovernmental	265,890	-	30,000	-
Reimbursement from other funds	-	-	-	-
Interest on investments	22,994	91	38,329	1,514
Miscellaneous	482,650	-	-	-
TOTAL REVENUES	<u>4,804,956</u>	<u>2,844,896</u>	<u>69,178</u>	<u>86,548</u>
EXPENDITURES				
Current:				
General government	1,793,099	-	350,412	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Culture and recreation	1,028,330	-	1,600,000	-
Capital outlay	163,223	-	1,013,140	500,104
Debt service	-	-	-	-
TOTAL EXPENDITURES	<u>2,984,652</u>	<u>-</u>	<u>2,963,552</u>	<u>500,104</u>
Excess (deficiency) of revenues over expenditures	<u>1,820,304</u>	<u>2,844,896</u>	<u>(2,894,374)</u>	<u>(413,556)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	3,000,000	-
Transfers in	786,633	-	-	460,000
Transfers out	(2,256,838)	(2,833,086)	(460,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,470,205)</u>	<u>(2,833,086)</u>	<u>2,540,000</u>	<u>460,000</u>
Net change in fund balances	350,099	11,810	(354,374)	46,444
Fund Balances at beginning of year	<u>1,588,401</u>	<u>632,395</u>	<u>3,410,381</u>	<u>66,859</u>
Fund Balances at end of year	<u>\$ 1,938,500</u>	<u>\$ 644,205</u>	<u>\$ 3,056,007</u>	<u>\$ 113,303</u>

*See notes to basic financial statements
Continued on page 6*

Public Safety Police	Urban Renewal Tax Increment	Parks System Development Charge Improvement	Other Governmental Funds	Total Governmental
\$ -	\$ 2,173,983	\$ -	\$ 295,419	\$ 5,352,470
-	-	-	10,089	1,042,331
-	-	-	-	2,844,805
-	-	-	-	118,112
-	-	-	177,355	177,355
-	-	-	-	85,034
14,559	-	355,966	70,717	442,091
17,504	-	40,694	739,415	1,093,503
-	-	1,600,000	13,440	1,613,440
1,824	15,356	7,022	54,134	141,264
1,319	-	-	190,169	674,138
<u>35,206</u>	<u>2,189,339</u>	<u>2,003,682</u>	<u>1,550,738</u>	<u>13,584,543</u>
-	-	-	972,002	3,115,513
1,885,009	-	-	500,000	2,385,009
-	-	-	636,773	636,773
-	-	-	402,793	3,031,123
74,666	-	2,384,098	1,509,180	5,644,411
-	1,583,665	-	588,500	2,172,165
<u>1,959,675</u>	<u>1,583,665</u>	<u>2,384,098</u>	<u>4,609,248</u>	<u>16,984,994</u>
<u>(1,924,469)</u>	<u>605,674</u>	<u>(380,416)</u>	<u>(3,058,510)</u>	<u>(3,400,451)</u>
-	-	-	-	3,000,000
2,076,429	-	100,000	2,915,259	6,338,321
(15,947)	-	-	(332,306)	(5,898,177)
<u>2,060,482</u>	<u>-</u>	<u>100,000</u>	<u>2,582,953</u>	<u>3,440,144</u>
136,013	605,674	(280,416)	(475,557)	39,693
73,972	796,574	455,596	4,120,833	11,145,011
<u>\$ 209,985</u>	<u>\$ 1,402,248</u>	<u>\$ 175,180</u>	<u>\$ 3,645,276</u>	<u>\$ 11,184,704</u>

CITY OF LINCOLN CITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS**

TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 39,693

*Amounts reported for governmental activities in the
Statement of Activities are different because of the following:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is:

Capital outlay	\$ 5,144,324	
Depreciation	<u>(1,282,532)</u>	3,861,792

Governmental funds report loans made as expenditures while governmental activities report the loan as a receivable on the statement of net assets		339,304
---	--	---------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds as follows:

Taxes	(99,515)	
Special assessments	(12,973)	
Fines and forfeitures	16,858	
Loan repayments	<u>(92,961)</u>	(188,591)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments:

Bond proceeds	(3,000,000)	
Principal payments	<u>1,768,969</u>	(1,231,031)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest	2,453	
Compensated absences	<u>(2,562)</u>	(109)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,821,058

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Property taxes	\$ 2,806,176	\$ 2,806,176	\$ 2,883,068	\$ 76,892
Franchises and fees	908,200	988,200	1,032,242	44,042
Fines and forfeitures	122,700	122,700	118,112	(4,588)
Intergovernmental	193,350	193,350	265,890	72,540
Interest	25,200	25,200	22,994	(2,206)
Miscellaneous	463,480	463,480	482,650	19,170
TOTAL REVENUES	<u>4,519,106</u>	<u>4,599,106</u>	<u>4,804,956</u>	<u>205,850</u>
EXPENDITURES				
City council	8,600	8,600	8,313	287
City administration	255,099	255,099	242,422	12,677
Finance	549,215	549,215	547,110	2,105
Library	551,801	551,801	508,311	43,490
Municipal court	80,630	80,630	76,731	3,899
City attorney	109,100	109,100	106,969	2,131
Community development	413,655	493,655	463,881	29,774
Recreation	688,274	688,274	664,115	24,159
Vehicle maintenance	91,813	91,813	74,624	17,189
City hall operations	293,556	293,556	292,176	1,380
Contingency	522,235	522,235	--	522,235
TOTAL EXPENDITURES	<u>3,563,978</u>	<u>3,643,978</u>	<u>2,984,652</u>	<u>659,326</u>
Excess (deficiency) of revenues over expenditures	<u>955,128</u>	<u>955,128</u>	<u>1,820,304</u>	<u>865,176</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	782,479	782,479	786,633	4,154
Transfers out	(2,257,007)	(2,257,007)	(2,256,838)	(169)
OTHER FINANCING SOURCES (USES)	<u>(1,474,528)</u>	<u>(1,474,528)</u>	<u>(1,470,205)</u>	<u>(4,323)</u>
Net change in fund balances	(519,400)	(519,400)	350,099	869,499
Fund Balances at beginning of year	1,519,400	1,519,400	1,588,401	69,001
Fund Balances at end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,938,500</u>	<u>\$ 938,500</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRANSIENT ROOM TAX - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Transient room tax	\$ 2,750,000	\$ 2,844,805	\$ 94,805
Interest on investments	--	91	91
TOTAL REVENUES	2,750,000	2,844,896	94,896
EXPENDITURES			
Material and services	10,000	--	10,000
Excess (deficiency) of revenues over expenditures	2,740,000	2,844,896	104,896
OTHER FINANCING SOURCES (USES)			
Transfers out	(2,740,000)	(2,833,086)	(93,086)
Net change in fund balances	--	11,810	11,810
Fund balance at beginning of year	--	632,395	632,395
Fund balance at end of year	\$ --	\$ 644,205	\$ 644,205

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
URBAN RENEWAL - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Charges for services	\$ --	\$ 849	\$ 849
Intergovernmental	15,000	30,000	15,000
Interest on investments	70,000	38,329	(31,671)
TOTAL REVENUES	<u>85,000</u>	<u>69,178</u>	<u>(15,822)</u>
EXPENDITURES			
Personal services	220,330	161,178	59,152
Material and services	1,822,490	1,789,234	33,256
Capital outlay	4,227,269	1,013,140	3,214,129
TOTAL EXPENDITURES	<u>6,270,089</u>	<u>2,963,552</u>	<u>3,306,537</u>
Excess (deficiency) of revenues over expenditures	<u>(6,185,089)</u>	<u>(2,894,374)</u>	<u>3,290,715</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	3,500,000	3,000,000	(500,000)
Transfers out	(510,000)	(460,000)	50,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,990,000</u>	<u>2,540,000</u>	<u>(450,000)</u>
Net change in fund balances	(3,195,089)	(354,374)	2,840,715
Fund balance at beginning of year	3,195,089	3,410,381	215,292
Fund balance at end of year	<u>\$ --</u>	<u>\$ 3,056,007</u>	<u>\$ 3,056,007</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
URBAN RENEWAL PROPERTY REHABILITATION PROGRAM -
MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Original and Final Budget	Actual	Variance
REVENUES			
Interest on investments	\$ 3,000	\$ 1,514	\$ (1,486)
Loan repayments	<u>70,000</u>	<u>85,034</u>	<u>15,034</u>
TOTAL REVENUES	73,000	86,548	13,548
EXPENDITURES			
Capital outlay	<u>754,826</u>	<u>500,104</u>	<u>254,722</u>
Excess (deficiency) of revenues over expenditures	(681,826)	(413,556)	268,270
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>510,000</u>	<u>460,000</u>	<u>(50,000)</u>
Net change in fund balance	(171,826)	46,444	218,270
Fund balance at beginning of year	<u>171,826</u>	<u>66,859</u>	<u>(104,967)</u>
Fund balance at end of year	<u>\$ --</u>	<u>\$ 113,303</u>	<u>\$ 113,303</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
PUBLIC SAFETY - POLICE - MAJOR SPECIAL REVENUE FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Charges for services	\$ 19,000	\$ 19,000	\$ 14,559	\$ (4,441)
Intergovernmental	24,086	24,086	17,504	(6,582)
Interest on investments	500	500	1,824	1,324
Miscellaneous	250	250	1,319	1,069
TOTAL REVENUES	<u>43,836</u>	<u>43,836</u>	<u>35,206</u>	<u>(8,630)</u>
EXPENDITURES				
Personal services	1,739,311	1,739,311	1,649,494	89,817
Material and services	267,187	267,187	235,515	31,672
Capital outlay	78,720	88,720	74,666	14,054
Contingency	29,619	19,619	--	19,619
TOTAL EXPENDITURES	<u>2,114,837</u>	<u>2,114,837</u>	<u>1,959,675</u>	<u>155,162</u>
Excess (deficiency) of revenues over expenditures	<u>(2,071,001)</u>	<u>(2,071,001)</u>	<u>(1,924,469)</u>	<u>146,532</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,065,312	2,065,312	2,076,429	11,117
Transfers out	16,332	16,332	15,947	(385)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,048,980</u>	<u>2,048,980</u>	<u>2,060,482</u>	<u>11,502</u>
Net change in fund balance	(22,021)	(22,021)	136,013	158,034
Fund balance at beginning of year	22,021	22,021	73,972	51,951
Fund balance at end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 209,985</u>	<u>\$ 209,985</u>

See notes to basic financial statements

CITY OF LINCOLN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Enterprise Funds			Totals
	Water	Sewer	Other	
<u>ASSETS</u>				
Current assets				
Cash and investments	\$ 462,596	\$ 372,126	\$ 2,895,948	\$ 3,730,670
Receivables	165,482	152,216	--	317,698
Inventories	65,580	3,006	--	68,586
Total current assets	693,658	527,348	2,895,948	4,116,954
Noncurrent assets				
Land, improvements and construction in progress	734,618	79,651	--	814,269
Other capital assets, net of depreciation	15,657,982	14,541,229	--	30,199,211
Total noncurrent assets	16,392,600	14,620,880	--	31,013,480
TOTAL ASSETS	17,086,258	15,148,228	2,895,948	35,130,434
<u>LIABILITIES</u>				
Current liabilities				
Accounts payable	58,645	61,718	55,604	175,967
Accumulated unpaid vacation	51,585	43,352	--	94,937
Current portion of long-term obligations	135,000	--	--	135,000
Total current liabilities	245,230	105,070	55,604	405,904
Long-term obligations	2,560,000	--	--	2,560,000
TOTAL LIABILITIES	2,805,230	105,070	55,604	2,965,904
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	13,697,600	14,620,880	--	28,318,480
Restricted for:				
Capital Projects	--	--	2,520,239	2,520,239
Debt service	--	--	279,076	279,076
Unrestricted	583,428	422,278	41,029	1,046,735
TOTAL NET ASSETS	\$ 14,281,028	\$ 15,043,158	\$ 2,840,344	\$ 32,164,530

See notes to basic financial statements

CITY OF LINCOLN CITY, OREGON

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	Enterprise Funds			Totals
	Water	Sewer	Other	
OPERATING REVENUES				
Charges for services	\$ 1,995,953	\$ 1,557,599	\$ 423,351	\$ 3,976,903
OPERATING EXPENSES				
Personal services	542,278	637,116	--	1,179,394
Material and services	314,731	575,678	--	890,409
Depreciation	708,228	606,468	--	1,314,696
Total operating expenses	1,565,237	1,819,262	--	3,384,499
Operating income (loss)	430,716	(261,663)	423,351	592,404
NONOPERATING REVENUES (EXPENSES)				
Interest	4,911	3,179	32,219	40,309
Miscellaneous	208	43,058	--	43,266
Gain on disposal of capital assets	14,056	--	--	14,056
Interest	--	--	(136,009)	(136,009)
Total nonoperating revenues (expenses)	19,175	46,237	(103,790)	(38,378)
Income (loss) before transfers	449,891	(215,426)	319,561	554,026
TRANSFERS				
Transfers in	1,001,620	90,074	883,000	1,974,694
Transfers out	(999,012)	(274,132)	(1,141,694)	(2,414,838)
Total transfers	2,608	(184,058)	(258,694)	(440,144)
Change in net assets	452,499	(399,484)	60,867	113,882
Net assets - beginning of year	13,828,529	15,442,642	2,779,477	32,050,648
Net assets - end of year	\$ 14,281,028	\$ 15,043,158	\$ 2,840,344	\$ 32,164,530

See notes to basic financial statements

CITY OF LINCOLN CITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	Enterprise Funds			Totals
	Water	Sewer	Other	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,989,720	\$ 1,590,186	\$ 423,351	\$ 4,003,257
Payments to suppliers	(317,564)	(604,843)	-	(922,407)
Payments to employees	(539,443)	(632,707)	-	(1,172,150)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,132,713</u>	<u>352,636</u>	<u>423,351</u>	<u>1,908,700</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	883,000	883,000
Transfers out	(999,012)	(274,132)	(50,000)	(1,323,144)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>(999,012)</u>	<u>(274,132)</u>	<u>833,000</u>	<u>(440,144)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	16,000	-	-	16,000
Acquisition of capital assets	(96,411)	(22,525)	(993,465)	(1,112,401)
Principal paid on long-term obligations	-	-	(125,000)	(125,000)
Interest paid on long-term obligations	-	-	(136,009)	(136,009)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(80,411)</u>	<u>(22,525)</u>	<u>(1,254,474)</u>	<u>(1,357,410)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	4,911	3,179	32,219	40,309
Net increase (decrease) in cash	58,201	59,158	34,096	151,455
Cash - beginning of year	404,395	312,968	2,861,852	3,579,215
Cash - end of year	<u>\$ 462,596</u>	<u>\$ 372,126</u>	<u>\$ 2,895,948</u>	<u>\$ 3,730,670</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 430,716	\$ (261,663)	\$ 423,351	\$ 592,404
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	708,228	606,468	-	1,314,696
Other	208	43,058	-	43,266
Decrease (increase) in assets				
Receivables	(6,441)	(10,471)	-	(16,912)
Inventories	(9,729)	1,524	-	(8,205)
Increase (decrease) in liabilities				
Accounts payable	6,896	(30,689)	-	(23,793)
Accumulated unpaid vacation	2,835	4,409	-	7,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,132,713</u>	<u>\$ 352,636</u>	<u>\$ 423,351</u>	<u>\$ 1,908,700</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	\$ 13,042
Receivables	<u>2,890</u>
TOTAL ASSETS	<u>\$ 15,932</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 4,531
Funds held in trust	<u>11,401</u>
TOTAL LIABILITIES	<u>\$ 15,932</u>

See notes to basic financial statements

CITY OF LINCOLN CITY

NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2004

1. Summary of significant accounting policies

The financial statements of **CITY OF LINCOLN CITY** have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting standards.

In June 1999, the GASB approved Statement No. 34 (GASB 34), *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement provides for significant changes in financial reporting, including new reporting requirements relating to the City's infrastructure (roads, bridges, sidewalks, and similar items). The City has implemented GASB 34 and the related *Omnibus* Statement 37, as well as GASB Statement No. 36, *Certain Financial Statement Note Disclosures*.

A. Organization

The City was incorporated as a home-rule city on March 3, 1965, consolidating the incorporated cities of Taft, Delake and Oceanlake, and the unincorporated communities of Cutler City and Nelscott.

Control of the City is vested in its mayor and council members who are elected to office by voters within the City. Administrative functions are delegated to individuals who report to and are responsible to the council. The chief administrative officer is the city manager.

B. Reporting entity

The accompanying financial statements present the government and component units for which the City is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government.

The city council serves as the governing board of the **LINCOLN CITY URBAN RENEWAL AGENCY**. Therefore, the accounts of the agency are included in the financial statements of the City.

Complete financial statements for the **LINCOLN CITY URBAN RENEWAL AGENCY** may be obtained from the City's finance department.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting

The basic financial statements include both government-wide and fund based financial statements. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide Financial Statements

The government-wide financial statements display information about all of the nonfiduciary activities of the City, and its component unit.

The statement of activities presents a comparison between direct expenses and program revenues for the City's programs. Direct expenses are those that are clearly allocable with a specific function or segment. The City does not allocate indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary funds financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government-wide statements and proprietary funds have applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the functions of the City, the elimination of which would distort the direct costs and program revenues reported for the various functions concerned.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting (continued)

Measurement Focus and Basis of Accounting (continued)

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

The basis of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within thirty days after year end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent they have been incurred. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt are reported as other financing sources.

The basis of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

Fund Financial Statements

The fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

The City reports the following major governmental funds:

- *General*
This is the City's primary operating fund. It accounts for the financial operations of the City except those required to be accounted for in another fund. Principal sources of revenue are property taxes, fees, licenses and state apportionments.
- *Transient Room Tax*
Accounts for room taxes collected which are transferred to other funds.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of Presentation, Measurement Focus, and Basis of Accounting (continued)

Fund Financial Statements (continued)

- *Urban Renewal*
Accounts for the general administration of the City's urban renewal areas. Resources are primarily provided from bond sales.
- *Urban Renewal Property Rehabilitation Program*
Accounts for the rehabilitation loan program. Resources are primarily provided from interest and proceeds from various borrowings.
- *Public Safety Police*
Accounts for the operation of the police department. Resources are primarily provided from transfers from other funds.
- *Urban Renewal Tax Increment*
Accounts for the payment of principal and interest on Urban Renewal Bonds. Resources are provided from tax increment proceeds and interest earnings.
- *Parks System Development*
Accounts for park and playground improvements. Resources are primarily provided from system development charges.

The City reports the following major proprietary funds:

- *Water*
Accounts for the water system operations. This fund is predominantly self-supported through user charges to customers.
- *Sewer*
Accounts for the sewer system operations. This fund is predominantly self-supported through user charges to customers.

Additionally, the City reports the following fiduciary fund:

- *Agency Funds*
Account for assets held in a purely custodial capacity for others (assets equal liabilities).

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

D. Budget policies and budgetary control

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds except agency funds. The modified accrual basis of accounting is used for all budgets. All annual appropriations lapse at fiscal year end.

The City begins its budgeting process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The City adopts the budget, makes appropriations, and declares the tax levy no later than June 30.

Expenditure appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The City establishes levels of budgetary control at personal services, materials and services, capital outlay, operating contingencies, and debt service for all funds, except the General Fund, where budgetary control is established at the department level.

Budget amounts shown in the basic financial statements have been revised since the original budget amounts were adopted. The City must authorize all appropriation transfers and supplementary budgetary appropriations.

E. Inventories

Inventories consisting of water and sewer system supplies and materials are stated at cost, on a first-in, first-out basis.

F. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

G. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are recorded at estimated fair value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more, and an estimated useful life of greater than five years. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	25-40
Improvements other than buildings	10-20
Machinery and equipment	5-10
Vehicles	5-10
Utility systems	25-40
Infrastructure	20-40

Depreciation is taken in the year the assets are acquired or retired based upon the number of months held. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

H. Long-term debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses.

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

I. Compensated absences

1. *Sick leave*

The City has a policy which permits full-time employees to accumulate unused sick leave at the rate of one day per month over their working careers. The City does not compensate the employees for unused accumulations upon termination of employment.

Sick leave, which does not vest, is recognized in funds when leave is taken.

2. *Vacation leave*

Each employee earns vacation at rates determined by their length of employment. An employee can accumulate a maximum of 320 hours.

Accumulated vested vacation leave is accrued as it is earned. For governmental funds, the non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. Only the current portion is reported in the governmental funds, and is calculated based on historical trends. In business-type/enterprise funds, both the current and long-term liabilities are recorded

J. Cash equivalents

For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

K. User Charges

User charges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to user charges receivable. Changes in the valuation allowance have not been material to the financial statements.

2. Deposits and investments

At June 30, 2004, the carrying amount of the City's deposits was \$367,498 and the bank balance was \$801,978. Of the bank balance, \$206,786 was covered by federal depository insurance, \$148,566 was collateralized with securities held by the pledging financial institution's agent in the City's name, and \$446,626 was not collateralized.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Deposits and investments (continued)

Statutes authorize the City to invest in obligations of the U. S. Treasury and U. S. agencies, banker's acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

The City invests in the State Treasurer's Investment Pool, which has regulatory oversight by the Oregon Short Term Fund Board and whose investments are approved by the Oregon Investment Council. The fair value of the City's position in the pool is the same as the value of the pool shares.

The City's deposits and investments at June 30, 2004, are shown below:

Deposits	\$ 367,498
Investments	<u>14,624,695</u>
Total deposits and investments	<u>\$ 14,992,193</u>
Deposits and investments by activity	
Governmental activities	\$ 11,248,481
Business-type activities	3,730,670
Fiduciary funds	<u>13,042</u>
	<u>\$ 14,992,193</u>

Investments

The City's investments as of June 30, 2004 are categorized below to give an indication of the level of custodial credit risk assumed by the City. Category (1) includes investments that are insured or registered, or held by the City or its agent in the City's name. Category (2) includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

The City's investments in U.S. Government Securities at June 30, 2004, totaled \$2,498,594 in Category 2. The City's investment in certificates of deposit at June 30, 2004, totaled \$1,000,000 in Category 1. The Oregon State Local Government Investment Pool is not required to be categorized.

	<u>Carrying Value</u>	<u>Fair Value</u>
Investments:		
U.S. Government securities	\$ 2,498,594	\$ 2,479,070
Certificate of deposits	1,000,000	1,000,000
Oregon State Local Government Investment Pool	<u>11,126,101</u>	<u>11,126,101</u>
	<u>\$ 14,624,695</u>	<u>\$ 14,605,171</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Receivables

Receivables as of June 30, 2004, for the City's governmental funds, net of applicable allowances for uncollectible accounts are as follows:

	General	Transient Room Tax	Urban Renewal Property Rehabili- tation Program	Urban Renewal Tax Increment	Other Governmental Funds	Totals
Property taxes	\$ 289,754	\$ -	\$ -	\$ 198,904	\$ 13,394	\$ 502,052
Intergovernmental	11,351	-	-	-	140,648	151,999
Fines and warrants	33,116	-	-	-	-	33,116
Franchise fees	69,125	-	-	-	2,570	71,695
Room taxes	-	644,205	-	-	-	644,205
Unbonded assessments	-	-	-	-	68,998	68,998
Notes-housing rehabilitation	-	-	728,093	-	269,340	997,433
Other	4,874	-	-	-	-	4,874
	<u>\$ 408,220</u>	<u>\$644,205</u>	<u>\$ 728,093</u>	<u>\$ 198,904</u>	<u>\$ 494,950</u>	<u>\$ 2,474,372</u>

Receivables as of June 30, 2004, for the City's proprietary funds are as follows:

	Water	Sewer	Totals
User charges	\$ 175,044	\$ 149,251	\$ 324,295
Allowance for doubtful accounts	(9,562)	(1,027)	(10,589)
Miscellaneous	-	3,992	3,992
	<u>\$ 165,482</u>	<u>\$ 152,216</u>	<u>\$ 317,698</u>

A. Property taxes

i. Collection procedures

Taxes are levied on July 1 and are payable in three installments due November 15, February 15 and May 15. Lincoln County bills and collects property taxes for the City.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3. Receivables (continued)

ii. Transactions

	Balances July 1, 2003	2003-04 Levy	Adjust- ments	Net Interest (Dis- counts)	Collec- tions	Balances June 30, 2004
Current	\$	\$ 5,436,405	\$ (71,168)	\$(125,100)	\$ 4,997,417	\$ 242,720
Prior	<u>601,567</u>	--	<u>(103,900)</u>	<u>56,961</u>	<u>295,296</u>	<u>259,332</u>
Totals	<u>\$ 601,567</u>	<u>\$ 5,436,405</u>	<u>\$ (175,068)</u>	<u>\$ (68,139)</u>	5,292,713	<u>\$ 502,052</u>
Tax offsets and adjustments					<u>59,757</u>	
Total property tax revenue					<u>\$ 5,352,470</u>	
			<u>General</u>	<u>Urban Renewal Tax Increment</u>	<u>Other Govern- mental Funds</u>	<u>Totals</u>
<u>Analysis of property tax revenue</u>						
Current			\$ 2,680,719	\$2,033,478	\$ 275,339	\$4,989,536
Prior			<u>202,349</u>	<u>140,505</u>	<u>20,080</u>	<u>362,934</u>
			<u>\$ 2,883,068</u>	<u>\$2,173,983</u>	<u>\$ 295,419</u>	<u>\$ 5,352,470</u>

iii. Ensuing year's levy

The permanent tax rate is 4.0996 per \$1,000 assessed value as limited by the Constitution of the State of Oregon.

The Lincoln City Urban Renewal Agency will levy 100 percent of the amount of its authority under option one of ORS 457.435(2)(a) for the retirement of long-term obligations principal and interest without making a special levy in 2004-05.

The tax rate limit of \$10.00 per thousand of assessed value imposed by the Oregon Constitution is not expected to affect these levies.

In addition, the City will levy \$300,000 for retirement of long-term debt principal and interest due in 2004-05.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. Capital Assets

A. Transactions for the year ended June 30, 2004 of the governmental activities, were as follows:

Description	Beginning Balances	Increases	Decreases	Ending Balances
Non-depreciable capital assets				
Land	\$ 8,743,388	\$ 1,990,672	\$ -	\$ 10,734,060
Construction in progress	<u>301,508</u>	<u>2,923,066</u>	<u>(151,505)</u>	<u>3,073,069</u>
Total non-depreciable capital assets	<u>9,044,896</u>	<u>4,913,738</u>	<u>(151,505)</u>	<u>13,807,129</u>
Depreciable capital assets				
Buildings	7,791,150	8,789	-	7,799,939
Heavy equipment	508,472	-	(27,675)	480,797
Urban renewal projects	501,866	6,156	-	508,022
System improvements	9,867,112	77,914	-	9,945,026
Vehicles	531,226	43,468	-	574,694
Equipment and furnitures	2,009,109	185,372	-	2,194,481
Books and art	<u>771,191</u>	<u>60,392</u>	<u>-</u>	<u>831,583</u>
Total depreciable capital assets	<u>21,980,126</u>	<u>382,091</u>	<u>(27,675)</u>	<u>22,334,542</u>
Accumulated depreciation	<u>(8,195,021)</u>	<u>(1,282,532)</u>	<u>27,675</u>	<u>(9,449,878)</u>
Total depreciable capital assets, net	<u>13,785,105</u>	<u>(900,441)</u>	<u>-</u>	<u>12,884,664</u>
Governmental activities capital assets, net				
	<u>\$ 22,830,001</u>	<u>\$ 4,013,297</u>	<u>\$ (151,505)</u>	<u>\$ 26,691,793</u>

B. Depreciation expense for governmental activities is charged to functions as follows:

General government	\$ 340,378
Public safety	128,430
Highways and streets	515,102
Culture and recreation	<u>298,622</u>
Total depreciation expense for governmental activities	<u>\$ 1,282,532</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4. Capital assets (continued)

C. Transactions for the year ended June 30, 2004 of the business-type activities, were as follows:

Description	Beginning Balances	Increases	Decreases	Ending Balances
Non-depreciable capital assets				
Land and improvements	\$ 186,798	\$ -	\$ -	\$ 186,798
Construction in progress	<u>767,021</u>	<u>943,498</u>	<u>(1,083,048)</u>	<u>627,471</u>
Total non-depreciable capital assets	<u>953,819</u>	<u>943,498</u>	<u>(1,083,048)</u>	<u>814,269</u>
Depreciable capital assets				
Buildings	482,078	-	-	482,078
Facilities	48,144,047	1,106,346	-	49,250,393
Equipment	<u>1,168,484</u>	<u>118,834</u>	<u>(38,877)</u>	<u>1,248,441</u>
Total depreciable capital assets	<u>49,794,609</u>	<u>1,225,180</u>	<u>(38,877)</u>	<u>50,980,912</u>
Accumulated depreciation	<u>(19,503,938)</u>	<u>(1,314,696)</u>	<u>36,933</u>	<u>(20,781,701)</u>
Total depreciable capital assets, net	<u>30,290,671</u>	<u>(89,516)</u>	<u>(1,944)</u>	<u>30,199,211</u>
Business-type activities capital assets, net	<u>\$ 31,244,490</u>	<u>\$ 853,982</u>	<u>\$ (1,084,992)</u>	<u>\$ 31,013,480</u>

D. Depreciation expense for business-type activities is charged to functions as follows:

Water	\$ 708,228
Sewer	<u>606,468</u>
Total depreciation expense for business-type activities	<u>\$ 1,314,696</u>

E. Infrastructure

GASB 34 requires the City to report the cost of infrastructure (e.g., roads, bridges, sidewalks, and similar items), acquired or substantially reconstructed since 1980, net of applicable depreciation in the presentation of capital assets in the government-wide financial statements. GASB 34 allows a deferral for implementing the infrastructure reporting requirement of up to an additional four years. The City has elected to delay the reporting of infrastructure as allowed.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations

A. Transactions for the year ended June 30, 2004 of the governmental activities, were as follows:

	Balances July 1, 2003	Issued	Additions	Reductions	Balances June 30, 2004	Balances Due Within One year
<u>General Obligation Bonds</u>						
Civic Center, Series 2003 A and B, interest from 3.4 to 4.1 percent						
Principal	\$1,962,000	\$ -	\$ -	\$ 215,000	\$ 1,747,000	\$ 230,000
Interest	15,362	-	78,492	82,068	11,786	-
	<u>1,977,362</u>	<u>-</u>	<u>78,492</u>	<u>297,068</u>	<u>1,758,786</u>	<u>230,000</u>
Open Area Bonds, Series 1999, interest from 4.0 to 5.0 percent						
Principal	2,395,000	-	-	180,000	2,215,000	185,000
Interest	9,286	-	110,803	111,433	8,656	-
	<u>2,404,286</u>	<u>-</u>	<u>110,803</u>	<u>291,433</u>	<u>2,223,656</u>	<u>185,000</u>
<u>Tax Increment Bonds</u>						
Urban Renewal Bonds, Series 2002, interest at 3.39 percent						
Principal	5,000,000	-	-	1,250,000	3,750,000	1,250,000
Interest	5,179	-	147,253	148,548	3,884	-
	<u>5,005,179</u>	<u>-</u>	<u>147,253</u>	<u>1,398,548</u>	<u>3,753,884</u>	<u>1,250,000</u>
Urban Renewal Bonds, Series 2003, interest at 3.94 percent						
Principal	-	3,000,000	-	123,969	2,876,031	255,273
Interest	-	-	64,197	61,149	3,048	-
	<u>-</u>	<u>3,000,000</u>	<u>64,197</u>	<u>185,118</u>	<u>2,879,079</u>	<u>255,273</u>
<u>Accumulated vacation</u>	<u>287,893</u>	<u>2,562</u>	<u>-</u>	<u>-</u>	<u>290,455</u>	<u>290,455</u>
	<u>9,674,720</u>	<u>\$3,002,562</u>	<u>\$400,745</u>	<u>\$2,172,167</u>	<u>10,905,860</u>	<u>\$2,210,728</u>
Less accrued interest payable	<u>29,827</u>				<u>27,374</u>	
Total long-term obligations	<u>\$9,644,893</u>				<u>\$10,878,486</u>	

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations (continued)

B. Transactions for the year ended June 30, 2004 of the business-type activities, were as follows:

<u>Revenue Bonds</u>	Balances July 1, 2003	Additions	Reduction	Balances June 30, 2004	Balances Due Within One year
Water Treatment Plant Bonds, Series 1997, interest from 4.25 to 5.2 percent					
Principal	\$ 2,820,000	\$ -	\$ 125,000	\$ 2,695,000	\$ 135,000
Interest	-	136,009	136,009	-	-
	<u>2,820,000</u>	<u>136,009</u>	<u>261,009</u>	<u>2,695,000</u>	<u>135,000</u>
Accumulated vacation	87,693	7,244	-	94,937	94,937
	<u>\$ 2,907,693</u>	<u>\$ 143,253</u>	<u>\$ 261,009</u>	<u>\$ 2,789,937</u>	<u>\$ 229,937</u>

C. The future maturities for governmental activity long-term obligations outstanding as of June 30, 2004, are as follows:

Fiscal Year	Totals		Civic Center Series 2003 A and B		Open Area Bond, Series 1999		Urban Renewal Bonds, Series 2002		Urban Renewal Bonds, Series 2003		Accumulated Vacation
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004-05	\$ 2,210,728	\$ 385,715	\$ 230,000	\$ 67,442	\$ 185,000	\$ 103,873	\$ 1,250,000	\$ 105,938	\$ 255,273	\$ 108,462	\$ 290,455
2005-06	1,923,375	316,727	223,000	58,886	185,000	95,917	1,250,000	63,564	265,375	98,360	-
2006-07	1,959,877	246,219	239,000	49,395	195,000	87,778	1,250,000	21,188	275,877	87,858	-
2007-08	740,794	195,405	249,000	39,463	205,000	79,002	-	-	286,794	76,940	-
2008-09	773,144	164,243	260,000	29,079	215,000	69,573	-	-	298,144	65,591	-
2010-14	<u>3,270,568</u>	<u>352,659</u>	<u>546,000</u>	<u>25,399</u>	<u>1,230,000</u>	<u>185,022</u>	<u>-</u>	<u>-</u>	<u>1,494,568</u>	<u>142,238</u>	<u>-</u>
	<u>\$ 10,878,486</u>	<u>\$ 1,660,968</u>	<u>\$ 1,747,000</u>	<u>\$ 269,664</u>	<u>\$ 2,215,000</u>	<u>\$ 621,165</u>	<u>\$ 3,750,000</u>	<u>\$ 190,690</u>	<u>\$ 2,876,031</u>	<u>\$ 579,449</u>	<u>\$ 290,455</u>

D. The future maturities of business-type activity long-term obligations outstanding as of June 30, 2004, are as follows:

Fiscal Year	Water Treatment Plant Bonds, Series 1997		Accumulated Vacation	Totals	
	Principal	Interest		Principal	Interest
2004-05	\$ 135,000	\$ 130,286	\$ 94,937	\$ 229,937	\$ 130,286
2005-06	140,000	124,133	-	140,000	124,133
2006-07	145,000	117,684	-	145,000	117,684
2007-08	155,000	110,781	-	155,000	110,781
2008-09	165,000	103,300	-	165,000	103,300
20010-14	960,000	384,763	-	960,000	384,763
2015-19	<u>995,000</u>	<u>106,933</u>	<u>-</u>	<u>995,000</u>	<u>106,933</u>
	<u>\$ 2,695,000</u>	<u>\$ 1,077,880</u>	<u>\$ 94,937</u>	<u>\$ 2,789,937</u>	<u>\$ 1,077,880</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations (continued)

E. Revenue bond covenants

The City is in compliance with the covenants of the Water Treatment Plant Bonds, Series 1997.

6. Landfill closure and postclosure care costs

The City is a member of the Lincoln County Consortium for Solid Waste Management, which was organized in 1984 to assume responsibility for the management and closure of the Agate Beach Landfill site.

State and federal laws and regulations require the Consortium to place a final cover on its Agate Beach Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$760,000 reported as landfill closure and postclosure care costs liability at June 30, 2004, represents the City's 24.6 percent share of the Consortium's estimated unfunded costs and is based on submissions of engineering estimates, construction bids and projected monitoring costs over the next 30 years. The estimated liability is based on the assumption that the least expensive leachate disposal alternative will be used. These amounts are based on what it would cost to perform all closure and postclosure care in 1998. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

During 1993-94, the City began charging a surcharge to its solid waste franchisee in order to fund its share of closure and postclosure care costs. This surcharge was discontinued July 1, 2003. At June 30, 2004, the City's Agate Beach Closure Fund had a fund balance of \$844,324.

7. Deferred revenue

Resources owned by the City, which are measurable but not available and are deferred in the governmental funds, consist of the following:

	General	Urban Renewal Property Rehabili- tation Program	Urban Renewal Tax Increment	Other Governmental Funds	Totals
Property taxes	\$ 289,754	\$ -	\$ 198,904	\$ 13,394	\$ 502,052
Fines and warrants	33,991	-	-	-	33,991
Assessments	-	-	-	68,998	68,998
Notes - housing rehabilitation	-	728,093	-	269,340	997,433
Totals	\$ 323,745	\$ 728,093	\$ 198,904	\$ 351,732	\$1,602,474

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

8. Lease obligations

The City has entered into a number of operating leases for office equipment, land rent, and police cars. The minimum future requirements of the leases are as follows:

<u>Year Ended June 30,</u>	
2005	\$ 1,965
2006	840
2007	840
2008	840
2009	840
2010-2012	3,360

Current year expenditures under lease agreements were \$55,411.

9. Segment information for Enterprise Funds

The City has issued revenue bonds to finance its water department. The water department is comprised of the water fund, water capital fund, water treatment plant construction fund and water treatment plant bond fund. Summary financial information for the water department is as follows:

CONDENSED STATEMENT OF NET ASSETS

Current assets	\$ 1,897,178
Capital assets	<u>16,392,600</u>
Total assets	<u>18,289,778</u>
Current liabilities	273,015
Long-term obligations	<u>2,560,000</u>
Total liabilities	<u>2,833,015</u>
Net assets	
Invested in capital assets, net of related debt	13,697,600
Restricted	1,134,706
Unrestricted	<u>624,457</u>
Total net assets	<u>\$ 15,456,763</u>

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

9. Segment information for Enterprise Funds (continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues (pledged against bonds)	\$ 2,168,456
Depreciation expense	708,228
Other operating expenses	<u>857,009</u>
Operating income	603,219
Nonoperating revenues (expenses)	(103,321)
Transfers in	808,000
Transfers out	<u>(1,049,012)</u>
Change in net assets	258,886
Beginning net assets	<u>15,197,877</u>
Ending net assets	<u>\$ 15,456,763</u>

CONDENSED SYSTEM OF CASH FLOWS:

Net cash provided (used) by:

Operating activities	\$ 1,260,706
Noncapital financing activities	(191,012)
Capital and related financing activities	(1,268,040)
Investing activities	<u>18,424</u>
Net (decrease) in cash	(179,922)
Beginning cash	<u>1,846,038</u>
Ending cash	<u>\$ 1,666,116</u>

10. Defined benefit pension plan

A. Cost-sharing multiple-employer plan

Plan description

The City contributes to the Oregon Public Employees Retirement System (PERS) which is governed by the provisions of Oregon Revised Statutes Chapter 238. PERS is a cost-sharing multiple-employer defined benefit pension plan which provides retirement and disability benefits, cost of living adjustments and death benefits to members and beneficiaries. Prior to July 1, 2002 the City's PERS plan was an agent multiple-employer defined benefit pension plan.

The governing authority of the system is the Public Employees Retirement Board (PERB) which is required to take actions necessary to maintain the system as a qualified governmental retirement plan under the Internal Revenue Code and related regulations. In this regard, PERB may impose limits on contributions, benefit payments and other limitations or procedures.

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees System, P.O. Box 23700, Tigard, OR 97281-3700 or by calling (503) 598-7377.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

A. Cost-sharing multiple-employer plan (continued)

Funding policy

The contribution rate of 6 percent of salary for members is set by state statute. The contribution rate for Oregon cities is set by PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits. The City's current rate is 4.72 percent of member salaries.

The City's contributions to the system for the years ending June 30, 2004 and 2003, were equal to the City's required contributions for each year as follows:

<u>Years Ended June 30</u>	<u>City Contribution</u>
2004	\$ 188,348
2003	311,137

B. Agent multiple-employer plan

Plan Description

Prior to July 1, 2002 the City's PERS plan was an agent multiple-employer defined benefit pension plan with the following provisions:

Funding Policy

The contribution rate of 6 percent of salary for members is set by state statute. The contribution rate for the City is set by PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

10. Defined benefit pension plan (continued)

B. Agent multiple-employer plan (continued)

Annual Pension Cost

The required contributions were determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included:

- (a) 8 percent rate of return on the investment of present and future assets (net of administrative expenses).
- (b) Projected salary increases of 4.25 percent per year attributable to general wage adjustments, with additional increases for promotion and longevity that vary by age and service.
- (c) Projected automatic cost-of-living benefit increases of 2 percent per year.

Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open thirty-year basis.

Three-year Trend Information

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual Pension Cost (APC)	\$ N/A	\$ N/A	\$ 42,748
Percentage of APC contributed	N/A	N/A	100
Net pension obligation	\$ N/A	\$ N/A	\$ --

Schedule of Funding Progress

	<u>Valuation Date</u>	
	<u>December 31,</u>	
	<u>1999</u>	<u>1997</u>
Actuarial Value of Assets (AVA)	\$ 12,981,597	\$ 8,275,754
Actuarial Accrued Liability (AAL)	10,509,595	6,292,498
Excess AVA over AAL (EAVAAAL)	\$ 2,472,002	\$ 1,983,256
Funded Percent	124	132
Covered Payroll (CP)	\$ 3,674,715	\$ 3,336,731
EAVAAAL as a percentage of CP	67.3	59.4

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

11. Contingency – sick leave

Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment, however, such redemptions cannot be reasonably estimated. As of June 30, 2004, employees of the City had accumulated 2,959 days of sick leave.

12. 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. In 1981, the League of Oregon Cities joined together with the Association of Oregon Cities to form City County Insurance Services (CCIS), a public entity risk pool currently operating as a common risk management and insurance program for approximately 265 municipal corporations and associated entities in the State of Oregon. CCIS is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$2 million for each insured event.

The City continues to carry commercial insurance for other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Subsequent events

On July 28, 2004, the City issued the Year 2000 Development Area Urban Renewal Bond, Series 2004 in the amount \$5,000,000. Interest is 4% with quarterly principal and interest payments commencing September 20, 2004.

14. Lease income

The City leases a building for \$153,000 annually plus management fees. The lease will expire April 16, 2005; however, the lessee has affirmed its desire to exercise a 5 year renewal option with annual rent of \$159,751.32. Rental revenue for the year ended June 30, 2004 was \$153,000. Future minimum rentals are as follows:

2004-05	\$	167,438
2005-06		159,751
2006-07		159,751
2007-08		159,751
2008-09		159,751
2009-10		133,126

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

15. Commitments

As of June 30, 2004, the City has construction contracts in process as follows:

	<u>Expended To Date</u>	<u>Total Commitment</u>	<u>Remaining Commitment</u>
Community Center	<u>\$ 1,964,332</u>	<u>\$ 2,226,579</u>	<u>\$ 262,247</u>

16. Interfund Transfers

Cash transfers are indicative of funding for capital projects, debt service, subsidies of various city operations and re-allocations of special revenues. The following schedule briefly summarizes the City's transfer activity:

	Transfers In:									
	Cash						Non-cash			
	Urban Renewal Property Rehabilitation General	Public Safety - Police Program	Parks System Development Charge Improvement	Other Govern- mental Funds	Other Enterprise Funds	Total cash Transfers	Water	Sewer	Total Transfers Out	
General	\$ -	\$ -	\$ 1,740,000	\$ -	\$ 516,838	\$ -	\$ 2,256,838	\$ -	\$ -	\$ 2,256,838
Transient Room Tax	266,054	-	336,429	-	2,230,603	-	2,833,086	-	-	2,833,086
Urban Renewal	-	460,000	-	-	-	-	460,000	-	-	460,000
Public Safety - Police	-	-	-	-	15,947	-	15,947	-	-	15,947
Other governmental funds	124,922	-	-	100,000	107,384	-	332,306	-	-	332,306
Water	220,312	-	-	-	20,700	758,000	999,012	-	-	999,012
Sewer	175,345	-	-	-	23,787	75,000	274,132	-	-	274,132
Other enterprise funds	-	-	-	-	-	50,000	50,000	1,001,620	90,074	1,141,694
Total transfers in	<u>\$ 786,633</u>	<u>\$ 460,000</u>	<u>\$ 2,076,429</u>	<u>\$ 100,000</u>	<u>\$ 2,915,259</u>	<u>\$ 883,000</u>	<u>\$ 7,221,321</u>	<u>\$ 1,001,620</u>	<u>\$ 90,074</u>	<u>\$ 8,313,015</u>

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APPENDIX B
FORM OF BOND COUNSEL OPINION

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April 12, 2005

City of Lincoln City
P. O. Box 50
Lincoln City, Oregon 97367

Morgan Stanley DW Inc.
101 California Street, 7th Floor
San Francisco, California 94111

Subject: \$15,000,000 City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Lincoln City, Oregon (the "City") of its General Obligation Sewer Bonds, Series 2005 (the "Bonds"), in the aggregate principal amount of Fifteen Million Dollars (\$15,000,000). The Bonds are issued pursuant to the authority granted by the voters of the City at an election held on November 2, 2004, a Bond Declaration that is dated the date of delivery of the Bonds, and Resolution 2005-03 of the City adopted on January 24, 2005 (collectively, the "Resolution"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the Bonds, and we express no opinion relating thereto.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The Bonds constitute valid and legally binding general obligations of the City enforceable in accordance with their terms. The City has pledged its full faith and credit to the payment of the Bonds. The Bonds are payable from ad valorem taxes which may be levied without limitation as to rate or amount on all taxable property within the boundaries of the City.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under existing law.

3. Interest on the Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals or corporations. Interest on a Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

4. The initial public offering price for certain maturities of the Bonds is less than the amount payable at maturity. This difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. The appropriate portion of the original issue discount that is allocable to the original and each subsequent holder is treated as interest upon sale, exchange, redemption, or payment at maturity of such Bond and is excluded from gross income for federal income tax purposes under existing law to the same extent as the stated interest on the Bonds.

Legal Opinion
April 12, 2005
Page 2

5. Interest on the Bonds is exempt from Oregon personal income tax under existing law.

We note that the City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral federal income tax consequences.

Under the Code, the City is required to comply with certain requirements relating to the investment and use of the proceeds of the Bonds, and the City has covenanted to comply with these requirements. Failure to comply with these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Our opinion assumes compliance with such covenants, and we do not undertake to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

These opinions are based on existing law and we assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

The opinions set forth above are qualified only to the extent that enforceability of the Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on the opinions expressed. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to our attention or any change in law that may hereafter occur.

The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Preston Gates & Ellis LLP.

Legal Opinion
April 12, 2005
Page 3

We have served only as bond counsel to the City in connection with the Bonds and have not represented any other party in connection with the Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Our opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

Lawyers

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APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Lincoln City, Oregon (the “City”) in connection with the issuance of the City’s General Obligation Sewer Bonds, Series 2005 (the “Obligations”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders of the Obligations and to assist the underwriter(s) of the Obligations in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”). This Certificate constitutes the City’s written undertaking for the benefit of the owners of the Obligations as required by Section (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Obligations, including persons holding Obligations through nominees or depositories.

“Commission” means the United States Securities and Exchange Commission.

“MSRB” means the United States Municipal Securities Rulemaking Board or any successor to its functions.

“NRMSIR” means a nationally recognized municipal securities information repository.

“Official Statement” means the final official statement for the Obligations dated March 29, 2005.

“Rule” means the Commission’s Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

“SID” means a state information depository for the State of Oregon (if one is created).

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the City’s latest publicly available annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) and generally of the type included in the Official Statement

for the Obligations under the heading " Basic Financial Statements For Year Ended June 30, 2004 (Appendix A)." To the extent not included in its annual financial statements, the City shall also provide a statement containing: (1) the total real market value and total assessed value of property within the City (as indicated in the records of the county assessors) of the type presented in Table 13 of the Official Statement; (2) the amount or rate of property taxes levied by the City for the fiscal year, and the amount of property taxes the City received during the fiscal year of the type presented in Table 19 of the Official Statement; (3) information regarding the representative aggregate tax rate for all ad valorem property taxes levied within the City of the type presented in Table 16 of the Official Statement; and, (4) the total principal amount of general obligation bonds and other tax-supported bonds of the City which are outstanding at the end of the fiscal year of the type presented in Table 9 of the Official Statement.

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the City's fiscal year, commencing with information for fiscal year 2004-2005. The City's current fiscal year ends June 30. The City may adjust this fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing this annual financial information separately, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to the appropriate SID, if any, notice of its failure to provide the annual financial information described in Section 3 on or prior to the date set forth in the preceding paragraph.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Oregon Local Budget Law (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Obligations, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves for the Obligations reflecting financial difficulties;
4. Unscheduled draws on credit enhancements for the Obligations reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Obligations;

7. Modifications to the rights of Obligation owners;
8. Optional redemption of Obligations prior to their maturity;
9. Defeasance of the Obligations;
10. Release, substitution or sale of property securing repayment of the Obligations; and
11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Obligations; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections 3 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the Obligations, or the type of business conducted;

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

C. The amendment or waiver either (i) is approved by the owners of the Obligations or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners of the Obligations.

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

Section 7. Obligation Owner's Remedies Under This Certificate. The right of any Obligation Owner or Beneficial Owner of Obligations to enforce the provisions of this

Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Obligations hereunder.

Section 8. DisclosureUSA. Any filing required to be made with any NRMSIR or SID under this Certificate may be made by transmitting such filing solely to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 9. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

City Official

APPENDIX D
BOOK-ENTRY-ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

DTC LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$400 million, one certificate will be issued with respect to each \$400 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.]
- [6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in

bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX E
SPECIMEN BOND INSURANCE POLICY

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Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
 To Financial Guaranty Insurance Company
 Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent



Blanket Issuer Letter of Representations
[To be Completed by Issuer]

City of Lincoln City, Oregon
[Name of Issuer]

October 1, 1997
[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street; 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

City of Lincoln City, Oregon
(Issuer)

By: *Ron Tierney*
(Authorized Officer's Signature)

Ron Tierney, Finance Director
(Typewrite Name & Title)

801 S.W. Highway 101
(Street Address)

Lincoln City, Oregon 97367
(City) (State) (Zip)

503-996-2152
(Phone Number)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY
By: *Roger Bando*

**SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$200 million, one certificate will be issued with respect to each \$200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. 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.

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

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

8. Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. 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, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

BOND DECLARATION

City of Lincoln City, Oregon

General Obligation Sewer Bonds

Series 2005

Executed on behalf of the City of Lincoln City, Oregon

As of the 12th day of April, 2005

Table of Contents

<u>Section 1.</u>	<u>Definitions.</u>	1
<u>Section 2.</u>	<u>Bond Authorized.</u>	2
<u>Section 3.</u>	<u>Security for Bonds.</u>	3
<u>Section 4.</u>	<u>Tax Covenants.</u>	3
<u>Section 5.</u>	<u>Book Entry System</u>	3
<u>Section 6.</u>	<u>Redemption of Bonds.</u>	4
<u>Section 7.</u>	<u>Authentication, Registration and Transfer.</u>	5
<u>Section 8.</u>	<u>Amendment of Declaration.</u>	6
<u>Section 9.</u>	<u>Default and Remedies.</u>	7
<u>Section 10.</u>	<u>Defeasance.</u>	8
<u>Section 11.</u>	<u>Form.</u>	8
<u>Section 12.</u>	<u>Rules of Construction.</u>	8

Appendix A Form of Bond

BOND DECLARATION

THIS BOND DECLARATION is executed as of April 12, 2005, on behalf of the City of Lincoln City, Oregon by its City Manager, acting as the "City Official" pursuant to City Resolution No. 2005-03 which was adopted by the City Council on January 24, 2005. That resolution authorizes the City Official to execute a bond declaration which contains the terms of the City's General Obligation Sewer Bonds, Series 2005 and the covenants of the City relating to those Bonds.

Section 1. Definitions.

Unless the context clearly requires otherwise, the following terms shall have the following meanings:

"BEO" means "book-entry-only" and refers to a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

"Bond Declaration" means this Bond Declaration, including any amendments made in accordance with Section 5 of this Bond Declaration.

"Bonds" means the City's General Obligation Sewer Bonds, Series 2005, that are described in Section 2 of this Bond Declaration.

"Business Day" means any day except a Saturday, a Sunday, a legal holiday, a day on which the Paying Agent or offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

"City Official" means the City Manager or the Finance Director or the person designated by the City Manager to act on behalf of the City pursuant to the Resolution.

"City" means the City of Lincoln City, Oregon.

"Code" means the Internal Revenue Code of 1986, as amended.

"DTC" means The Depository Trust Company, in New York, New York.

"Event of Default" refers to an Event of Default listed in Section 9(1) of this Bond Declaration.

"Government Obligations" means direct noncallable obligations of the United States, or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States.

"Outstanding" refers to all Bonds authorized and delivered pursuant to this Declaration except Bonds which have been paid, canceled, or defeased pursuant to Section 10 of this Declaration, and Bonds which have matured but have not been presented for payment for the payment of which adequate money has been transferred to the Paying Agent.

“Owner” means the person shown on the Bond register maintained by the Paying Agent as the registered owner of a Bond.

“Paying Agent” means the registrar and paying agent for the Bonds, which, at the time of execution of this Declaration, is Wells Fargo Bank Northwest, National Association.

“Resolution” means City Resolution No. 2005-03 which was adopted by the City Council on January 24, 2005, and which authorizes the execution of this Bond Declaration and the issuance and sale of the Bonds.

Section 2. Bond Authorized.

- (1) Pursuant to the Resolution, the City hereby authorizes the issuance, sale and delivery of its General Obligation Sewer Bonds, Series 2005, in accordance with this Bond Declaration and in a principal amount of \$15,000,000.00. The Bonds shall be dated April 12, 2005, shall bear interest which is payable on June 1 and December 1 of each year, commencing December 1, 2005, and shall mature on the following dates in the following principal amounts:

	Due	Interest	CUSIP
	<u>June 1</u>	<u>Rate</u>	<u>(533079)</u>
	<u>Principal</u>		
2006	255,000	3.000	BD0
2007	305,000	3.000	BE8
2008	370,000	3.000	BF5
2009	380,000	3.000	BG3
2010	395,000	4.000	BH1
2011	405,000	4.000	BJ7
2012	425,000	4.000	BK4
2013	440,000	4.000	BL2
2014	465,000	4.000	BM0
2015	490,000	4.000	BN8
2016	510,000	4.000	BP3
2017	540,000	4.000	BQ1
2018	565,000	4.200	BR9
2019	595,000	4.250	BS7
2020	620,000	4.250	BT5
2021	655,000	4.300	BU2
2022	685,000	4.375	BV0
2023	720,000	4.400	BW8
2024	755,000	4.400	BX6
2025	795,000	4.500	BY4
2026	835,000	4.500	BZ1
2027	875,000	4.600	CAS
2028	920,000	4.625	CB3
2029	1,000,000	4.700	CC1
2030	1,000,000	4.625	CD9

- (2) Bond proceeds shall be used to finance the improvement and expansion of the City's sewage treatment plant and collection system and to pay costs of issuing the Bonds.

Section 3. Security for Bonds.

- (1) The Bonds shall be general obligations of the City. The City hereby pledges its full faith and credit to pay the Bonds, and the City covenants for the benefit of the Bondowners that the City shall levy annually, as provided by law, in addition to its other ad valorem property taxes and outside the limitations of Sections 11 and 11b of Article IX of the Oregon Constitution, a direct ad valorem tax upon all of the taxable property within the City in sufficient amount, after considering sewer system revenues that the City Council makes available to pay the Bonds and expected discounts and delinquencies in the payment of those ad valorem taxes, to pay the Bonds promptly as they mature.
- (2) This Bond Declaration shall constitute a contract with the Owners.

Section 4. Tax Covenants.

The City covenants with the owners of the Bonds to use the proceeds of the Bonds and to otherwise comply with the provisions of the Code so that interest paid on the Bonds will not be includable in gross income of the Owners for federal income tax purposes. The City specifically covenants:

- (1) the City shall not take any action or omit any action, if it would cause any series of Bonds to become "arbitrage bonds" under Section 148 of the Code;
- (2) the City shall operate the facilities financed with the Bonds so that no Bonds are "private activity bonds" within the meaning of Section 141 of the Code.

Section 5. Book Entry System

The Bonds shall be initially issued in BEO form and shall be governed by this Section 5. While Bonds are in BEO form no physical Bonds shall be provided to the Owners. A Blanket Issuer Letter of Representations has been executed and delivered to DTC. While the Bonds are in BEO form, registration and transfer of beneficial interests in the Bonds shall be governed by that letter and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the Blanket Issuer Letter of Representations. So long as Bonds are in BEO form:

- (1) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of Bonds. Bond payments shall be made, and notices shall be given, to DTC in accordance with the Blanket Issuer Letter of Representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of Bonds called for redemption or of any other action premised on such notice.
- (2) The City may discontinue maintaining the Bonds in the BEO form at any time. The City

shall discontinue maintaining the Bonds in BEO form if DTC determines not to continue to act as securities depository for the Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.

- (3) If the City discontinues maintaining the Bonds in book-entry only form, the City shall cause the Paying Agent to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 7. below, regarding registration, transfer and exchange of Bonds shall apply.
- (4) The City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
 - (A) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the Bonds;
 - (B) the delivery to any participant or correspondent or any other person of any notice with respect to the Bonds, including any notice of prepayment;
 - (C) the selection by DTC of the beneficial interest in Bonds to be redeemed prior to maturity; or
 - (D) the payment to any participant, correspondent, or any other person other than the registered owner of the Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, any premium or interest on the Bonds.
 - (E) The provisions of this Section 5. may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC or any successor depository for bonds issued in book-entry only form.

Section 6. Redemption of Bonds.

- (1) The Bonds maturing after June 1, 2015 are subject to redemption prior to maturity at the option of the City in whole or in part on June 1, 2015 and on any date thereafter at a price of par, plus accrued interest to the date of redemption. The City may select the maturities to be redeemed. Within a maturity Bonds will be selected for redemption by lot. The City reserves the right to purchase Bonds in the open market.
- (2) So long as Bonds are in book-entry only form, the Paying Agent shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the Blanket Issuer Letter of Representation submitted to DTC in connection with the issuance of the Bonds.
- (3) During any period in which the Bonds are not in book-entry only form, unless waived by any Owner of the Bonds to be redeemed, official notice of any redemption of Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official

redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent. The City shall notify the Paying Agent of any intended redemption not less than 45 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:

- (A) the redemption date,
- (B) the redemption price,
- (C) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

Section 7. Authentication, Registration and Transfer.

- (1) No Bond shall be entitled to any right or benefit under this Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all Bonds to be delivered at closing of the Bonds, and shall additionally authenticate all Bonds properly surrendered for exchange or transfer pursuant to this Declaration.
- (2) The ownership of all Bonds shall be entered in the Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the Bond register as the owner of the Bond for all purposes.
- (3) While the Bonds are in book-entry only form, the Paying Agent shall transfer Bond principal and interest payments in the manner required by DTC.
- (4) If the Bonds cease to be in book-entry only form, the Paying Agent shall mail each interest payment on the interest payment date (or the next Business Day if the payment date is not a Business Day) to the name and address of the Owners as they appear on the Bond register as of the record date for the Bonds. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- (5) Bonds may be exchanged for an equal principal amount of Bonds of the same maturity which are in different denominations, and Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:
 - (A) written instructions for exchange or transfer satisfactory to the Paying Agent,

signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent and

- (B) the Bonds to be exchanged or transferred.
- (6) The Paying Agent shall not be required to exchange or transfer any Bonds submitted to it during any period beginning with a record date and ending on the next following payment date; however, such Bonds shall be exchanged or transferred promptly following that payment date.
- (7) The Paying Agent shall note the date of authentication on each Bond. The date of authentication shall be the date on which the Owner's name is listed on the Bond register.
- (8) For purposes of this Section 7, Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 7(5), above.
- (9) The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Section 8. - Amendment of Declaration.

- (1) The City may amend this Declaration without the consent of any Owner for any one or more of the following purposes:
 - (A) To cure any ambiguity or formal defect or omission in this Declaration;
 - (B) To add to the covenants and agreements of the City in this Declaration other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Declaration as theretofore in effect;
 - (C) To confirm, as further assurance, any security interest or pledge created under this Declaration or any Supplemental Declaration;
 - (D) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the Owners.
- (2) This Declaration may be amended for any other purpose only upon consent of Owners representing not less than fifty-one percent (51%) in aggregate principal amount of the adversely affected Bonds then Outstanding. However, no amendment shall be valid, without the consent of Owners representing not less than one hundred percent (100%) in aggregate principal amount of Bonds then Outstanding, which:
 - (A) Extends the maturity of any Bonds, reduces the rate of interest upon any Bonds, extends the time of payment of interest on any Bonds, reduces the amount of principal payable on any Bonds, or reduces any premium payable on any Bonds,

without the consent of the affected Owner; or

- (B) Reduces the percent of Owners required to approve amendments to this Declaration.

Section 9. Default and Remedies.

- (1) The occurrence of one or more of the following shall constitute a Event of Default under this Declaration:
 - (A) Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption);
 - (B) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed for the benefit of Owners of Bonds, for a period of 60 days after written notice to the City by the Owners of ten percent or more of the principal amount of Bonds then Outstanding specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such 60 day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the 60 day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this Section 9(1)(B); or,
 - (C) The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for the installment payments.
- (2) The Owners of ten percent or more of the principal amount of Bonds then Outstanding may waive any Event of Default and its consequences, except a Event of Default described in Section 9(1)(A).
- (3) Upon the occurrence and continuance of any Event of Default hereunder the Owners of ten percent or more of the principal amount of Bonds then Outstanding may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the Owners of Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Declaration or in aid of the exercise of any power granted in this Declaration or for the enforcement of any other legal or equitable right vested in the Owners of Bonds by this Declaration or by law. However, the Bonds shall not be subject to acceleration.
- (4) No remedy in this Declaration conferred upon or reserved to Owners of Bonds is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Declaration 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 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. To entitle the Owners of

Bonds to exercise any remedy reserved to them, it shall not be necessary to give any notice other than such notice as may be required by this Declaration or by law.

Section 10. Defeasance.

The City shall be obligated to pay Bonds which are defeased pursuant to this Section solely from the money and Government Obligations deposited with the escrow agent or paying agent, and the City shall have no further obligation to pay the defeased Bonds from any source except the amounts deposited in the escrow. Bonds shall be deemed defeased if the City:

- (1) irrevocably deposits money or noncallable Government Obligations in escrow with an independent paying agent or escrow agent which are calculated to be sufficient for the payment of Bonds which are to be defeased; and
- (2) files with the escrow agent or paying agent an opinion from an independent, certified public accountant to the effect that the money and the principal and interest to be received from the Government Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and
- (3) files with the escrow agent or paying agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause the interest component of the Bonds to be includable in gross income under the Code.

Section 11. Form.

The Bonds shall be issued in substantially the form attached to this Declaration as Appendix A, with any changes that are approved by a City Official. The Bond shall be executed on behalf of the City with the facsimile signatures of the Mayor and of the City Recorder.

Section 12. Rules of Construction.

In determining the meaning of provisions of this Bond Declaration, the following rules shall apply unless the context clearly requires application of a different meaning:

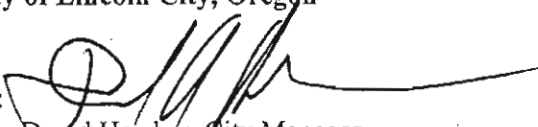
- (1) References to section numbers shall be construed as references to sections of this Bond Declaration.
- (2) References to one gender shall include all genders.
- (3) References to the singular shall include the plural, and references to the plural shall include the singular.

[The remainder of this page is left blank intentionally.]

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By:

A handwritten signature in black ink, appearing to read 'D. Hawker', written over the printed name 'David Hawker, City Manager'.

David Hawker, City Manager

Appendix A

Form of Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
 State of Oregon
 Counties of Lincoln
City of Lincoln City
 General Obligation Sewer Bond
 Series 2005

Dated Date: April 12, 2005**Interest Rate Per Annum:** «CouponRate»%**Maturity Date:** June 1, «MaturityYear»**CUSIP Number:** 533079«CUSIPNumbr»**Registered Owner:** ----Cede & Co.----**Principal Amount:** -----«PrincipalAmtSpelled» Dollars-----

The City of Lincoln City, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first day of June and the first day of December in each year until maturity or prior redemption, commencing December 1, 2005. Payment of each installment of interest shall be made on the payment date to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently The Bank of New York Trust Company, National Association (the "Paying Agent"), as the Registered Owners appear on the registration books as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This Bond is one of a duly authorized series of bonds aggregating \$15,000,000 in principal amount designated as General Obligation Sewer Bonds, Series 2005 (the "Bonds"). The Bonds are to finance costs of improvement and expansion of the City's sewage treatment plant and collection system, and costs of issuing the Bonds. The Bonds are issued under and pursuant to Resolution No. 2005-03 of the City adopted on January 24, 2005 (the "Resolution") and a Bond Declaration dated as of the 12th day of April, 2005 (the "Declaration") executed pursuant to the Resolution. The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Bonds constitute valid and legally binding obligations of the City. The full faith and credit of the City are pledged for the punctual payment of the principal of and interest on the Bonds. The City has pledged and is obligated by law to provide for the levy and collection annually of ad valorem taxes without limitation as to rate or amount on all taxable property within the boundaries of the City to pay the principal of and interest on the Bonds. The Bonds do not constitute a debt or indebtedness of Clackamas, Multnomah or Washington Counties, the State of Oregon, or any political subdivision thereof other than the City.

The Bonds are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. Records of ownership of beneficial interests in the Bonds will be maintained by The Depository Trust Company and its participants.

Should the book-entry only security system be discontinued, the Bonds shall be issued in the form of registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such Bonds may

be exchanged for Bonds of the same aggregate principal amount, interest rate and maturity date, but different authorized denominations, as provided in the Declaration.

The Bonds shall mature and be subject to redemption as described in the Final Official Statement for the Bonds which is dated March 29, 2005.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Declaration. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company promptly of any Bonds called for redemption not less than 30 days prior to the date fixed for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds. All Bonds called for redemption shall cease to bear interest from the date designated in the notice.

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the bond register kept for that purpose by the Paying Agent. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Paying Agent may treat the person in whose name this Bond is registered on the bond register as its absolute owner for all purposes, as provided in the Declaration.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to the City or the Paying Agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall remain in the Paying Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Paying Agent and DTC.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon and the Charter of the City; and that the issue of which this Bond is a part, and all other obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes and City Charter; and that the City has covenanted to levy a tax upon all taxable property within the City in an amount sufficient, with other available funds, to pay when due the interest on and the principal of the Bonds.

IN WITNESS WHEREOF, the Council of the City of Lincoln City, Oregon, has authorized this Bond to be signed by facsimile signature of its Mayor and the City Recorder as of the date first indicated above.

City of Lincoln City, Oregon

Mayor

City Recorder

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005 (the "Bonds"), such policy being on file at the principal office of The Bank of New York Trust Company, in Los Angeles, California, as paying agent (the "Paying Agent").

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal or accreted value (if applicable) of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to the principal or accreted value (if applicable), the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal or accreted value (if applicable) of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal, accreted value or interest (as applicable) has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancellable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE
PAYING AGENT IN THE SPACE INDICATED BELOW.

This Bond is one of a duly authorized series of \$15,000,000 aggregate principal amount of City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005, issued pursuant to the Declaration described herein.

Date of authentication: April 12, 2005.

The Bank of New York Trust Company, National Association, as Paying Agent and Registrar

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

(Please insert social security or other identifying number of assignee)

this Bond and does hereby irrevocably constitute and appoint as attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed _____

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- tenants in common

TEN ENT -- as tenants by the entireties

JT TEN -- as joint tenants with right of survivorship and not as tenants in common

OREGON CUSTODIANS use the following

_____ CUST UL OREG _____ MIN
as custodian for (name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Counties of Lincoln
City of Lincoln City
General Obligation Sewer Bond
Series 2005

Dated Date: April 12, 2005
Interest Rate Per Annum: «CouponRate»%
Maturity Date: June 1, «MaturityYear»
CUSIP Number: 533079«CUSIPNumbr»
Registered Owner: -----Cede & Co.-----
Principal Amount: -----«PrincipalAmtSpelled» Dollars-----

The City of Lincoln City, Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first day of June and the first day of December in each year until maturity or prior redemption, commencing December 1, 2005. Payment of each installment of interest shall be made on the payment date to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently The Bank of New York Trust Company, National Association (the "Paying Agent"), as the Registered Owners appear on the registration books as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This Bond is one of a duly authorized series of bonds aggregating \$15,000,000 in principal amount designated as General Obligation Sewer Bonds, Series 2005 (the "Bonds"). The Bonds are to finance costs of improvement and expansion of the City's sewage treatment plant and collection system, and costs of issuing the Bonds. The Bonds are issued under and pursuant to Resolution No. 2005-03 of the City adopted on January 24, 2005 (the "Resolution") and a Bond Declaration dated as of the 12th day of April, 2005 (the "Declaration") executed pursuant to the Resolution. The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Bonds constitute valid and legally binding obligations of the City. The full faith and credit of the City are pledged for the punctual payment of the principal of and interest on the Bonds. The City has pledged and is obligated by law to provide for the levy and collection annually of ad valorem taxes without limitation as to rate or amount on all taxable property within the boundaries of the City to pay the principal of and interest on the Bonds. The Bonds do not constitute a debt or indebtedness of Clackamas, Multnomah or Washington Counties, the State of Oregon, or any political subdivision thereof other than the City.

The Bonds are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. Records of ownership of beneficial interests in the Bonds will be maintained by The Depository Trust Company and its participants.

Should the book-entry only security system be discontinued, the Bonds shall be issued in the form of registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such Bonds may be exchanged for Bonds of the same aggregate principal amount, interest rate and maturity date, but different authorized denominations, as provided in the Declaration.

The Bonds shall mature and be subject to redemption as described in the Final Official Statement for the Bonds which is dated March 29, 2005.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Declaration. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company promptly of any Bonds called for redemption not less than 30 days prior to the date fixed for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds. All Bonds called for redemption shall cease to bear interest from the date designated in the notice.

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the bond register kept for that purpose by the Paying Agent. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Paying Agent may treat the person in whose name this Bond is registered on the bond register as its absolute owner for all purposes, as provided in the Declaration.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to the City or the Paying Agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall remain in the Paying Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Paying Agent and DTC.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon and the Charter of the City; and that the issue of which this Bond is a part, and all other obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes and City Charter; and that the City has covenanted to levy a tax upon all taxable property within the City in an amount sufficient, with other available funds, to pay when due the interest on and the principal of the Bonds.

IN WITNESS WHEREOF, the Council of the City of Lincoln City, Oregon, has authorized this Bond to be signed by facsimile signature of its Mayor and the City Recorder as of the date first indicated above.

City of Lincoln City, Oregon



Lori Hollingsworth, Mayor



Oneita McCalman, City Recorder

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005 (the "Bonds"), such policy being on file at the principal office of The Bank of New York Trust Company, in Los Angeles, California, as paying agent (the "Paying Agent").

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal or accreted value (if applicable) of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to the principal or accreted value (if applicable), the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal or accreted value (if applicable) of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal, accreted value or interest (as applicable) has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancellable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

SP
THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE PAYING AGENT IN THE SPACE INDICATED BELOW.

This Bond is one of a duly authorized series of \$15,000,000 aggregate principal amount of City of Lincoln City, Oregon, General Obligation Sewer Bonds, Series 2005, issued pursuant to the Declaration described herein.

Date of authentication: April 12, 2005.

The Bank of New York Trust Company, National Association, as Paying Agent and Registrar

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____

(Please insert social security or other identifying number of assignee)

this Bond and does hereby irrevocably constitute and appoint _____ as attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

- TEN COM -- tenants in common
- TEN ENT -- as tenants by the entireties
- JT TEN -- as joint tenants with right of survivorship and not as tenants in common

OREGON CUSTODIANS use the following

_____ CUST UL OREG _____ MIN
as custodian for (name of minor)

OR UNIF TRANS MIN ACT
under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.

BondNumber	PrincipalAmt Number	CouponRate	MaturityYear	CUSIPNumbr	PrincipalAmt Spelled
1	255,000	3.000	2006	BD0	Two Hundred Fifty-Five Thousand
2	305,000	3.000	2007	BE8	Three Hundred Five Thousand
3	370,000	3.000	2008	BF5	Three Hundred Seventy Thousand
4	380,000	3.000	2009	BG3	Three Hundred Eighty Thousand
5	395,000	4.000	2010	BH1	Three Hundred Ninety-Five Thousand
6	405,000	4.000	2011	BJ7	Four Hundred Five Thousand
7	425,000	4.000	2012	BK4	Four Hundred Twenty-Five Thousand
8	440,000	4.000	2013	BL2	Four Hundred Forty Thousand
9	465,000	4.000	2014	BM0	Four Hundred Sixty-Five Thousand
10	490,000	4.000	2015	BN8	Four Hundred Ninety Thousand
11	510,000	4.000	2016	BP3	Five Hundred Ten Thousand
12	540,000	4.000	2017	BQ1	Five Hundred Forty Thousand
13	565,000	4.200	2018	BR9	Five Hundred Sixty-Five Thousand
14	595,000	4.250	2019	BS7	Five Hundred Ninety-Five Thousand
15	620,000	4.250	2020	BT5	Six Hundred Twenty Thousand
16	655,000	4.300	2021	BU2	Six Hundred Fifty-Five Thousand
17	685,000	4.375	2022	BV0	Six Hundred Eighty-Five Thousand
18	720,000	4.400	2023	BW8	Seven Hundred Twenty Thousand

SP e c i n n

19					Seven Hundred Fifty- Five Thousand Seven Hundred Ninety-Five Thousand
20	755,000	4.400	2024	BX6	Eight Hundred Thirty-Five Thousand
21	795,000	4.500	2025	BY4	Eight Hundred Seventy-Five Thousand
22	835,000	4.500	2026	BZ1	Nine Hundred Twenty Thousand
23	875,000	4.600	2027	CA5	One Million
24	920,000	4.625	2028	CB3	One Million
24	1,000,000	4.700	2029	CC1	One Million
25	1,000,000	4.625	2030	CD9	One Million

Specimen

Lincoln City City Council
Council Chambers, City Hall

August 23, 2004
Page 1

CALL TO ORDER

Mayor Hollingsworth called the City Council meeting of August 23, 2004, to order at 7:00 p.m.

A. ROLL CALL

Council members present were: Ed Kuntz, Douglas Holbrook, Chester Noreikis; Wes Ryan, and Mayor Hollingsworth. Roger Sprague and Gary Ellingson had an excused absence.

City staff members present were: City Manager David Hawker, City Attorney Chris Thomas, Police Sgt. Mark Hopkins, Finance Director Ron Tierney, Planning & Community Development Director Richard Townsend, Public Works Director Lila Bradley, and City Recorder Oneita McCalman.

B. PLEDGE OF ALLEGIANCE

Mr. Ryan led the Pledge of Allegiance.

C. COMMENTS FROM CITIZENS PRESENT - AGENDA/NON-AGENDA ITEMS

Robert "Scotty" Scotton, 1814 NW 38th St., expressed a desire to have the council agenda on the City's web page; thought the City should have a policy on English Ivy growth and maintain city property and vacant lands; and very anxious to have the Community Center finished.

D. CONSENT AGENDA

- 1. Minutes: August 9, 2004
- 2. Proclamation: National Library Card Sign Up Month
- 3. Motion to first read Ordinances by title only

Mr. Ryan moved and Mr. Kuntz seconded to approve the consent agenda. Motion passed unanimously.

E. SPECIAL ORDER OF BUSINESS

- 1. Resolution Clarifying Resolution No. 2004-06 Regarding Establishment of a Homeless Shelter Under the Leadership of He's My Brother, Inc., DR 2004-23

Mr. Thomas gave a brief explanation of his recommendation to table this resolution pending the land use process.

Mr. Kuntz moved and Mr. Noreikis seconded to table DR #2004-23 to an unspecified time. Motion passed unanimously.

F. CITY MANAGER'S REPORT

- 1. Transportation Master Plan Update

Ms. Bradley gave a brief status report on the Transportation Master Plan. Still waiting on ODOT's traffic analysis. She suggested a couple of dates for Council workshop on this project.

It was the majority of Council to meet on October 18, 2004, from 4 to 6 p.m.

2. GIS Demonstration

City staff, Assistant Finance Director Mark Nicholson, Associate Planner Gary Leikness, and Engineering Tech Tony Barnett gave a power point presentation of the many valuable uses of a GIS system. Mr. Jim Clark and Ms. Shirley Seymour, GeoSolve, consultants were present to answer any questions.

3. City Manager Updates: None

G. DEPARTMENT/COMMITTEE REPORT - None

Lincoln City City Council
Council Chambers, City Hall

August 23, 2004
Page 2

H. PUBLIC HEARING

A Public Hearing to receive citizens comments on a proposed Supplemental Budget

Mayor Hollingsworth opened the Public Hearing at 8:10 p.m.

Mr. Tierney gave a brief staff report and the need for this supplemental budget.

There being no one requesting to speak, Mr. Ryan moved and Mr. Holbrook seconded to close the Public Hearing at 8:13 p.m. Motion passed unanimously.

I. ORDINANCES FOR ADOPTION - NONE

J. RESOLUTIONS FOR APPROVAL

1. A Resolution Submitting to the Voters at the November 2, 2004 General Election a Ballot Measure Authorizing the City to Issue Up to \$22 Million in General Obligation Bonds for Capital Improvements to the Sanitary Sewage Treatment Plant and Collection System, Draft Resolution 2004-25

2. A Resolution Adopting the Supplemental Budget of the City of Lincoln City, Oregon For the Fiscal Year 2004-05 as Approved by the City Council, and Making Appropriations, Draft Resolution 2004-27

Mr. Ryan moved and Mr. Noreikis seconded to approve Draft Resolution 2004-27.

A roll call vote was taken and is as follows: Mr. Noreikis-yes; Mr. Ryan-yes; Mr. Holbrook-yes; Mr. Kuntz-yes; and Mayor Hollingsworth-yes. Motion passed unanimously.

Mr. Kuntz moved and Mr. Ryan seconded to approve Draft Resolution No. 2004-25.

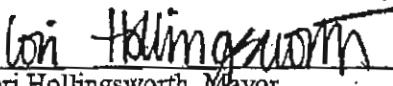
A roll call vote was taken and is as follows: Mr. Ryan-yes; Mr. Holbrook-yes; Mr. Kuntz-yes; Mr. Noreikis-yes; and Mayor Hollingsworth-yes. Motion passed unanimously.

K. ADDITIONAL COMMENTS FROM CITIZENS PRESENT - None

L. ANNOUNCEMENTS OR COMMENTS BY CITY COUNCIL - None

K. ADJOURNMENT

There being no further business, Mayor Hollingsworth adjourned the meeting at 8:18 p.m.


Lori Hollingsworth, Mayor

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RESOLUTION NO. 2004 - 27

A RESOLUTION SUBMITTING TO THE VOTERS AT THE NOVEMBER 2, 2004 GENERAL ELECTION A BALLOT MEASURE AUTHORIZING THE CITY TO ISSUE UP TO \$22 MILLION IN GENERAL OBLIGATION BONDS FOR CAPITAL IMPROVEMENTS TO THE SANITARY SEWAGE TREATMENT PLANT AND COLLECTION SYSTEM

WHEREAS, the City's sanitary sewage treatment plant is 20 years old; and

WHEREAS, the aeration basins at the treatment plant are leaking sewage into the ground and ground water; and

WHEREAS, the City is experiencing sanitary sewage overflows at some of its pumping stations during high rainfall events because the pumps do not have enough capacity; and

WHEREAS, the City is experiencing infiltration and inflow problems in some areas of the sanitary sewage collection system due to the characteristics and age of the system, high ground water, and the high levels of rainfall during the winter season; and

WHEREAS, in order to protect the environment from pollution, to meet requirements imposed by the Oregon Department of Environmental Quality under Federal and State laws and regulations that the DEQ administers, and to provide sufficient capacity to serve future growth, the City must:

1. Upgrade the aeration basins to eliminate leakage,
2. Upgrade pumping stations to eliminate overflows,
3. Reduce infiltration and inflow to increase system capacity,
4. Increase the treatment plant's capacity to serve future growth, and
5. Otherwise expand and improve the sewer system's facilities; and

WHEREAS, to accomplish these objectives, the City Council on July 12, 2004 adopted the 2004 Wastewater Facilities Plan for the City's sanitary sewer facilities, updating and replacing the June 1995 Wastewater Master Plan; and

WHEREAS, the 2004 Wastewater Facilities Plan calls for approximately \$22 million in capital improvements to the sanitary sewer system to be completed by the 2009-2010 fiscal year;

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and

WHEREAS, the City Council has determined that the most cost effective way to finance the needed capital improvements, for the City's sanitary sewer ratepayers and taxpayers, will be for the City to raise the needed funds by issuing general obligation bonds; and

WHEREAS, the approval of the City's voters is required for the issuance of general obligation bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LINCOLN CITY, AS FOLLOWS:

Section 1. There shall be submitted to the electors of the City a bond measure with the Ballot Title attached hereto as Exhibit A, containing the question whether the City shall issue up to \$22 million of general obligation bonds for expansion and improvement of the City's sanitary sewage treatment plant and collection system, which measure shall be placed on the ballot for the general election to be held on November 2, 2004.

Section 2. The explanatory statement to be published in the Lincoln County Voters Pamphlet, as required by ORS 251.345, shall be the Explanatory Statement attached hereto as Exhibit B.

Section 3. The City Manager and City Recorder are authorized and directed to cause this Resolution and the Ballot Title and Explanatory Statement to be submitted to the Lincoln County Elections Officer in a timely manner as required by law, for inclusion on the November 2, 2004 general election ballot and in the Lincoln County Voters Pamphlet; and to perform all other acts that are required or convenient to submit this measure to the electorate.

Section 4. This resolution shall be effective as of the date of its adoption by the City Council.

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PASSED AND ADOPTED by the City Council of the City of Lincoln City this 25th day
of August, 2004.

Lori Hollingsworth
LORI HOLLINGSWORTH, MAYOR

ATTEST:
Oneita McCalman
ONEITA MCCALMAN, CITY RECORDER

EXHIBIT A

BALLOT TITLE

CAPTION: Bonds to improve and expand Lincoln City's sanitary sewer system

QUESTION: To improve and expand sewage treatment plant and collection system, shall Lincoln City issue \$22 million in general obligation bonds? If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution.

SUMMARY: To protect the environment, meet Federal and State requirements, and have sufficient capacity, the City must:

Upgrade the 20-year old sewage treatment plant;

Upgrade the plant's aeration basins to stop sewage leaks;

Upgrade the system's pump stations to eliminate sewage overflows;

Make other improvements.

The estimated cost is \$22 million.

This measure approves up to \$22 million in general obligation bonds to pay for design and construction of these improvements and related studies and planning. Covered projects are listed in the 2004 Wastewater Facilities Plan, which may be revised periodically. The bonds will mature in up to 30 years. The average estimated bond cost, if only property taxes are used to pay off the bonds, is \$1.75 per \$1,000 of assessed value per year, based on a 25-year term. However, the City plans to use other funds to help pay the bonds, such as money received from developers and sewer ratepayers. The actual property tax cost for the bonds therefore should be less, averaging 85 cents per \$1,000 of assessed value per year.

EXHIBIT B

VOTERS PAMPHLET EXPLANATION

This measure asks voters to authorize Lincoln City to issue \$22 million of general obligation bonds to finance improvement and expansion of the sewage treatment plant and collection system.

Sewer System Needs. To protect the environment from pollution by sewage, to meet Federal and State requirements enforced by the Oregon Department of Environmental Quality, and so that the sewer system will have sufficient capacity, the City needs to expand and improve the sewer system.

For example, the City's sewage treatment plant is 20 years old:

- The aeration basins leak. The City must upgrade the basins to stop the leaks.
- The plant does not have enough capacity to treat sewage from expected growth. The City needs to expand the plant.

The City also needs to improve the sewage collection system. For example:

- Some of the system's pump stations do not have enough pumping capacity. Because of this, there sometimes are sewage overflows during rainstorms. The City needs to increase the pump capacity.
- The collection system's capacity is reduced because of excessive "inflow" and "infiltration." "Inflow" occurs during rainstorms when water flows into the collection system, such as through manholes. "Infiltration" occurs when water already in the ground leaks into the sewer pipes. Although some inflow and infiltration is unavoidable, the City needs to reduce excessive inflow and infiltration, so that as much as possible of the sewer system's capacity is used to collect and treat sewage, rather than rainwater and groundwater.

The City's 2004 Wastewater Facilities Plan identifies these and other problems and lists sewer system expansion and improvement projects the City needs to design and construct, as well as studies and further planning the City needs to do, by 2010. The City may modify the list occasionally, as it gains further information. The 2004 Plan estimates that the cost to design and construct the projects and do the studies and planning will be about \$22 million.

Financing Plan for Sewer System Expansion and Improvement – The Bonds. This measure proposes that the City borrow up to the needed \$22 million by issuing general obligation bonds, with a term up to 30 years.

Lincoln City intends to use three sources of money for the payments required to pay off

the bonds:

- Sewer system development charges paid by property developers;
- A portion of payments the City receives from sewer system customers when they pay their sewer bills; and
- Property taxes.

If the City were to use only property taxes to make the bond payments, which this measure authorizes, the City could increase property taxes an estimated average of \$1.75 per \$1,000 of assessed value annually during the term of the bonds. This estimate assumes a 25-year term. However, since the City intends to use system development charges and sewer system customer revenues for a portion of the payments, the City believes the actual property tax cost for the bonds should be only an estimated average of 85 cents per \$1,000 of assessed value each year.

19047
Lincoln City, City of

PO 2121

AFFIDAVIT OF PUBLICATION
News-Times, Newport, Oregon

LINCOLN
OREGON

SS.

Renne, being duly sworn, depose and say that I am an authorized employee of News-Times, Newport, Oregon, a newspaper of general circulation published in the aforesaid county as defined in ORS 193.010 and that NOTICE OF RECEIPT OF BALLOT TITLE: Lincoln City, Bonds and Expand Lincoln City's Sanitary Sewer System, printed copy of which is hereto annexed, was in the entire issue(s) of said newspaper for 1 week(s) in the following issue(s): August 25, 2004.

Monique Renne

sworn to before me this 25th day of August, 2004.

Teyre Crowell

Notary Public of Oregon
(My commission expires October 16, 2005)



NOTICE OF RECEIPT OF BALLOT TITLE
Notice hereby is given that the bonds will mature in up to 30 years. The average estimated bond cost, if only property taxes are used to pay off the bonds, is \$1.75 per \$1,000 of assessed value per year based on a 25-year term. However, the City plans to use other funds to help pay the bonds, such as money received from developers and sewer ratepayers. The actual property tax cost for the bonds therefore should be less, averaging 85 cents per \$1,000 of assessed value per year.
Any elector of Lincoln City who is dissatisfied with the above ballot title may file a petition seeking a different ballot title not later than September 1, 2004. The petition must be filed in the Lincoln County Circuit Court and must state the reasons the above ballot title is insufficient, not concise, or unfair. The petition must name the City Council as respondent. An elector filing a petition also must notify the City Elections Officer in writing that the petition has been filed. The notice must be given not later than 5 p.m. on the next business day following the day the petition is filed.
Any person wishing to review the City Council Resolution referring the proposed bond measure to the voters may obtain a copy of the text from the Office of the City Manager at City Hall, Third Floor, 801 SW Highway 101, Lincoln City, OR 97367. Telephone: (541) 996-2152.
The estimated cost is \$22 million. This measure approves up to \$22 million in general obligation bonds to pay for design and construction of these improvements and related studies and planning. Covered projects are listed in the 2004 Wastewater Facilities Plan, which may be revised periodically.

AFFIDAVIT OF PUBLICATION
News-Times, Newport, Oregon

COUNTY OF LINCOLN

SS.

STATE OF OREGON

I, Monique Renne, being duly sworn, depose and say that I am an authorized employee of News-Times, Newport, Oregon, a newspaper of general circulation printed and published in the aforesaid county as defined in ORS 193.010 and 193.020, and, that NOTICE OF RECEIPT OF BALLOT TITLE: Lincoln City, Bonds to Improve and Expand Lincoln City's Sanitary Sewer System, printed copy of which is hereto annexed, was in the entire issue(s) of said newspaper for 1 week(s) in the following issue(s): August 25, 2004.

Monique Renne

Subscribed and sworn to before me this 25th day of August, 2004.

Teyre Crowell

Teyre Crowell, Notary Public of Oregon
(My commission expires October 16, 2005)



EXHIBIT A

BALLOT TITLE

Measure No. 21-99

CAPTION: Bonds to improve and expand Lincoln City's sanitary sewer system

QUESTION: To improve and expand sewage treatment plant and collection system, shall Lincoln City issue \$22 million in general obligation bonds? If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution.

SUMMARY: To protect the environment, meet Federal and State requirements, and have sufficient capacity, the City must:

Upgrade the 20-year old sewage treatment plant;

Upgrade the plant's aeration basins to stop sewage leaks;

Upgrade the system's pump stations to eliminate sewage overflows;

Make other improvements.

The estimated cost is \$22 million.

This measure approves up to \$22 million in general obligation bonds to pay for design and construction of these improvements and related studies and planning. Covered projects are listed in the 2004 Wastewater Facilities Plan, which may be revised periodically. The bonds will mature in up to 30 years. The average estimated bond cost, if only property taxes are used to pay off the bonds, is \$1.75 per \$1,000 of assessed value per year, based on a 25-year term. However, the City plans to use other funds to help pay the bonds, such as money received from developers and sewer ratepayers. The actual property tax cost for the bonds therefore should be less, averaging 85 cents per \$1,000 of assessed value per year.

FILED

AUG 25 2004

AT 4:30 O'CLOCK P M
DANA W. JENKINS, COUNTY CLERK

Official Lincoln County 2004 General Election Sample Ballot

OFFICIAL GENERAL ELECTION BALLOT
LINCOLN COUNTY, OREGON • NOVEMBER 2, 2004
Lincoln County Library District**21-97 Local Option Tax for Library Funding**

Question: Shall Lincoln County Library District levy 8¢ per \$1000 assessed value for five years, beginning 2005-2006, to fund your library?

Summary: Approval of this measure will provide funding for libraries in Lincoln City, Newport, Siletz, Toledo and Weldport. It is estimated that this measure would

raise approximately \$241,885 in tax revenues for 2005-2006, \$247,932 in tax revenues for 2006-2007, \$254,130 in tax revenues for 2007-2008, \$260,483 in tax revenues for 2008-2009, and \$266,896 in tax revenues for 2009-2010.

City of Depue Bay**21-100 Local Option Tax Levy**

Question: Shall the City be authorized to levy a local option tax of 35¢/\$1,000 valuation for five years commencing in 2005-2006?

This measure may cause property taxes to increase more than three percent.

Summary: This measure authorizes the City to levy a property tax at a rate of 35¢ per thousand dollars assessed valuation each year commencing the fiscal year beginning July 1, 2005 for five consecutive years. The City estimates that this measure would raise approximately \$97,878 in tax revenues in 2005-2006, \$102,562 in 2006-2007, \$107,687 in 2007-2008, \$113,072 in 2008-2009 and \$118,725 in 2009-2010. The taxes would be used, in conjunction with dedicated transient room tax revenues, to finance the City Public Safety and Law Enforcement Program including a contract with the Lincoln County Sheriff's Department for the services of one deputy sheriff, an office with furnishings and office equipment, administrative support and to pay related costs.

City of Lincoln City**21-99 Bonds to Improve and Expand Lincoln City's Sanitary Sewer System**

Question: To improve and expand sewage treatment plant and collection system, shall Lincoln City issue \$22 million in general obligation bonds? If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution.

Summary: To protect the environment, meet Federal and State requirements, and have sufficient capacity, the City must:

- Upgrade the 20-year old sewage treatment plant;
- Upgrade the plant's aeration basins to stop sewage leaks;
- Upgrade the system's pump stations to eliminate sewage overflows;
- Make other improvements.

The estimated cost is \$22 million.

This measure approves up to \$22 million in general obligation bonds to pay for design and construction of these improvements and related studies and planning. Covered projects are listed in the 2004 Wastewater Facilities Plan, which may be revised periodically. The bonds will mature in up to 30 years. The average estimated bond cost, if only property taxes are used to pay off the bonds, is \$1.75 per \$1,000 of assessed value per year, based on a 25-year term. However, the City plans to use other funds to help pay the bonds, such as money received from developers and sewer ratepayers. The actual property tax cost for the bonds therefore should be less, averaging 85 cents per \$1,000 of assessed value per year.

City of Toledo**21-101 City of Toledo General Obligation Bonds for Fire Station**

Question: Shall the City of Toledo issue \$2.1 million of general obligation bonds to provide a new fire station? If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution.

Summary: The present fire hall was constructed in 1978; it has developed severe structural problems. There is a slide area that affects the fire station site and has caused structural damage to the building. At least three geotechnical engineers have investigated the site in the past ten years without a definitive, cost-effective solution. The last investigation, completed in 2000, recommended that for safety reasons the building no longer be occupied. The City Council is submitting this measure to the voters to allow the city to build and equip a new fire station on a different site.

A City Council subcommittee, staff and architects have worked to propose a new structure which is approximately the same size as the existing facility. The architect's cost estimate is \$2,100,000.

You are being asked to approve a general obligation bond to pay for the new fire station. The bond cost at today's rates is estimated for a property assessed at \$100,000 to be about \$60 per year for twenty years.

City of Yachats**21-98 Approval of City of Yachats City Charter**

Question: Shall the voters of the City of Yachats approve a revised city charter?

Summary: The current Yachats Charter has become outdated since the incorporation of the City of Yachats in 1967, and therefore the City Council of Yachats desires to update the city charter for the city. A charter review committee reviewed the existing charter and has recommended submitting to the voters a revised charter. The committee agreed that the proposed revision of the charter should be based on the League of Oregon Cities' Model Charter for Oregon cities. This is an updated version of previous models with footnotes and appendixes to back up and give analysis of various sections. In this revised edition certain topics have been eliminated because the state has preempted the City's authority. In addition, the language has been made gender neutral. However the committee made some amendments, additions or deletions to the model language to reflect provisions in the existing Yachats Charter in either the same wording or as modified by the committee. This new charter, if adopted by the voters at this November General Election, will go into effect on February 1, 2005.



Dana W. Jenkins
LINCOLN COUNTY CLERK
225 W. Olive Street-Room 201
Newport, Oregon 97365

County of Lincoln
"Customer Service is #1"
www.co.lincoln.or.us/clerk/
(541) 265-4131

AFFIDAVIT

This affidavit verifies the mailing of a ballot to each elector in Lincoln County for the November 2, 2004 General Election.

A total of 26,440 ballots were delivered to the U.S. Post Office in Newport, Oregon on October 15, 2004. A total of 723 absentees were issued before that date. A total of 1,312 ballots were issued after that date. Total ballots issued: 28,475.

Witness my hand and seal this 2nd day of November, 2004.



Dana W. Jenkins
LINCOLN COUNTY CLERK

(SEAL)

Lincoln City City Council
Council Chambers, City Hall

November 22, 2004
Page 1

1 CALL TO ORDER

2
3 Mayor Hollingsworth called the City Council meeting of November 22, 2004, to order at 7:00 p.m.

4
5 A. ROLL CALL

6
7 Council members present were: Gary Ellingson, Ed Kuntz, Douglas Holbrook, Chester Noreikis,
8 Wes Ryan, Roger Sprague and Mayor Hollingsworth.

9
10 City staff members present were: City Manager David Hawker, City Attorney Chris Thomas,
11 Planning & Community Development Director Richard Townsend, Police Sgt. McBane, Parks &
12 Recreation Director Ron Ploger, Community Center Manager Larry Fowler, Recreation Programs
13 Manager Patty Lyon, Fitness Coordinator Donna Ross, and City Recorder Oneita McCalman.

14
15 B. PLEDGE OF ALLEGIANCE

16
17 Mr. Ryan led the Pledge of Allegiance.

18
19 C. COMMENTS FROM CITIZENS PRESENT - AGENDA/NON-AGENDA ITEMS - None

20
21 D. CONSENT AGENDA

22 1. Minutes: November 8, 2004

23 2. Certificates of Appreciation: Larry Fowler, 20 years & Patty Lyon, 7 years

24
25 Mayor Hollingsworth requested the Certificates of Appreciation be removed from the Consent
26 Agenda.

27
28
29 **Mr. Ryan moved and Mr. Sprague seconded to approve the Consent Agenda as amended.**
30 **Motion passed unanimously.**

31 Mayor Hollingsworth then presented a Certificate of Appreciation to Larry Fowler for his 20-years of
32 employment, as well mentioning he had been with the City actually for 24 years.

33
34 She then presented a Certificate of Appreciation to Patty Lyon for her 7 years of employment with
35 the City, who is moving away from Lincoln City.

36
37 V. SPECIAL ORDER OF BUSINESS

38 1. Open Space Property Purchase

39
40 Mr. Ploger gave a brief explanation of an offer to sell a .24 acre of property to the City and the Open
41 Space Committee approve the purchase for the sum of \$2,500.

42
43 **Mr. Sprague moved and Mr. Ryan seconded to approve the purchase of Assessor's Map 7-11-**
44 **27A, Tax Lot 301, a .24 acre of property for open space purposes in the amount not to exceed**
45 **\$2,500.**

46
47 **A roll call vote was taken and is as follows: Mr. Holbrook-yes; Mr. Kuntz-yes; Mr. Noreikis-**
48 **yes; Mr. Ryan-yes; Mr. Sprague-yes; Mr. Ellingson-yes; and Mayor Hollingsworth-yes.**
49 **Motion passed unanimously.**

50
51 2. Hardship Request for Water Service Connection

52
53 Mr. Hawker presented a request for a hardship water service connection outside the City's urban
54 growth boundary.

55
56 **Mr. Sprague moved and Mr. Kuntz seconded to approve a water tap connection to the Ron**
57 **Cook property which is outside the City's urban growth boundary on a hardship basis.**
58 **Motion passed unanimously.**
59

Lincoln City City Council
Council Chambers, City Hall

November 22, 2004
Page 2

3. Stairs at SW 35th and SW Anchor - Power Point Presentation

Mr. Ploger presented, in addition to a power point presentation, a report from the Building Inspector regarding the condition of the stairs at SW 35th Street and SW Anchor. Staff has temporarily closed the stairs and recommends that they remain closed until such time as the can be replaced.

Following discussion, it was the consensus of council to approve staff's action.

F. CITY MANAGER'S REPORT

1. Lincoln Mentors

Mr. Hawker explained the Lincoln County Children's Advocacy Center mentor programs and expressed a great need for mentors.

2. Measure 37 Discussion

Mr. Thomas presented information on Measure 37 from the League of Oregon Cities and an overview prepared by Glenn Klein of the law firm of Harrang Long Gary Rudnick P.C.

Considerable discussion followed on what kind of an approach is to be taken and what process should be adopted. It was pretty much the consensus of Council to treat claims on a case-by-case basis as whether to pay or waive policy decision. Mr. Thomas will draft an ordinance for Council's discussion and consideration.

Mayor Hollingsworth recessed the meeting at 8:30 p.m. and reconvened at 8:45 p.m.

3. Open Space Up-Date - Power Point Presentation

Mr. Ploger gave a brief Power Point presentation of the City's open space program.

4. Recreation Program Update

Ms. Donna Ross presented information on the newly formed Lincoln City's Lifestyle Center.

5. After School Program Update - Power Point Presentation

Mr. Ivan Magnam, Youth Program Supervisor, also gave a power point presentation on the City's After School Program.

6. City Recorder Position

Mr. Hawker presented three alternatives to the replacement of the soon to retire City Recorder which position is currently a half-time position.

Mr. Kuntz moved and Mr. Sprague seconded to make the position a full-time position and phase out the half-time administrative assistant position when a budget crunch makes it necessary. Motion passed unanimously.

7. Community Center completion and operation update

Mr. Ploger stated that a soft-opening of the Community Center remodel is scheduled for December 2nd with the grand opening of the Community Center and gym scheduled in February 2005.

8. City Manager Updates: Mr. Hawker mentioned that there is considerable amount of logging happening on Schooner Creek.

G. DEPARTMENT/COMMITTEE REPORT - NONE

H. RESOLUTIONS FOR APPROVAL

Lincoln City City Council
Council Chambers, City Hall

November 22, 2004
Page 3

1 1. A Resolution Declaring the Official Results of the Canvass of Votes of the General Election
2 Held in the City of Lincoln City, Oregon on November 2, 2004, Draft Resolution #2004-35
3

4 Mr. Ryan moved and Mr. Noreikis seconded to approve Draft Resolution #2004-35. Motion
5 passed unanimously.
6

7 I. ADDITIONAL COMMENTS FROM CITIZENS PRESENT - None
8

9 J. ANNOUNCEMENTS OR COMMENTS BY CITY COUNCIL
10

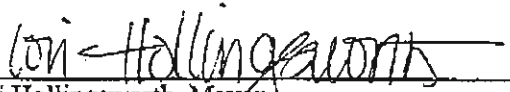
11 Mr. Ryan mentioned the number of police officers that are out due to illness.
12

13 Mr. Kuntz commented on the Governor's Economic Revitalization Team has selected Taft to be
14 included on their WEB page.
15

16 Mayor Hollingsworth mentioned the once-a-week meeting with the City Manager on Monday's at 2
17 p.m. and asked if other council members would prefer a different time on Monday and join with her
18 to meet with the City Manager. She also mentioned that she has 50 CD's in her office on the Meth
19 Summit and was seeking assistance in delivering some of them to the motels/hotels.
20

21 L. ADJOURNMENT
22

23 Mayor Hollingsworth reconvened the meeting and as there being no further business, Mayor
24 Hollingsworth adjourned the meeting at 9:45 p.m.
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Lori Hollingsworth, Mayor

RESOLUTION NO.2004 - 35

A RESOLUTION DECLARING THE OFFICIAL RESULTS OF THE CANVASS OF VOTES OF THE GENERAL ELECTION HELD IN THE CITY OF LINCOLN CITY, OREGON ON NOVEMBER 2, 2004

WHEREAS, on the 2nd day of November 2004, the City of Lincoln City, Oregon held its General election and the voters voted for one councilor each from Ward I, Ward II, and Ward III to serve from January 1, 2005 through December 31, 2008; and

WHEREAS, at said General election, the following candidates for city office received the majority of votes cast for all candidates for that office:

Rick Brissette	Ward I
Douglas Holbrook	Ward II
Edward Kuntz	Ward III;

and

WHEREAS, at said election a City measure was on the ballot to approve or reject a proposal to approve up to \$22 million in general obligation bonds to improve and expand the sewage treatment plant and collection system and to pay for design and construction of these improvements and related studies and planning; and

WHEREAS, the City Council canvassed the official vote as set forth in the State of Oregon abstract of votes prepared and certified by the Office of the County Clerk, Lincoln County;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LINCOLN CITY, AS FOLLOWS:

Section 1. The State of Oregon Abstract of votes is attached hereto marked Exhibit "A" and is by this reference incorporated herein as though fully set forth in this Resolution. The Abstract of Votes contains the total number of votes cast for the persons elected to office and the total number of votes for each measure.

Section 2. The City Council hereby declares the official results of the election to be as set forth in Exhibit "A", the Abstract of Votes incorporated herein, and the following persons are elected to the offices set forth below:

Rick Brissette	Ward I
Douglas Holbrook	Ward II
Edward Kuntz	Ward III

1 Section 3. The City Council hereby declares that the City measure, proposing the issuance of up
2 to \$22 million in general obligation bonds to improve and expand the sewage treatment plant and
3 collection system and to pay for design and construction of these improvements and related studies and
4 planning, was approved by the voters.

5 Section 4. The results of the general election held on November 2, 2004, as set forth in this
6 Resolution and the attached Abstract of Votes, are declared the official record for the journal of the
7 proceedings of the City Council; and the City Recorder is directed to include a copy of this resolution as
8 a part of the minutes of the November 22, 2004, meeting of the City Council of the City of Lincoln City.

9 PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF LINCOLN CITY
10 this 22nd day of November, 2004.

11 
12 LORI HOLLINGSWORTH, MAYOR

13 ATTEST:

14 
15 ONEITA McCALMAN, CITY RECORDER

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CALL TO ORDER

3 Mayor Hollingsworth called the City Council meeting of January 24, 2005, to order at 7:00 p.m.

4
5 A. ROLL CALL

6
7 Council members present were: Rick Brissette, Gary Ellingson, Ed Kuntz, Douglas Holbrook, Chester
8 Noreikis, Wes Ryan, and Mayor Hollingsworth.

9
10 City staff members present were: City Manager David Hawker, City Attorneys Chris Thomas and
11 Joan S. Kelsey, Finance Director Mark Nichol森 and Past Finance Director Ron Tierney, Planning &
12 Community Development Director Richard Townsend, Police Chief Hanson, Public Works Director
13 Lila Bradley, and City Recorder Oneita McCalman.

14
15 B. PLEDGE OF ALLEGIANCE

16
17 Mr. Ryan led the Pledge of Allegiance.

18
19 C. COMMENTS FROM CITIZENS PRESENT - AGENDA/NON-AGENDA ITEMS - None

20
21 D. CONSENT AGENDA

- 22 1. Minutes of January 10, 2005
23 2. Authorization of Oregon Arts Commission Grant
24 3. Motion to first read Ordinances by title only
25

26 **Mr. Kuntz moved and Mr. Ryan seconded to approve the Consent Agenda. Motion passed**
27 **unanimously.**

29 Mayor Hollingsworth stated that an O.L.C.C. application had been received too late for the packet and
30 was before Council for recommendation.

31
32 **Mr. Ryan moved and Mr. Kuntz seconded to recommend approval to the O.L.C.C. for issuance**
33 **of a liquor license for the Sun Garden Café, Edward, Joanne and Kasey Breuier applicants.**
34 **Motion passed unanimously.**

35
36 F. SPECIAL ORDER OF BUSINESS

- 37 1. Draft Ordinance Implementing Ballot Measure 37 by Establishing Procedure
38

39 Mr. Thomas explained the purpose of having this before Council at this time is the first step in
40 ultimately the Council's adoption of an ordinance establishing procedures for implementing Measure
41 37. The main question for Council to decide, among others, is what the process shall be in getting to
42 final adoption: Shall the matter first be heard by the Planning Commission or shall it be heard before
43 the City Council bypassing the Planning Commission.

44
45 Following Council discussion, **Mr. Ryan moved and Mr. Noreikis seconded to have Draft**
46 **Ordinance Implementing Ballot Measure 37 by Establishing a Procedure for Receipt of**
47 **Compensation Claims for Granting Waivers of City Land Use Regulations, and for Payment**
48 **of Compensation and Declaring an Emergency be referred to the Planning Commission for**
49 **review and recommendation. Motion passed unanimously.**

- 50
51 2. Relocation of manholes and valves for the Hwy 101 Paving Project
52

53 Ms. Bradley gave a brief explanation of why the manholes must be relocated and that ODOT
must be informed of the City's schedule for that project.

54
55
56 **Mr. Ryan moved and Mr. Kuntz seconded to direct staff to notify ODOT that Council**
57 **approves the payment and the City will comply.**
58

A roll call vote was taken and is as follows: Mr. Kuntz-yes; Mr. Noreikis-yes; Mr. Ryan-yes; Mr. Brissette-yes; Mr. Ellingson-yes; Mr. Holbrook-yes; and Mayor Hollingsworth-yes. Motion passed unanimously.

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3. Hwy 101 Sidewalk Funding and Construction Update

Ms. Bradley gave an update on the Hwy 101 sidewalk funding and construction for Spanish Head to High School Drive and NW 30th to NW 35th Streets. The total funding from ODOT grants for the sidewalk projects is \$678,000.

F. CITY MANAGER'S REPORT

1. Economic Update

Mr. Hawker gave a power point presentation on building activity, trash collection, vacant commercial space, gross room rentals and traffic counts.

2. City Manager Updates: None

G. DEPARTMENT/COMMITTEE REPORT - POLICE DEPARTMENT
Update on Crime and Prevention

Police Chief Hanson presented police department statistics for the last 3 years.

H. ORDINANCES FOR ADOPTION

1. An Ordinance Exempting the Oregon Department of Transportation Project From the City's Noise Control Regulations, Draft Ord. #2005-01 (SECOND READING)

Mr. Thomas read Draft Ordinance #2005-01 by title only.

Mr. Ryan moved and Mr. Noreikis seconded to adopt Draft Ordinance #2005-01.

A roll call vote was taken and is as follows: Mr. Noreikis-yes; Mr. Ryan-yes; Mr. Brissette-no; Mr. Ellingson-yes; Mr. Holbrook-yes; Mr. Kuntz-yes; and Mayor Hollingsworth-yes. Motion passed 6-yes, 1-no.

2. An Ordinance Amending the Zoning Ordinance Provisions Relating to Temporary Signs, Draft Ord. #2005-03 (SECOND READING)

Mr. Thomas read Draft Ordinance #2005-03 by title only.

Mr. Ryan moved and Mr. Noreikis seconded to adopt Draft Ordinance #2005-03.

A roll call vote was taken and is as follows: Mr. Ryan-yes; Mr. Brissette-yes; Mr. Ellingson-yes; Mr. Holbrook-yes; Mr. Kuntz-no; Mr. Noreikis-yes; and Mayor Hollingsworth-yes. Motion passed 6-yes, 1-no.

I. RESOLUTIONS FOR APPROVAL

1. A Resolution of the City of Lincoln City, Lincoln County, Oregon Authorizing the Sale of the City's General Obligation Sewer Bonds, Draft Resol. #2005-03

Mr. Ryan moved and Mr. Kuntz seconded to approve Draft Resolution #2005-03.

A roll call vote was taken and is as follows: Mr. Brissette-yes; Mr. Ellingson-yes; Mr. Holbrook-yes; Mr. Kuntz-yes; Mr. Noreikis-yes; Mr. Ryan-yes; and Mayor Hollingsworth-yes. Motion passed unanimously.

J. ADDITIONAL COMMENTS FROM CITIZENS PRESENT - None

K. ANNOUNCEMENTS OR COMMENTS BY CITY COUNCIL

Mr. Kuntz commented/questioned the donation of 18 glass floats to the Oceanlake for raffles.

Mr. Noreikis commented on the senior services brochure that can be obtained at City Hall; he also commented on the pollution of Devils Lake due to dog "droppings"

Mr. Kuntz also commented on the feeding of Seagulls and the ultimate result of the bacterial count in the ocean.

Mr. Brissette announced the upcoming "Antique Week" on February 11 to the 21st.

Mr. Holbrook commented on the cable rates.


Mr. Ryan stated he had viewed a movie regarding Oregon and marine reserves and encouraged others to view it.

Mayor Hollingsworth reminded everyone of the Executive Session workshop scheduled for Monday, January 31, 2005 from 5 to 7 p.m.

Mr. Kuntz also noted that Cascade West Council of Governments is experiencing a tremendous reduction in funding which affects "Meals on Wheels" and many seniors in the City, as well as the County.

L. ADJOURNMENT

There being no further business, Mayor Hollingsworth adjourned the meeting at 9:10 p.m.



Lori Hollingsworth, Mayor

X

Draft Resol # 2005-03

RESOLUTION 2005-03

A RESOLUTION OF THE CITY OF LINCOLN CITY,
LINCOLN COUNTY, OREGON AUTHORIZING THE SALE
OF THE CITY'S GENERAL OBLIGATION SEWER
BONDS.

WHEREAS, the voters of the City of Lincoln City (the "City") authorized the City to issue \$22,000,000 of general obligation bonds at the general election held on November 2, 2004, to finance the improvement and expansion of the City's sewage treatment plant and collection system; and,

WHEREAS, It is now desirable to issue a portion of the bonds that were authorized at that election.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln City, Oregon, as follows:

Section 1. Bonds authorized. The City Council of the City hereby authorizes the issuance, sale and delivery of one or more series of the general obligation sewer bonds (the "Bonds") to finance the improvement and expansion of the City's sewage treatment plant and collection system and to pay costs of issuing the Bonds. The principal amount of the Bonds shall not exceed \$22,000,000.

Section 2. Delegation.

The City Manager, the Finance Director, or the person designated by the City Manager (a "City Official") are each hereby authorized, on behalf of the City and without further action by the Council, to:

- (1) Participate in the preparation of, authorize the distribution of, and deem final any official statement or other disclosure documents relating to each series of the Bonds.
- (2) Establish the final principal amounts, maturity schedules, interest rates, sale prices and discount, prepayment terms, payment terms and dates, and other terms of each series of Bonds.
- (3) Execute and deliver a bond declaration for each series of Bonds, specifying the terms under which each series of Bonds are issued, and making covenants for the benefit of Bondowners, including covenants to protect the tax-exempt status of the Bonds.
- (4) Solicit competitive proposals for the purchase of any series of Bonds and award the sale of that series to the proposer offering the most favorable terms to the City, or select one or more underwriters, negotiate the terms of the sale of any series of Bonds, and sell that series to those underwriters.
- (5) Undertake to provide continuing disclosure for each series of Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.

Page

- 1 (6) Apply for ratings for each series of Bonds, determine whether to purchase municipal
2 bond insurance or obtain other forms of credit enhancements for each series of Bonds,
3 enter into agreements with the providers of credit enhancement, and execute and deliver
4 related documents.
- 5 (7) Appoint a paying agent and registrar for the Bonds and negotiate the terms of and
6 execute an agreement with such paying agent and registrar.
- 7 (8) Execute and deliver each series of Bonds to their purchaser.
- 8 (9) Execute and deliver any agreements or certificates and take any other action in
9 connection with each series of Bonds which the City Official finds is desirable to permit
10 the sale and issuance of that series of Bonds in accordance with this Resolution.

11 **Section 3. Security for Bonds.** The Bonds shall be general obligations of the City. The City
12 hereby pledges its full faith and credit to pay the Bonds, and the City covenants for the benefit of
13 the Bondowners that the City shall levy annually, as provided by law, in addition to its other ad
14 valorem property taxes and outside the limitations of Sections 11 and 11b of Article IX of the
15 Oregon Constitution, a direct ad valorem tax upon all of the taxable property within the City in
16 sufficient amount, after considering sewer system revenues that the City Council makes
17 available to pay the Bonds and expected discounts and delinquencies in the payment of those ad
18 valorem taxes , to pay the Bonds promptly as they mature.

19 **Section 4. Tax-Exempt Status.** The City covenants to use the proceeds of the Bonds and to
20 otherwise comply with the provisions of the Internal Revenue Code of 1986, as amended (the
21 "Code"), so that interest paid on the Bonds will not be includable in gross income of the
22 Bondowners. The City Official may enter into additional covenants on behalf of the City to
23 protect the tax-exempt status of the Bonds.

24 **Section 5. Form and Execution.** Each Bond shall be in substantially the form attached hereto
25 as Exhibit A, with such changes as may be approved by the City Official. The Bonds shall be
26 executed on behalf of the City with the facsimile or manual signatures of Mayor and City
27 Recorder.

28 **Section 6. Reimbursement.** the City Council that the City hereby declares its
29 official intent pursuant to Section 1.150-2 of the Federal Income Tax Regulations to reimburse
30 itself for expenditures the City makes for costs of the sewer system that are eligible to be
31 financed with the general obligation bonds that the City's voters approved on November 2, 2004.
32 The amount to be reimbursed shall not exceed \$22,000,000.

1 **Section 7. Effective Date.** This resolution shall take effect on its date of adoption.

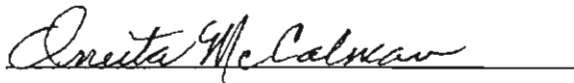
2 Dated this 24th day of January, 2005.

3 City of Lincoln City, Lincoln County, Oregon

4
5 
6 _____

7 Mayor

8 **Attest:**

9
10
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12 _____

13 City Recorder

1 **Exhibit A**
2 **Form of Bond**

3 No. R-«BondNumber»

\$«PrincipalAmtNumber»

4 UNITED STATES OF AMERICA
5 STATE OF OREGON
6 COUNTY OF LINCOLN
7 CITY OF LINCOLN CITY
8 GENERAL OBLIGATION SEWER BOND
9 SERIES 2005

10 **Dated Date:** _____
11 **Interest Rate Per Annum:** «CouponRate»%
12 **Maturity Date:** _____, «MaturityYear»
13 **CUSIP Number:** «CUSIPNumbr»
14 **Registered Owner:** -----Cede & Co.-----
15 **Principal Amount:** -----«PrincipalAmtSpelled» Dollars-----

16 The City of Lincoln City, Oregon (the "City"), for value received, acknowledges itself indebted
17 and hereby promises to pay to the Registered Owner hereof, or registered assigns, the Principal Amount indicated
18 above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate
19 Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable
20 semiannually on the first day of _____ and the first day of _____ in each year until maturity or prior redemption,
21 commencing _____. Payment of each installment of principal or interest shall be made to the Registered Owner
22 hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar,
23 which is currently The Bank of New York Trust Company, National Association (the "Registrar") as of the close of
24 business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. For
25 so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid in same-
26 day funds on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance
of this Bond, the securities depository for the Bonds is The Depository Trust Company, a New York corporation
("DTC"), and Cede & Co. is the nominee of DTC. Such payments shall be made payable to the order of
"Cede & Co."

18 This bond is one of a duly authorized series of bonds aggregating \$ _____ in principal
19 amount designated as General Obligation Sewer Bonds, Series 200_ (the "Bonds"). The Bonds are issued to finance
20 the improvement and expansion of the City's sewage treatment plant and collection system and related costs. The
21 Bonds are issued under and pursuant to Resolution No. _____ of the City adopted on _____ and a Bond
22 Declaration executed pursuant to that resolution (the "Declaration"). The Bonds are issued in full and strict
23 accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the
24 Charter of the City.

22 The Bonds constitute valid and legally binding obligations of the City. The full faith and credit of
23 the City are pledged for the punctual payment of the principal of and interest on the Bonds. The City has pledged
24 and is obligated by law to provide for the levy and collection annually of ad valorem taxes without limitation as to
25 rate or amount on all taxable property within the boundaries of the City to pay the principal of and interest on the
26 Bonds. The Bonds do not constitute a debt or indebtedness of Lincoln County, the State of Oregon, or any political
subdivision thereof other than the City.

25 The rights and obligations of the City and the Registered Owners with respect to the Bonds are
26 subject to the terms of the Declaration dated _____, 2005.

Page

1 The Bonds are initially issued as a book-entry-only security issue with no certificates provided to
2 the beneficial owners. Records of ownership of beneficial interests in the Bonds will be maintained by DTC and its
3 participants.

4 Should the book-entry only security system be discontinued, the Bonds shall be issued in the form
5 of registered Bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such Bonds may
6 be exchanged for Bonds of the same principal amount, interest rate and maturity date, but different authorized
7 denominations, as provided in the Declaration.

8 The Bonds shall mature and be subject to redemption as described in the Declaration and the Final
9 Official Statement for the Bonds which is dated _____, 2005.

10 Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given
11 as required by the Blanket Issuer Letter of Representations to DTC, as referenced in the Declaration. Interest on any
12 Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Registrar
13 will notify DTC promptly of any Bonds called for redemption not less than 30 days prior to the date fixed for
14 redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail,
15 postage prepaid, not less than thirty days nor more than sixty days prior to the date fixed for redemption to the
16 registered owner of each Bond to be redeemed at the address shown on the bond register; however, any failure to
17 give notice shall not invalidate the redemption of the Bonds. All Bonds called for redemption shall cease to bear
18 interest from the date designated in the notice.

19 Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the
20 bond register kept for that purpose by the Registrar. The exchange or transfer of this Bond may be registered only
21 by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar
22 and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond
23 or Bonds, of the same series and maturity and in the same principal amount, shall be issued to the transferee as
24 provided in the Declaration. The City and the Registrar may treat the person in whose name this Bond is registered
25 on the bond register as its absolute owner for all purposes, as provided in the Declaration.

26 Unless this Bond is presented by an authorized representative of DTC to the City or the Registrar
for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co.
or such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co.
or to such other entry as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR
OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as
the Registered Owner hereof, Cede & Co., has an interest herein.

This Bond shall remain in the Registrar's custody subject to the provisions of the FAST Balance
Certificate Agreement currently in effect between the Registrar and DTC.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things
required to exist, to happen, and to be performed precedent to and in the issuance of this Bond have existed, have
happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of
the State of Oregon and the Charter of the City; and that the issue of which this Bond is a part, and all other
obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes
and City Charter; and that the City has covenanted to levy a tax upon all taxable property within the City in an
amount sufficient, with other available funds, to pay when due the interest on and the principal of the Bonds.

IN WITNESS WHEREOF, the City Council of the City of Lincoln City, Oregon, has authorized
this Bond to be signed by facsimile signature of its City Official as of the ___ day of _____.

1 THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE
REGISTRAR IN THE SPACE INDICATED BELOW.

2 This Bond is one of a series of \$ _____ principal amount of City of Lincoln City, Oregon
3 General Obligation Sewer Bonds, Series 2005, issued pursuant to the Declaration described herein.

4 Date of authentication: _____, 2005.

5 The Bank of New York Trust Company, National Association, as Registrar
6
7

8 _____
Authorized Officer

9 ASSIGNMENT

10 FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____

11 _____
(Please insert social security or other
12 identifying number of assignee)

13 this Bond and does hereby irrevocably constitute and appoint _____ as
attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

14 Dated: _____

15 NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

16 NOTICE: Signature(s) must be guaranteed by a member of the New York
17 Stock Exchange or a commercial bank or trust company

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

20 The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were
21 written out in full according to applicable laws or regulations.

22 TEN COM -- tenants in common

TEN ENT -- as tenants by the entireties

23 JT TEN -- as joint tenants with right of survivorship
and not as tenants in common

24 OREGON CUSTODIANS use the following

25 _____ CUST UL OREG _____ MIN
as custodian for (name of minor)

26 OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

Page

Additional abbreviations may also be used though not in the list above.

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I certify that I have compared the
~~attached foregoing following~~
Resolution No. 2005-03
consisting of 6 page(s) with the
original in this office, that I am the
custodian, and that it is a true and
correct copy.

Lincoln City, Oregon, Date: 1/26/05

Debra McCalman
City Recorder for Lincoln City

Page

GENERAL CERTIFICATE**\$15,000,000****City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005**

On behalf of the City of Lincoln City, Oregon (the "City"), I hereby certify as follows regarding the captioned bonds (the "Bonds"):

I, David Hawher, certify that I am the City Manager, and have been authorized by Resolution No. 2005-03 adopted by the City Council on January 24, 2005 (the "Resolution") to execute all documents on behalf of the City pertaining to the Bonds.

Pursuant to the Resolution, I have: (a) authorized the distribution of the Preliminary Official Statement dated March 18, 2005 (the "Preliminary Official Statement") and the Final Official Statement dated March 29, 2005 (the "Final Official Statement") for the Bonds; (b) offered the Bonds for public bid on March 29, 2005 and awarded the sale of the Bonds to Morgan Stanley DW Inc. (the "Purchaser"), pursuant to its bid which offered the lowest true interest cost to the City; (c) executed a Bond Declaration (the "Declaration"), and established that the Bonds will bear the terms shown in the Declaration and in the Final Official Statement, subject to the limitations of the Resolution; (d) appointed The Bank of New York Trust Company, N.A., in Los Angeles, California, as registrar and paying agent for the Bonds (the "Paying Agent") and executed an Agreement to Provide Registrar and Paying Agent Services in connection with the Bonds; (e) facilitated the eligibility of the Bonds for The Depository Trust Company ("DTC") book-entry securities system by previously executing and causing delivery to DTC of a Blanket Issuer Letter of Representations; (f) facilitated the credit enhancement of the Bonds in the form of municipal bond insurance; (g) facilitated the rating on the Bonds by Moody's Investors Service; (h) undertaken to provide continuing disclosure for the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission; (i) covenanted for the benefit of the owners of the Bonds to use Bond proceeds and the facilities financed with the Bonds so that interest on the Bonds is excludable from gross income under the United States Internal Revenue Code of 1986, as amended; and (j) facilitated the execution and delivery of the Bonds, this certificate, and other closing documents on behalf of the City.

The Bonds have been signed with the facsimile signatures of Lori Hollingsworth as the City's Mayor, and Oneita McCalman as City Recorder, as authorized by the Resolution. They are, on this 12th day of April, 2005, the date of actual delivery of the Bonds to Purchaser, the duly chosen, qualified and acting officer indicated therein and authorized to execute the same.

The Bonds have been presented to the Paying Agent, for authentication. The Paying Agent will register the Bonds in the name of "Cede & Co." as nominee of DTC, and will hold the Bonds under DTC's Fast Automated Securities Transfer (FAST) program, as instructed by the Purchaser.

The Preliminary Official Statement for the Bonds which is dated March 18, 2005 has been deemed final as of its date by the City for the purposes of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12").

Execution of this certificate shall constitute execution by the City of the Final Official Statement. The Final Official Statement, to my knowledge and belief, after due review, does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

To my knowledge, no litigation or proceeding of any nature is now pending or threatened restraining or enjoining the issuance, sale or delivery of, or security for any of the Bonds or the levy and collection of ad valorem property taxes to pay the interest and principal of the Bonds or in any manner questioning the proceedings and authority by which same is made, or affecting the validity of the Bonds thereunder, and that neither the corporate existence nor boundaries, nor the title of the present officer to his office is being contested.

The City Council meets in regular session at least once each month. A quorum was present throughout each of the meetings at which action was taken on matters concerning the Bonds. The City Council has adopted policies to implement the provisions of ORS 192.640 regarding public meeting notice, and has complied with those policies for all City Council meetings at which action was taken on matters concerning the Bonds.

The City has and will comply with all requirements of the Oregon Local Budget Law which relate to the Bonds and the projects that will be financed with the Bonds.

The proceeds from the sale of the Bonds shall be used solely for capital construction and improvements within the meaning of Sections 11 and 11b of Article XI of the Oregon Constitution and Oregon Revised Statutes Section 310.140.

The projects to be financed with the proceeds of the Bonds are in compliance with the comprehensive plan of the City and the statewide goals of the Land Conservation and Development Commission of the State of Oregon.

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By:  _____
David Hawker, City Manager

CONTINUING DISCLOSURE CERTIFICATE**\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005**

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the City of Lincoln City, Oregon (the "City") in connection with the issuance of the City's General Obligation Sewer Bonds, Series 2005 (the "Obligations").

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders of the Obligations and to assist the underwriter(s) of the Obligations in complying with paragraph (b)(5) of the United States Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). This Certificate constitutes the City's written undertaking for the benefit of the owners of the Obligations as required by Section (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Obligations, including persons holding Obligations through nominees or depositories.

"Commission" means the United States Securities and Exchange Commission.

"MSRB" means the United States Municipal Securities Rulemaking Board or any successor to its functions.

"NRMSIR" means a nationally recognized municipal securities information repository.

"Official Statement" means the final official statement for the Obligations dated March 29, 2005.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means a state information depository for the State of Oregon (if one is created).

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the City's latest publicly available annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with

generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors) and generally of the type included in the Official Statement for the Obligations under the heading " Basic Financial Statements For Year Ended June 30, 2004 (Appendix A)." To the extent not included in its annual financial statements, the City shall also provide a statement containing: (1) the total real market value and total assessed value of property within the City (as indicated in the records of the county assessors) of the type presented in Table 13 of the Official Statement; (2) the amount or rate of property taxes levied by the City for the fiscal year, and the amount of property taxes the City received during the fiscal year of the type presented in Table 19 of the Official Statement; (3) information regarding the representative aggregate tax rate for all ad valorem property taxes levied within the City of the type presented in Table 16 of the Official Statement; and, (4) the total principal amount of general obligation bonds and other tax-supported bonds of the City which are outstanding at the end of the fiscal year of the type presented in Table 9 of the Official Statement.

Section 4. Timing. The information described in the preceding paragraph shall be provided on or before nine months after the end of the City's fiscal year, commencing with information for fiscal year 2004-2005. The City's current fiscal year ends June 30. The City may adjust this fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing this annual financial information separately, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to the appropriate SID, if any, notice of its failure to provide the annual financial information described in Section 3 on or prior to the date set forth in the preceding paragraph.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Oregon Local Budget Law (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Obligations, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves for the Obligations reflecting financial difficulties;
4. Unscheduled draws on credit enhancements for the Obligations reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Obligations;
7. Modifications to the rights of Obligation owners;
8. Optional redemption of Obligations prior to their maturity;
9. Defeasance of the Obligations;
10. Release, substitution or sale of property securing repayment of the Obligations; and
11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Obligations; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections 3 or 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the Obligations, or the type of business conducted;

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

C. The amendment or waiver either (i) is approved by the owners of the Obligations or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners of the Obligations.

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

Section 7. Obligation Owner's Remedies Under This Certificate. The right of any Obligation Owner or Beneficial Owner of Obligations to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Obligations hereunder.

Section 8. DisclosureUSA. Any filing required to be made with any NRMSIR or SID under this Certificate may be made by transmitting such filing solely to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 9. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By:



David Hawker, City Manager

TAX CERTIFICATE**\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005**

THIS TAX CERTIFICATE is executed by the City of Lincoln City, Oregon (the "City") as of April 12, 2005, to establish the facts and circumstances that are necessary to determine that its \$15,000,000 General Obligation Sewer Bonds, Series 2005 (the "Bonds") are not "arbitrage bonds" within the meaning of Section 148 of the Code and are not "private activity bonds" under Section 141 of the Code.

Section 1 of this Tax Certificate lists the principal facts and expectations that the City is certifying to be accurate, and that allow the conclusion that interest on the Bonds is excludable from gross income under the Code.

Section 2 of this Tax Certificate lists the basic arbitrage restrictions that apply to the Bonds.

Other sections of this Tax Certificate contain detailed representations and statements of law that support the conclusion that interest on the Bonds is excludable from gross income under Section 103(a) of the Code.

Capitalized terms that are used, but are not defined, in body of this Tax Certificate are defined in Section 12 of this Tax Certificate.

Section 1. Basic Facts and Expectations**1.1 General Representations about the City and the Bonds**

- (A) I am the City Manager of the City, and I am charged with the responsibility for certifying the City's expectations regarding the amount and use of the proceeds of the Bonds.
- (B) The Bonds are being issued pursuant Resolution No. 2005-03 adopted by the City Council on January 24, 2005.
- (C) The City is issuing the Bonds on the date of this Tax Certificate.
- (D) The Bonds are being issued to finance the improvement and expansion of the City's sewage treatment plant and collection system (the "Capital Project") and to pay the costs of issuing and insuring the Bonds.
- (E) In preparing this Tax Certificate, the City has relied upon certain information provided by the underwriter, Morgan Stanley DW Inc., in Exhibit A attached

hereto regarding the issue prices of the Bonds.

- (F) The City has established a Debt Service Account that is to be used primarily to achieve a proper matching of revenues with principal and interest requirements on the Bonds within each Bond Year.
- (G) The City has not created, and does not expect to create, any funds or accounts except the Debt Service Account to hold money to pay the Bonds.
- (H) The City will not employ any device in connection with the issuance of the Bonds to obtain a material financial advantage (based upon arbitrage) apart from savings attributable to a lower interest rate.
- (I) The weighted average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the Capital Project financed by the Bonds.

1.2 General Representations about the Capital Project

- (A) The City reasonably expects (i) to spend or enter into binding contracts to spend at least 5% of the Sale Proceeds of the Bonds on capital expenditures by October 12, 2005; (ii) to allocate at least 85% of the Sale Proceeds of the Bonds to capital expenditures by April 12, 2008; and (iii) that the completion of the Capital Project and allocation of the Sale Proceeds of the Bonds to capital expenditures will proceed with due diligence.
- (B) The City reasonably expects that at least 75% of the proceeds of the Available Construction Proceeds will be used to pay construction expenditures.

Section 2. Basic Arbitrage Consequences

2.1 The arbitrage yield on the Bonds has been calculated to be 4.404328% using the economic accrual method required by Section 1.148-4(a) of the Income Tax Regulations. The Bonds are a fixed yield issue, and the Bond yield will not be affected by subsequent unexpected events. Costs of the bond insurance have been treated as interest paid at closing.

2.2 Based on the Facts and Expectations Stated in Section 1

(A) Limitations on Investments (Yield Restriction)

(1) *Sale Proceeds of the Bonds.* The City may invest the Sale Proceeds of the Bonds, and the investment earnings thereon, without restriction until April 12, 2008.

(2) *Amounts Deposited into the Debt Service Account*

(A) To the extent that amounts deposited in the Debt Service Account

qualify as a Bona Fide Debt Service Fund, the City may invest such amounts without restriction until the final maturity of the Bonds.

- (B) To the extent that amounts deposited in the Debt Service Account do not qualify as a Bona Fide Debt Service Fund, the City will consult with Bond Counsel to determine if and when such amounts are subject to yield restriction.

(B) Rebate

(1) *Sale Proceeds of the Bonds Allocable to the Costs of the Capital Project.*

- (A) The City will not be obligated to pay a rebate to the United States under Section 148 of the Code on the Available Construction Proceeds of the Bonds including the investment earnings thereon, if the Available Construction Proceeds are spent according to the following schedule:

- (I) At least 10% by October 12, 2005 (six months after the Date of Issue of the Bonds);
- (II) At least 45% by April 12, 2006 (twelve months after the Date of Issue of the Bonds);
- (III) At least 75% by October 12, 2006 (eighteen months after the Date of Issue of the Bonds); and
- (IV) One hundred percent by April 12, 2007 (two years after the Date of Issue of the Bonds).

- (B) The City will not fail to meet the two-year spending exception for the Bonds, because the City fails to meet the spending requirement for the fourth spending period, if the unspent amount is

- (I) less than \$250,000 and the City has exercised due diligence to complete the Capital Project, or
- (II) a Reasonable Retainage amount and the Reasonable Retainage amount is allocated to expenditures by April 12, 2008 (three years after the Date of Issue of the Bonds).

- (C) The City elects under Section 1.148-7(f)(2) of the Treasury Regulations to apply actual facts to determine if the two-year spending exception to rebate is met.

(2) *Sale Proceeds of the Bonds Allocable to Costs of Issuance.* The City is

obligated to pay rebate with respect to amounts earned from investments above the Bond yield of Sale Proceeds used to pay costs of issuance of the Bonds.

(3) *Amounts Deposited into the Debt Service Account*

(A) To the extent that amounts deposited into the Debt Service Account (other than Sale Proceeds of the Bonds used to pay capitalized interest) qualify as a Bona Fide Debt Service Fund, the City will not be obligated to pay a rebate on such amounts, because (A) the Bonds are governmental purpose bonds with a fixed interest rate, and (B) the average maturity of the Bonds exceeds five years.

(B) To the extent that amounts deposited in the Debt Service Account do not qualify as a Bona Fide Debt Service Fund, the City will consult with Bond Counsel to determine if such amounts are subject to rebate.

Section 3. Sources and Uses of Proceeds

3.1 Sale Proceeds Received by the City

(A) The Sale Proceeds actually or constructively received by the City from the sale of the Bonds are as follows:

Face Amount of Bonds	\$15,000,000.00
Net Original Issue Premium	<u>14,625.70</u>
Sale Proceeds of Bonds	\$15,014,625.70

(B) The Bonds are dated as of their date of issue and the City will not receive any accrued interest on the Bonds.

3.2 Uses of Sale Proceeds

The Sale Proceeds received by the City from the sale of the Bonds will be allocated to the following uses in the following amounts:

Underwriter's Discount	\$ 153,000.00
Other Costs of Issuance	60,000.00
Bond Insurance	61,500.00
Capital Project	<u>14,740,125.70</u>
Total Uses of Sale Proceeds	\$15,014,625.70

Section 4. Bond Sizing

4.1 There is no direct monetary benefit, such as a rebate of bond insurance premium,

surety bond premium or letter of credit fee, that the City will receive by issuing the Bonds.

- 4.2 The term of the Bonds is not longer than is reasonably necessary for its purposes. The amount the City will receive from the sale of the Bonds is not substantially in excess of the amounts necessary to accomplish the purposes for which the Bonds are issued. The City does not reasonably expect to sell, encumber or otherwise dispose of any portion of the facilities financed or refinanced with the Bonds unless they wear out, become obsolete or become unfit for use as part of the projects financed by the Bonds.

Section 5. Arbitrage Rebate Computation Procedures

- 5.1 The City will compute the Rebate Amount as of each Computation Date. The first Computation Date is June 1, 2009, unless the City elects a different Bond Year. The date that the Bonds are discharged will be the final Computation Date and the final rebate installment payment must be made with respect to the final Computation Date.
- 5.2 For each Computation Date, except the final Computation Date, the City will make a rebate installment payment in an amount which is at least equal to 90% of the Rebate Amount for the Bonds.
- 5.3 For the final Computation Date the City will make a rebate installment payment in an amount that, when added to the future value of all previous rebate payments made for the Bonds, equals 100% of the Rebate Amount for the Bonds. Future value will be determined in compliance with the applicable provisions of the Code.
- 5.4 Each rebate installment payment shall be made within 60 days after its Computation Date to the Internal Revenue Service Center, Ogden, Utah 84201. Each rebate payment will be accompanied by IRS Form 8038-T.

Section 6. General Representations

- 6.1 There are no other tax exempt obligations of the City that (a) have sale dates within 14 days of the sale date of the Bonds, (b) are sold pursuant to the same plan of financing together with the Bonds, and (c) are reasonably expected to be paid out of substantially the same source of funds as the Bonds.
- 6.2 No portion of the proceeds of the Bonds will be used as a substitute for other funds which will otherwise be used to acquire, directly or indirectly, securities, obligations, annuity contracts or other investment type property that are Materially Higher Yield Investments.

Section 7. Reimbursement Bonds

- 7.1 Proceeds of the Bonds will be applied to reimburse the City for expenditures paid prior to the date of delivery of the Bonds only if the expenditures are described in paragraphs (A), (B), (C) or (D) below:
- (A) Preliminary expenditures such as architectural, engineering, surveying, soil testing, bond issuance costs and similar costs that, in the aggregate, are not in excess of 20% of the Sale Proceeds of the Bonds. The costs of land acquisition, site preparation and similar costs incident to commencement of construction are not preliminary expenditures.
 - (B) Expenditures for issuance costs and for an amount not in excess of the lesser of \$100,000 or 5% of the Sale Proceeds of the Bonds.
 - (C) Expenditures that are described in a reimbursement resolution or other declaration of official intent that satisfy the requirements of Section 1.150-2 of the Income Tax Regulations and are paid no earlier than 60 days prior to the adoption by the City of such resolution or declaration of official intent can be reimbursed with the proceeds of the Bonds if the date of delivery of the Bonds is no later than 18 months after the later of (i) the date on which the expenditure was paid or (ii) the date on which the property financed in whole or in part by the expenditure was placed in service. Expenditures do not qualify for reimbursement under this paragraph (C) if the period of time between the date on which an expenditure is made and the date of delivery of the Bonds exceeds three years.
 - (D) Expenditures that are paid within 60 days prior to the date of delivery of the Bonds.

Section 8. Bond Insurance

- 8.1 The scheduled payment of principal and interest of the Bonds when due is guaranteed pursuant to the terms of bond insurance provided by Financial Guaranty Insurance Company.
- 8.2 The City reasonably expects that the present value of the fees for the bond insurance will be less than the present value of the expected interest savings on the Bonds as a result of the bond insurance.
- 8.3 The fees paid for the bond insurance do not exceed a reasonable, arm's-length charge for the transfer of credit risk.
- 8.4 The fees paid for the bond insurance do not include any payment for any direct or indirect services other than the transfer of credit risk.

Section 9. Federal Guarantee Prohibition

- 9.1 The Bonds are not "federally guaranteed" and the City will not cause or allow the Bonds to become "federally guaranteed." Unless otherwise excepted under

Section 149(b) of the Code, the Bonds will be considered "federally guaranteed" if:

- (A) The payment of principal and interest with respect to the Bonds is guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof);
- (B) Five percent or more of the proceeds of the Bonds are
 - (1) To be used in making loans, the payment of principal or interest with respect to which are to be guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof); or
 - (2) To be invested (directly or indirectly) in federally insured deposits or accounts; or,
- (C) The payment of principal of or interest on the Bonds is otherwise indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof).

Section 10. Hedge Bond Representation. The Bonds are not "hedge bonds" as defined in Section 149(g) of the Code, because the City reasonably expects to spend 85% of the Sale Proceeds of the Bonds within three years from the date the Bonds are issued and will not invest more than 50% of such Sale Proceeds in nonpurpose investments having a substantially guaranteed yield for four years or more.

Section 11. Private Person Use Limitation

11.1 The Bonds are not private activity bonds, and therefore, are subject to restrictions on the use of the property financed by such bonds by Private Persons.

(A) General Private Person Use Limitation

- (1) Less than 10% of the proceeds of the Bonds will be used, directly or indirectly, in a Private Person Use.
- (2) Less than 10% of the principal or interest payments on the Bonds will be, directly or indirectly,
 - (A) Secured by any interest in property used or to be used for any Private Person Use,
 - (B) Secured by payments in respect of property used or to be used for any Private Person Use, or
 - (C) Derived from payments with respect to property, or borrowed money, used or to be used for any Private Person Use.

- (B) Private Loan Financing Test
 - (1) None of the proceeds of the Bonds will be used, directly or indirectly, to make or finance loans.
- (C) Unrelated Use Limitation
 - (1) The amount of Private Person Use that is unrelated or disproportionate to the governmental purposes of the Bonds will not exceed 5% of the proceeds of such Bonds.
 - (2) A facility is generally considered to be used for a related private business use if it must be located within, or adjacent to, the governmentally used facility. Use of a facility by a Private Person for the same purpose as use by a governmental person is treated as a related use if the governmental use is significant. Similarly, a use of a facility in the same manner both for private business use that is related use and private business use that is unrelated use does not result in unrelated use if the related use is significant.
 - (3) A private business use is disproportionate to a related government use only to the extent that the amount of proceeds used for that private business use exceeds the amount of proceeds used for the related government use.

11.2 Change in Use.

- (A) While the City does not expect that any of the property financed with the proceeds of the Bonds will be used in a manner that could cause such Bonds to become private activity bonds, in the event that circumstances change and a use is made of the property that could result in the Bonds becoming private activity bonds, the City will consult with its Bond Counsel and will take any remedial actions required by Section 1.141-12 of the Income Tax Regulations.
- (B) The Bonds are subject to redemption prior to maturity, and the first optional redemption date of the Bonds is not more than 10½ years after the date of delivery of such Bonds. Accordingly, the City will be eligible to use the redemption or defeasance remedial actions described in Section 1.141-12(d) of the Income Tax Regulations.

Section 12. Definitions

- 12.1 "Available Construction Proceeds" means an amount equal to the Sale Proceeds of the Bonds; plus all investment earnings received from the investment of the Sale Proceeds of the Bonds prior to being spent, less the amount of the proceeds of the Bonds used to pay the costs of issuance of the Bonds.
- 12.2 "Bona Fide Debt Service Fund" means an account that will be used primarily to

achieve a proper matching of revenues with principal and interest requirements on the Bonds within each Bond Year and that will be completely depleted at least once each Bond Year except for a reasonable carryover amount that will not exceed the greater of: (a) the earnings on the Bona Fide Debt Service Fund for the immediately preceding Bond Year, or (b) one-twelfth of the principal and interest payments on the Bonds for the immediately preceding Bond Year.

- 12.3 "Bond Year" means each one year period that ends on June 1, unless the City elects a different Bond Year. The first Bond Year ends June 1, 2005.
- 12.4 "Code" means the Internal Revenue Code of 1986, as amended, and the regulations and rulings issued under that Code.
- 12.5 "Computation Date" means, June 1, 2009, June 1, 2014, June 1, 2019, June 1, 2024, June 1, 2029 and June 1, 2030 (unless the City elects a different Bond Year); or any earlier date on which all of the Bonds are discharged.
- 12.6 "Computation Period" means the period between computation dates. The first Computation Period begins on April 12, 2005, and ends on June 1, 2009 (unless the City elects a different Bond Year). Each succeeding Computation Period begins on the date immediately following the Computation Date and ends on the following Computation Date.
- 12.7 "Date of Issue" means April 12, 2005.
- 12.8 "Investment" means any security, obligation, annuity contract, investment-type property and any tax-exempt obligation that is a specified private activity bond as defined in Section 57(a)(5)(C) of the Code. Investment-type property is property held primarily for the production of income.
- 12.9 "Materially Higher Yield Investment" means investments having a yield more than one-eighth of one percentage point above the Bond yield except that the investment yield for amounts to provide for payment of principal or interest on other obligations of the City and for any Replacement Proceeds is materially higher if it is more than one-thousandth of one percent above the Bond yield. If yield restricted investments in the same class are subject to different definitions of materially higher, the applicable definition of materially higher that produces the lowest permitted yield applies to all investments in the class. If an investment is a tax-exempt obligation, but is not investment property, there is no yield limitation.
- 12.10 "Private Person" means any person or entity other than a state or local governmental unit, including the federal government and an organization described in Section 501(c)(3) of the Code.
- 12.11 "Private Person Use" means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the private person as well as other

arrangements that transfer to the private person the actual or beneficial use of the property (such as a lease, management contract, service or incentive payment contract, output contract or other special arrangement) in such a manner as to set the Private Person apart from the general public.

- 12.12 "Rebate Amount" means the amount required to be paid to the United States in accordance with 148(f) of the Code.
- 12.13 "Replacement Proceeds" means any amounts that have a sufficiently direct nexus to the Bonds or to the governmental purposes of the Bonds to conclude that the amounts would have been used for that governmental purpose if the proceeds of the Bonds were not used for that purpose. Replacement Proceeds include, but are not limited to, sinking funds, pledged funds and other amounts that have a nexus to the governmental purposes of the Bonds to the extent that these funds or amounts are held by or derived from a substantial beneficiary of the Bonds. Replacement Proceeds also include amounts that arise to the extent that the City reasonably expects as of April 12, 2005, that the term of the Bonds will be longer than is reasonably necessary for the governmental purposes of the Bonds and there will be available amounts during the period that the Bonds remain outstanding longer than necessary.
- 12.14 "Sale Proceeds" means any amounts actually or constructively received from the sale of the Bonds including amounts used to pay underwriter's discount or compensation and accrued interest other than pre-issuance accrued interest.

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By

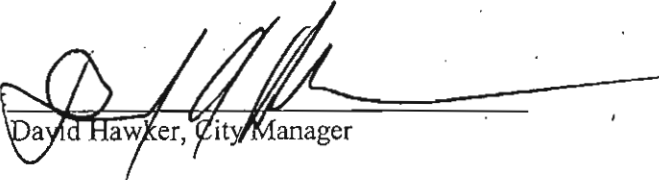

David Hawker, City Manager

Exhibit A

CERTIFICATE REGARDING ISSUE PRICE

\$15,000,000

**City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005**

[See transcript of bond documents.]

Form **8038-G**
(Rev. November 2000)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

OMB No. 1545-0720

Under Internal Revenue Code section 149(e)
See separate instructions.
Caution: If the issue price is under \$100,000, use Form 8038-GC.

Reporting Authority		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name City of Lincoln City	2 Issuer's employer identification number 93 0523629	3 Number and street (or P.O. box if mail is not delivered to street address) P. O. Box 50	4 Report number 3 01
5 City, town, or post office, state, and ZIP code Lincoln City, Oregon 97367	6 Date of issue 4/12/05	7 Name of issue General Obligation Sewer Bonds, Series 2005	8 CUSIP Number 533079CD9
9 Name and title of officer or legal representative whom the IRS may call for more information Mark Nicholson, Finance Director	10 Telephone number of officer or legal representative (541) 996-2152		

Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 Education	11
12 Health and hospital	12
13 Transportation	13
14 Public safety	14
15 Environment (including sewage bonds)	15
16 Housing	16 15,014,625.70
17 Utilities	17
18 Other. Describe <input type="checkbox"/>	18

19 If obligations are TANS or RANs, check box If obligations are BANs, check box
20 If obligations are in the form of a lease or installment sale, check box

Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	6/17/2030	\$ 15,014,625.70	\$ 15,000,000.00	15.5903 years	4.404328 %

Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22 -0-
23 Issue price of entire issue (enter amount from line 21, column (b))	23 15,014,625.70
24 Proceeds used for bond issuance costs (including underwriters' discount)	24 213,000.00
25 Proceeds used for credit enhancement	25 61,500.00
26 Proceeds allocated to reasonably required reserve or replacement fund	26 -0-
27 Proceeds used to currently refund prior issues	27 -0-
28 Proceeds used to advance refund prior issues	28 -0-
29 Total (add lines 24 through 28)	29 274,500.00
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30 14,740,125.70

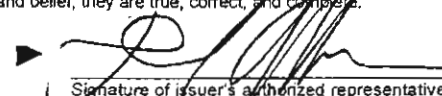
Description of Refunded Bonds (Complete this part only for refunding bonds.) N/A

31 Enter the remaining weighted average maturity of the bonds to be currently refunded years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded years
33 Enter the last date on which the refunded bonds will be called
34 Enter the date(s) the refunded bonds were issued

Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) 35 -0-
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions) 36a -0-
b Enter the final maturity date of the guaranteed investment contract
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units 37a -0-
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box and enter the name of the Issuer and the date of the issue
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box
40 If the issuer has identified a hedge, check box

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Please Sign Here  4/12/2005 David Hawker
Signature of issuer's authorized representative Date Type or print name and title
City Manager

May 18, 2005

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED --# 7002 3150 0005 9750 3979

Internal Revenue Service
Internal Revenue Service Center
1160 W. 1200 S.
Ogden, UT 84201

Subject: \$15,000,000 City of Lincoln City, Oregon General Obligation
Sewer Bondss, Series 2005; Our File No. 26974-0016.

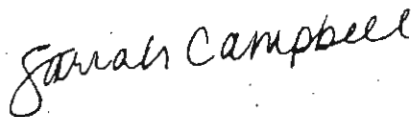
Ladies and Gentlemen:

Enclosed is an original, executed IRS Form 8038-G and one copy for filing in connection with the above-referenced financing.

Please acknowledge receipt of this document on the enclosed copy of the Form 8038-G by placing your date and filing stamp on same and returning it to us in the envelope provided. Thank you for your assistance.

Sincerely,

PRESTON GATES & ELLIS LLP



Sarrah Campbell
Project Assistant

Enclosures

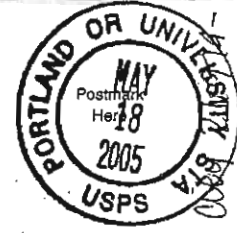
7002 3150 0005 9750 3979

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CERTIFIED MAIL™ RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com

OFFICIAL USE

Postage	\$ 0.60
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	—
Total Postage & Fees	\$ 4.65



Sent
 to
 or P
 City,
 Internal Revenue Service
 IRS Center
 Ogden, UT 84201

Wincelw

RECEIPT FOR BOND PROCEEDS

\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

On behalf of the City of Lincoln City, Oregon (the "City"), I hereby acknowledge receipt of the proceeds of the captioned Bonds in the following amount:

Principal amount of Bonds	\$15,000,000.00
Plus original issue premium	14,625.70
Less underwriter's discount	(214,500.00)*
Less good faith check	<u>(300,000.00)</u>
Total received	<u>\$14,500,125.70</u>

Dated as of the 12th day of April, 2005.

City of Lincoln City, Oregon

By:



David Hawker, City Manager

* Includes bond insurance premium.

CERTIFICATE REGARDING ISSUE PRICE AND BOND INSURANCE

\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

On behalf of Morgan Stanley DW Inc., the undersigned hereby certifies as follows with respect to the issuance by the City of Lincoln City, Oregon (the "Issuer") of the captioned (the "Bonds"):

1. The undersigned is an authorized officer of Morgan Stanley DW Inc., as the underwriter (the "Purchaser") which has purchased the Bonds from the Issuer.
2. The Issuer awarded the Bonds to the Purchaser pursuant to the terms of its bid for purchase of the Obligations dated March 29, 2005 (the "Sale Date").
3. Each maturity of the Bonds was, or was expected on the Sale Date to be, offered to the general public in a bona fide public offering on the Sale Date for the prices or yields shown on the cover page of the Final Official Statement for the Bonds. The issue price has been determined as follows:
 - (a) In the case of Bonds within a maturity that have been or are expected to be offered to the public in a bona fide public offering, the issue price is the lesser of (i) the price at which at least 10% of the Bonds of such maturity was in fact sold to the public on the Sale Date or was reasonably expected on the Sale Date to be sold to the public or (ii) the fair market value of the Bonds as of the Sale Date.
 - (b) In the case of Bonds within a maturity that have not been offered to the public but are expected to be offered to the public after the date of this Certificate, the issue price is the fair market value of such Bonds on the Sale Date.
 - (c) In the case of Bonds within a maturity that have not been and are not reasonably expected to be reoffered to the public, the issue price of such Bonds is the lesser of (i) the fair market value of such Bonds on the Sale Date or (ii) the price paid for such Bonds by the Purchaser.
4. The term "public," as used herein, means persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers.
5. The issue price of a maturity of the Bonds does not change if Bonds within such maturity are later sold at a different price.

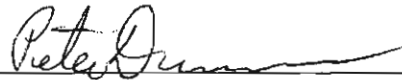
6. The issue price of any Bonds that are not substantially identical has been determined separately.

7. The undersigned understands that the statements made herein will be relied upon by the Issuer in its effort to comply with the conditions imposed by the Internal Revenue Code of 1986, as amended, on the exemption of interest on the Bonds from the gross income of their owners.

8. The bond insurance was obtained as the result of an arm's length transaction and the bond insurance premium represents a reasonable charge for the transfer of credit risk. The present value of the premium paid for the bond insurance policy is less than the present value of the aggregate interest reasonably expected to be saved on the Bonds as a result of such interest using the yield on the Bonds (determined with regard to the bond insurance premium) as the discount rate in determining such present value.

Dated as of the 12th day of April, 2005.

Morgan Stanley DW Inc.

By: 
Authorized Representative
Name: PETER DINEEN


ACKNOWLEDGMENT OF DELIVERY OF BONDS

\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

On behalf of Morgan Stanley DW Inc., as initial purchaser of the captioned bonds (the "Bonds"), I hereby certify that we have authorized the original Bonds to be delivered to The Bank of New York Trust Company, N.A., as Paying Agent and Registrar, which will hold the Bonds under The Depository Trust Company's Fast Automated Securities Transfer (FAST) program, and that we have authorized The Depository Trust Company to credit our account for the Bonds.

Dated as of the 12th day of April, 2005.

Morgan Stanley DW Inc.

By: 

Authorized Representative

Name: ~~ANDREA RILEY~~ PETER DINERMAN

**THE BANK OF NEW YORK TRUST COMPANY, N.A.
SECRETARY'S CERTIFICATE**

I, Mary Lee do hereby certify that:

(i) I am the duly elected Assistant Vice President of The Bank of New York Trust Company, N.A., (the "Company");

(ii) attached hereto is a true, correct copy of Signing Authorities extracts from by-laws of the Company adopted by action of the Board of Directors of the Company and presently in effect;

(iii) attached hereto is a list of the persons who, as of the date hereof, are duly elected officers of the Company, which lists sets forth the title and signing authority conveyed to each such officer by the Chairman and CEO of the Company pursuant to its by-laws;

IN WITNESS WHEREOF, I have hereunto executed this Certificate as Assistant Vice President of the Company and affixed the seal of the Company this 12th Day of April 2005.



Mary Lee
Assistant Vice President
The Bank of New York Trust Company, N.A.

(Corporate Seal)

THE BANK OF NEW YORK TRUST COMPANY, N.A.

I, the undersigned, Heather A. Sisler, Assistant Secretary of The Bank of New York Trust Company, N.A., a national banking association organized under the laws of the United States (the "Association") and located in the State of California, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers or qualified Employees of the Association:

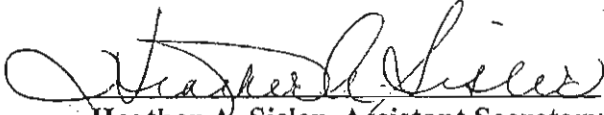
<u>Title</u>	<u>Officer</u>	<u>Signing Authority</u>
Michael K. Klugman	Chairman and Chief Executive Officer	X (Senior)
Carl W. Becker	Vice President	A, C2, J
Eladia Burgos	Vice President	A, C2, J
Rose C. Bystrom	Vice President & Assistant Secretary	A, C1, H
Daren M. Di Nicola	Vice President	C1, I2
Teresa R. Fructuoso	Vice President	A, C1, J
Evelyn T. Furukawa	Vice President & Assistant Secretary	A, C1, J
Mark A. Golder	Vice President	A, C2, J
Inga Keldsen	Vice President & Assistant Secretary	A, C2, J
Josephine Libunao	Vice President	A, C4, J
Carol Nelson	Vice President & Assistant Secretary	A, C4, J
Gary B. Nelson	Vice President & Assistant Secretary	A, C1, J
Jacqueline M. Nowak	Vice President	A, C4, J
Linda G. Ojeda	Vice President & Assistant Secretary	A, C1, J
Tomas S. Orlina, Jr.	Vice President	A, C4, J
Sandee' Parks	Vice President	A, C2, J
Teresa Petta	Vice President	A, C2, J
Deborah Young	Vice President	A, C3, J
Melonee Young	Vice President	A, C2, J
Scott Boroczki	Assistant Vice President	A, C4, J
Milly P. Canessa	Assistant Vice President	A, C4, J
Gregory B. Chenail	Assistant Vice President	A, C4, J
Patricia Cronin	Assistant Vice President	A, C4, J
Priscilla R. Dedoro	Assistant Vice President	A, C4, J
Kathleen Gylland	Assistant Vice President	A, C4, J
Vicki Herrick	Assistant Vice President	A, C4, J
Mary Lee	Assistant Vice President	A, C4, J
Patrick Matanane	Assistant Vice President	A, C4, J
Melinda Murrell	Assistant Vice President	A, C4, J
David A. Oeser	Assistant Vice President	A, C4, J
Gloria Ramirez	Assistant Vice President	A, C4, J
Rosalinda Ronquillo	Assistant Vice President Assistant Secretary	A, C4, J
Lioudmila Semenova	Assistant Vice President	A, C4, J
Lisa Stroud	Assistant Vice President	A, C4, J
Allen D. Taylor	Assistant Vice President	A, C4, J
Perry Tobe	Assistant Vice President	A, C3, J
Johanna K. Tokunaga	Assistant Vice President	A, C4, J
Gonzalo Urey	Assistant Vice President	A, C4, J
Elizabeth Doomey	Assistant Treasurer	A, C4, J
Nelia B. Lopez	Assistant Treasurer	C4
Alan Maravilla	Assistant Treasurer	A, C4, J

Raymond A. Martinez	Assistant Treasurer	A, C4, J
Helen B. McNulty	Assistant Treasurer	A, C4, J
Marina Meza	Assistant Treasurer	A, C4, J
Lucy Pham	Assistant Treasurer	A, C4, J
Aurora Y. Quiazon	Assistant Treasurer	A, C4, J
Fe Tuzon	Assistant Treasurer	A, C4, J
Christina Garchitorena	Agency Administrator	C1, I2

I further certify that as of this date they have been authorized to sign on behalf of the Association in discharging or performing their duties in accordance with the senior and limited signing powers provided under Article V, Sections 5.2 and 5.3 of the By-Laws of the Association and the paragraphs indicated above of the signing authority resolution of the Board of Directors of the Association.

Attached hereto are true and correct copies of excerpts of the By-Laws of the Association and the signing authority resolution, which have not been amended or revised since November 1, 2004 and are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of The Bank of New York Trust Company, N.A. this 5th day of November, 2004.


Heather A. Sisler, Assistant Secretary

Extracts from By-Laws
Of
The Bank of New York Trust Company, N.A.

ARTICLE V
SIGNING AUTHORITIES

SECTION 5.1 Real Property. Real property owned by the Association in its own right shall not be deeded, conveyed, mortgaged, assigned or transferred except when duly authorized by a resolution of the Board. The Board may from time-to-time authorize officers to deed, convey, mortgage, assign or transfer real property owned by the Association in its own right with such maximum values as the Board may fix in its authorizing resolution.

SECTION 5.2. Senior Signing Powers. Subject to the exception provided in Section 5.1, the Chairman and Chief Executive Officer, the President, any Vice Chairman of the Board, and any Executive Vice President is authorized to accept, endorse, execute or sign any document, instrument or paper in the name of, or on behalf of, the Association in all transactions arising out of, or in connection with, the normal course of the Association's business or in any fiduciary, representative or agency capacity and, when required, to affix the seal of the Association thereto. In such instances as in the judgment of the Chairman and Chief Executive Officer, the President, any Vice Chairman of the Board, or any Executive Vice President may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer to have the powers set forth in this section applicable only to the performance or discharge of the duties of such officer within his or her particular division or function. Any officer of the Association authorized in or pursuant to Section 5.3 to have any of the powers set forth therein, other than the officer signing pursuant to this Section 5.2, is authorized to attest to the seal of the Association on any documents requiring such seal.

SECTION 5.3. Limited Signing Powers. Subject to the exception provided in Section 5.1, in such instances as in the judgment of the Chairman and Chief Executive Officer, the President, any Vice Chairman of the Board, or any Executive Vice President, may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer, employee or individual to have the limited signing powers or limited power to affix the seal of the Association to specified classes of documents set forth in a resolution of the Board applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function.

SECTION 5.4. Powers of Attorney. All powers of attorney on behalf of the Association shall be executed by any officer of the Association jointly with the Chairman of the Board and Chief Executive Officer, the President, any Vice Chairman, any Executive Vice President, or any Senior Vice President, provided that the execution by such Senior Vice President of said Power of Attorney shall be applicable only to the performance or discharge of the duties of said officer within his or her particular division or function. Any such power of attorney may, however, be executed by any officer or officers or person or persons who may be specifically authorized to execute the same by the Board of Directors.

SECTION 5.5. Auditor. The Auditor or any officer designated by the Auditor is authorized to certify in the name of, or on behalf of the Association, in its own right or in a fiduciary or representative capacity, as to the accuracy and completeness of any account, schedule of assets, or other document, instrument or paper requiring such certification.

SIGNING AUTHORITY RESOLUTION

Pursuant to Article V, Section 5.3 of the By-Laws

RESOLVED that, pursuant to Section 5.3 of the By-Laws of the Association, authority be, and hereby is, granted to the Chairman and Chief Executive Officer, the President, any Vice Chairman of the Board, or any Executive Vice President, in such instances as in the judgment of any one of said officers may be proper and desirable, to authorize in writing from time-to-time any other officer, employee or individual to have the limited signing authority set forth in any one or more of the following paragraphs applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function:

(A) All signing authority set forth in paragraphs (B) through (I) below except Level C which must be specifically designated.

(B1) Individuals authorized to accept, endorse, execute or sign any bill receivable; certification; contract, document or other instrument evidencing, embodying a commitment with respect to, or reflecting the terms or conditions of, a loan or an extension of credit by the Association; note; and document, instrument or paper of any type, including stock and bond powers, required for purchasing, selling, transferring, exchanging or otherwise disposing of or dealing in foreign currency, derivatives or any form of securities, including options and futures thereon; in each case in transactions arising out of, or in connection with, the normal course of the Association's business.

(B2) Individuals authorized to endorse, execute or sign any certification; disclosure notice required by law; document, instrument or paper of any type required for judicial, regulatory or administrative proceedings or filings; and legal opinions.

(C1) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of \$100,000,000 with single authorization for all transactions.

(C2) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of \$100,000,000*.

(C3) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$100,000,000.

(C4) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$10,000,000.

(C5) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$5,000,000.

(C6) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$1,000,000.

(C7) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$250,000.

(C8) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$50,000.

(C9) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$5,000.

*Dual authorization is required by any combination of senior officer and/or Sector Head approved designee for non-exempt transactions. Single authorization required for exempt transactions.

(D1) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$1,000,000.

(D2) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$250,000.

(D3) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$50,000.

(D4) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$5,000.

(E) Authority to accept, endorse, execute or sign any guarantee of signature to assignments of stocks, bonds or other instruments; certification required for transfers and deliveries of stocks, bonds or other instruments; and document, instrument or paper of any type required in connection with any Individual Retirement Account or Keogh Plan or similar plan.

(F) Authority to accept, endorse, execute or sign any certificate of authentication as bond, unit investment trust or debenture trustee and on behalf of the Association as registrar and transfer agent.

(G) Authority to accept, endorse, execute or sign any bankers acceptance; letter of credit; and bill of lading.

(H) Authority to accept, endorse, execute or sign any document, instrument or paper of any type required in connection with the ownership, management or transfer of real or personal property held by the Association in trust or in connection with any transaction

with respect to which the Association is acting in any fiduciary, representative or agency capacity, including the acceptance of such fiduciary, representative or agency account.

(I1) Authority to effect the external movement of free delivery of securities and internal transfers resulting in changes of beneficial ownership.

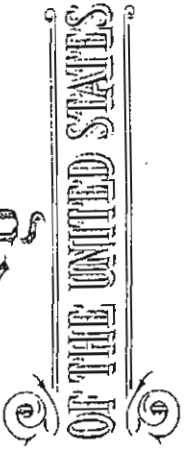
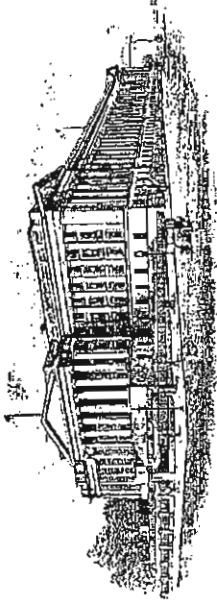
(I2) Authority to effect the movement of securities versus payment at market or contract value.

(J) Authority to either sign on behalf of the Association or to affix the seal of the Association to any of the following classes of documents: Trust Indentures, Escrow Agreements, Pooling and Servicing Agreements, Collateral Agency Agreements, Custody Agreements, Trustee's Deeds, Executor's Deeds, Personal Representative's Deeds, Other Real Estate Deeds for property not owned by the Association in its own right, Corporate Resolutions, Mortgage Satisfactions, Mortgage Assignments, Trust Agreements, Loan Agreements, Trust and Estate Accountings, Probate Petitions, responsive pleadings in litigated matters and Petitions in Probate Court with respect to Accountings, Contracts for providing customers with Association products or services.

(N) Individuals authorized to accept, endorse, execute or sign internal transactions only, (i.e., general ledger tickets); does not include the authority to authorize external money movements, internal money movements or internal free deliveries that result in changes of beneficial ownership.

RESOLVED, that any signing authority granted pursuant to this resolution may be rescinded by the Chairman, the President, any Vice Chairman of the Board, or any Executive Vice President and such signing authority shall terminate without the necessity of any further action when the person having such authority leaves the employ of the Association.

Comptroller of the Currency



Washington, D. C.,

Whereas, satisfactory evidence has been presented to the Comptroller of the Currency that

The Bank of New York Trust Company, National Association

located in Los Angeles, State of California, has complied with all provisions of the statutes of the United States required to be complied with before being authorized to commence the business of banking as a National Banking Association;

Now, therefore, I hereby certify that the above-named association is authorized to commence the business of banking as a National Banking Association.

In testimony whereof, witness my signature and seal of office **November 1, 2004.**



A handwritten signature in black ink, appearing to read "John L. Wall".

Acting Comptroller of the Currency

AGREEMENT TO PROVIDE REGISTRAR AND PAYING AGENT SERVICES FOR FULLY REGISTERED MUNICIPAL BONDS

This Agreement dated as of February 7, 2005, has been entered into by and between City of Lincoln City, Lincoln County, Oregon (Issuer) and The Bank of New York Trust Company, N.A. (Bank). Issuer, by Resolution dated 2/15/05, 2005 appointed Bank to act as Registrar and Paying Agent for its General Obligation Sewer Bonds, Series 2005 (Bonds). This Agreement sets out the terms and conditions of said appointment.

Issuer and Bank agree as follows:

1. Bank as Registrar will issue and deliver Bonds on original issue at the written direction of the Issuer.
2. Bank as Registrar will manually countersign all Bonds issued.
3. Bank as Registrar will maintain records as to the identity of the registered holders of the Bonds.
4. Bank as Registrar will effect transfers of the registered ownership of Bonds upon surrender of validly issued Bonds to Bank accompanied by such instruments of transfer and other documents as Bank may require.
5. Bank as Registrar will maintain in safekeeping an inventory of unissued Bonds, it being recognized that it is the responsibility of Issuer to ensure that Bank is provided with an adequate supply of unissued Bonds to accommodate normal transfer activity.
6. Bank as Registrar will cancel all Bonds surrendered to it for transfer or payment and will dispose of said cancelled Bonds at the written direction of Issuer.
7. Bank as Paying Agent will prepare and mail interest checks on the interest payment dates, each June 1 & December 1, to bondholders of record on the respective record dates and, upon presentation of Bonds, prepare and mail or deliver checks in payment of the principal of Bonds maturing or called for redemption. When mail is used for the delivery of payment of interest and/or principal on the Bonds, the Bank shall forward the check for such payment by first class mail, unless otherwise instructed by the Issuer.
8. The Bank shall send, at the direction of the Issuer, any required notices of redemption by first-class mail to the Registered Owner of any Bonds to be called or redeemed prior to its maturity date not less than 30 days nor more than 60 days prior to the intended redemption date.
9. Issuer will deposit with the Paying Agent, in good funds, funds sufficient to pay all interest and principal payable on the Bonds one business day prior to the payment date as said interest and principal become due. Any money deposited with Bank for the payment of the principal of or interest on any Bonds and remaining unclaimed for five years after such interest or principal has become due and payable shall be paid to the State.

10. Bank shall have no duties with respect to the investment of funds deposited with it nor shall Bank be required to pay interest on said funds.

11. Should Bank be notified of the loss, destruction or theft of any Bond, Bank will place a stop transfer order against said Bond and shall consult with Issuer with respect to issuance of any replacement Bond.

12. This agreement, with the exception of the covenants in Section 13, which shall continue until payment in full of all fees due in accordance with the Bank's fee schedule attached hereto, and Section 14, which shall continue indefinitely, shall remain in effect until the Bonds mature on June 1, 2030 and all funds are disbursed or until this Agreement is amended or terminated, provided that this Agreement shall not be amended or terminated except in accordance with the Resolution. This Agreement may be terminated by 30 days written notice of either party to the other.

13. Issuer will compensate Bank for its services as Registrar and Paying Agent in accordance with the terms and conditions of the fee schedule attached hereto.

14. Issuer agrees to indemnify and hold Bank harmless against any liabilities, costs or claims, arising out of the breach, by the Issuer or any covenant on its part contained in the resolution authorizing the issuance of the Bonds and the performance by the Bank of its duties under the resolution authorizing the issuance of the Bonds and this Agreement. Notwithstanding the foregoing, no indemnification shall be made hereunder for any liabilities, costs or claims which are due to the Bank's negligence or willful misconduct.

15. Issuer shall furnish Bank with the following documents to support this appointment: (a) Certified copy of Resolution authorizing issuance of Bonds and appointment of Bank as Registrar and Paying Agent; (b) Specimen Bonds; (c) signed copy of Bond Counsel Legal Opinion, (d) Official Statement, (e) Incumbency Certificate, and (f) such other documents as Bank may reasonably request.

16. Counterparts. Issuer and Bank may each execute a separate copy of this Agreement: when both parties have executed copies of this Agreement, the Agreement shall bind both parties to the same extent as if both parties had signed a single document.

CITY OF LINCOLN CITY, OREGON

By: 

THE BANK OF NEW YORK TRUST
COMPANY, N.A.

By: 
Authorized Officer

THE BANK OF NEW YORK
TRUST COMPANY, N.A.

City of Lincoln City
2005 General Obligation Sewer Bonds

Paying Agent and Registrar Fee Schedule
December 30, 2004

Upon appointment of BNYTC as Paying Agent and Registrar, the City of Lincoln City shall be responsible for the payment of the fees, expenses and charges as set forth in this Fee Schedule.

ACCEPTANCE FEE **\$250**

This one time charge of \$250 is payable at the time of the closing and includes the review and execution of the Indenture and all documents submitted in support thereof, acceptance of the trust, establishment of procedures and controls and set-up of trust accounts.

ANNUAL ADMINISTRATIVE FEE **\$500**

An annual fee of \$500 covering the duties and responsibilities related to account administration and bondholder services, which may include maintenance of accounts on various systems, collection and payment of principal and interest to bondholders, the preparation and distribution of any sinking fund redemption notices and the monitoring of issuer compliance. This fee is payable in advance for the year and shall not be prorated.

OTHER SERVICES/ACTIVITY CHARGES

Terminations: Reasonable compensation based upon services performed

MISCELLANEOUS FEES

The fees for performing extraordinary or other services not contemplated at the time of the execution of the transaction or not specifically covered elsewhere in this schedule will be commensurate with the service to be provided and will be charged in BNYTC's sole discretion. These extraordinary services may include, but are not limited to, supplemental agreements, consent operations, unusual releases, tenders or sinking fund redemptions, the preparation of special or interim reports, custody of collateral, a one-time fee to be charged upon termination of an engagement. Counsel, accountants, special agents and others will be charged at the actual amount of fees and expenses billed.

OUT-OF-POCKET EXPENSES

At Cost

Additional out-of-pocket expenses may include, but are not limited to, telephone; facsimile; courier; copying; postage; supplies; statutory filing charges, including UCC amendments, continuations, and termination fees; and expenses of BNYTC's representative(s) and Counsel for attending special meetings. Fees and expenses of BNYTC's representatives and Counsel will be charged at the actual amount of fees and expenses charged and all other expenses will be charged at cost.

THE BANK OF NEW YORK
TRUST COMPANY, N.A.

TERMS AND DISCLOSURES

TERMS OF PROPOSAL

Final acceptance of the appointment as trustee under the Indenture is subject to approval of authorized officers of BNYTC and full review and execution of all documentation related hereto. Please note that if this transaction does not close, you will be responsible for paying any expenses incurred, including Counsel fees. We reserve the right to terminate this offer if we do not enter into final written documents within three months from the date this document is first transmitted to you. Fees may be subject to adjustment during the life of the engagement.

MISCELLANEOUS

The terms of this Fee Schedule shall govern the matters set forth herein and shall not be superseded or modified by the terms of the Indenture. This Fee Schedule shall be governed by the laws of the State of California without reference to laws governing conflicts. BNYTC and the undersigned agree to jurisdiction of the federal and state courts located in the City/County of Los Angeles, State of California.

CUSTOMER NOTICE REQUIRED BY THE USA PATRIOT ACT

To help the US government fight the funding of terrorism and money laundering activities, US Federal law requires all financial institutions to obtain, verify, and record information that identifies each person (whether an individual or organization) for which a relationship is established.

What this means to you: When you establish a relationship with BNYTC, we will ask you to provide certain information (and documents) that will help us to identify you. We will ask for your organization's name, physical address, tax identification or other government registration number and other information that will help us to identify you. We may also ask for a Certificate of Incorporation or similar document or other pertinent identifying documentation for your type of organization.

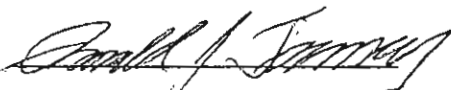
We thank you for your assistance.


Signature

Date:

Name:

Title


FEBRUARY 17, 2005
RONALD L. TIERNEY
FINANCIAL ADVISOR


December 29, 2004
Jose Matamoros
Vice President

RECEIPT FOR AND ACCEPTANCE OF BONDS AND POLICY

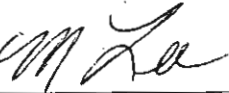
\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

On behalf of The Bank of New York Trust Company, N.A., as Paying Agent and Registrar (the "Paying Agent") for the captioned Bonds (the "Bonds") and as instructed by Morgan Stanley DW Inc., the initial purchaser of the Bonds, I hereby certify that: the Paying Agent has received one typewritten, unauthenticated Bond for each maturity of the Bonds; the Paying Agent has duly and properly authenticated and registered the Bonds pursuant to the order and direction of the Issuer; the Bonds are registered in the name of Cede & Co., as nominee for Depository Trust Company ("DTC"); the Bonds will be held in Fast Automated Securities Transfer ("FAST") for DTC's book-entry only system, to be credited to the account of Morgan Stanley DW Inc., as the purchaser of the Bonds on this date; the Paying Agent will update the FAST Reject and Confirm System ("FRAC") in compliance with DTC's requirements; the Paying Agent has received the Municipal Bond New Issue Insurance Policy of Financial Guaranty Insurance Company with respect to the Bonds.

Dated as of the 12th day of April, 2005.

The Bank of New York Trust Company, N.A.

By: _____



Authorized Officer

Name: _____

Mary Lee

CERTIFICATE OF FINANCIAL ADVISOR

\$15,000,000
City of Lincoln City, Oregon
General Obligation Sewer Bonds
Series 2005

On behalf of Regional Financial Advisors, Inc. ("the Financial Advisor"), I hereby certify as follows with respect to the captioned bonds (the "Bonds"):

1. Based on the Financial Advisor's assistance in preparing the Preliminary Official Statement for the Bonds which is dated March 18, 2005 (the "Preliminary Official Statement") and the Final Official Statement for the Bonds which is dated March 29, 2005 (the "Final Official Statement"), and in the issuance, sale, execution and delivery of the Bonds, the Financial Advisor has not become aware of any information that causes it to believe that any information presented in the Preliminary Official Statement or Final Official Statement misstates a material fact or fails to state a material fact that, in light of the circumstances under which such information is presented, renders the information in the Preliminary Official Statement or Final Official Statement materially misleading or false.

2. The Financial Advisor has reasonably estimated the interest rates at which the Bonds would have sold if the Bonds had not been insured by Financial Guaranty Insurance Company (the "Bond Insurer"). Based on that estimate, the Financial Advisor has calculated that the present value of the premiums paid or to be paid to the Bond Insurer to obtain the bond insurance policy for the Bonds is less than the present value of the interest reasonably expected to be saved as a result of having the bond insurance policy, using the yield on the Bonds as the discount rate.

Dated as of the 12th day of April, 2005.

Regional Financial Advisors, Inc.

By: Rebecca M. Chao
Authorized Representative
Name: REBECCA M. CHAO



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
F 212-312-3093

Commitment For Municipal Bond Insurance

Issuer: City of Lincoln, Oregon

Date of Commitment: March 30, 2005

Expiration Date: May 30, 2005*

Bonds Insured: \$15,000,000 in principal amount of General Obligation Sewer Bonds, Series 2005

Premium: \$61,500.00

FINANCIAL GUARANTY INSURANCE COMPANY

("Financial Guaranty")

A Stock Insurance Company

hereby commits to issue a Municipal Bond New Issue Insurance Policy (the "Policy"), in the form attached hereto as Exhibit A, relating to the above-described debt obligations (the "Bonds"), subject to the terms and conditions contained herein or added hereto.

To keep this Commitment in effect after the Expiration Date set forth above, a request for renewal must be submitted to Financial Guaranty prior to such Expiration Date. Financial Guaranty reserves the right to refuse wholly or in part to grant a renewal.

THE MUNICIPAL BOND NEW ISSUE INSURANCE POLICY SHALL BE ISSUED IF THE CONDITIONS SPECIFIED BELOW ARE SATISFIED.

1. In addition to the satisfaction of the other conditions set forth herein, Financial Guaranty shall be provided with:
 - (a) (i) Executed copies of all financing documents, the official statement (or any similar disclosure document), and all Bond documentation evidencing the Issuer's ability and intent to comply with the Internal Revenue Code of 1986, as amended (if in the opinion of bond counsel (described below) ongoing compliance would be necessary to maintain the exemption from federal income taxation of interest on the Bonds), which shall be in form and substance acceptable to Financial Guaranty; and (ii) the various legal opinions delivered in connection with the issuance and sale of the Bonds, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Financial Guaranty and addressed to (or with a reliance letter addressed to) Financial Guaranty, which opinion shall include statements to the

* Subject to written acceptance of this Commitment being furnished to Financial Guaranty by the earlier of the date on which the disclosure document relating to the Bonds is circulated and April 6, 2005.




effect that (A) (1) the Bonds have been duly authorized, executed and delivered by the Issuer and are the valid and binding obligations of the Issuer, and (2) the interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes under the Internal Revenue Code of 1986, as amended (if the Bonds are issued as tax-exempt obligations); and (B) the Bonds constitute a general obligation of the Issuer, for the payment of which all taxable, real property within the jurisdiction of the Issuer is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount. Copies of all drafts of such documents and legal opinions (blacklined as appropriate) prepared subsequent to the date of this Commitment shall be furnished to Financial Guaranty. Final drafts of such documents shall be provided to Financial Guaranty at least five (5) business days prior to the issuance of the Policy unless Financial Guaranty shall approve a shorter period and such documents shall be satisfactory to Financial Guaranty in all respects.

2. Evidence of wire transfer in federal funds in an amount equal to the insurance premium unless alternative arrangements for the payment of the premium acceptable to Financial Guaranty have been made prior to the delivery date of the Bonds. Please note the attached Wire Instructions.
3. The documents to be executed and delivered in connection with the issuance and sale of the Bonds shall not contain any untrue or misleading statement of a material fact and shall not fail to state a material fact necessary in order to make the information contained therein not misleading.
4. No event shall occur which would permit any purchaser of the Bonds, otherwise required, not to be required to purchase the Bonds on the date scheduled for the issuance and delivery thereof.
5. There shall be no material change in or affecting the Bonds (including, without limitation, the security for the Bonds) or the financing documents or the official statement (or any similar disclosure document) to be executed and delivered in connection with the issuance and sale of the Bonds from the descriptions or forms thereof approved by Financial Guaranty.
6. The Bonds shall contain no reference to Financial Guaranty, the Policy or the municipal bond insurance evidenced thereby except as may be approved by Financial Guaranty.
7. The Bonds shall bear a "Statement of Insurance" in the form attached to this Commitment (*also available online on our web site at www.fgic.com*). BOND PROOFS SHALL BE APPROVED BY FINANCIAL GUARANTY PRIOR TO PRINTING.
8. The preliminary official statement and the official statement shall (a) be satisfactory in form and substance to Financial Guaranty and (b) contain the "Official Statement Disclosure Language" attached to this Commitment and only such other references to Financial Guaranty as we shall supply or approve. *Financial Guaranty's official statement language and cover logo are also available online on our web site at www.fgic.com.*
9. All drafts of the preliminary official statement, official statement or any other disclosure documents and the form of the Bonds should be directed to the attention of Stephanie

Cain (Phone 212-312-3230), Financial Guaranty's closing contact for this transaction, for approval.

10. Promptly after the closing of the Bonds, Financial Guaranty shall receive three completed sets of executed documents (one original and two photocopies or CD copies). We will provide the photocopies or CD copies to the rating agencies.



Authorized Representative

To keep this commitment in effect to the Expiration Date set forth on the first page, Financial Guaranty must receive a duplicate of this Commitment executed by an appropriate officer of Morgan Stanley DW, Inc. by April 6, 2005.

The undersigned agrees that if the Bonds are insured by a policy of municipal bond insurance, such insurance shall be provided by Financial Guaranty in accordance with the terms of the Commitment.

Accepted as of _____ by Morgan Stanley DW, Inc.

By: _____

Name: _____

Title: _____

6021868



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer: City of Lincoln City, Oregon

Policy Number: 05010244

Control Number: 0010001

Bonds: \$15,000,000.00 in aggregate principal amount of General Obligation Sewer Bonds, Series 2005

Premium: \$61,500.00

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: April 12, 2005

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: 05010244

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: April 12, 2005

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
F 212-312-3093

April 12, 2005

City of Lincoln City

Preston Gates & Ellis LLP

**Re: \$15,000,000.00 in aggregate principal amount of City of Lincoln City, Oregon
General Obligation Sewer Bonds, Series 2005**

Ladies and Gentlemen:

In connection with the issuance of the above-referenced obligations (the "Bonds"), Financial Guaranty Insurance Company ("Financial Guaranty") is issuing a municipal bond insurance policy guaranteeing the payment of principal and interest on the Bonds when due (the "Insurance Policy").

This letter is to advise you that:

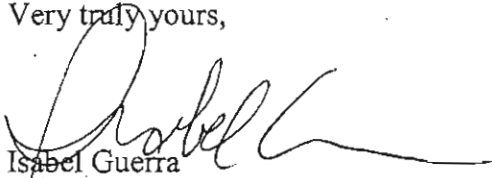
- (i) The Insurance Policy is an unconditional and recourse obligation of Financial Guaranty (enforceable by or on behalf of the holder of the Bonds) to pay the scheduled payments of principal and interest on the Bonds when due in the event of a failure by the City of Lincoln City, Oregon (the "Issuer") to make such payments.
- (ii) The insurance premium is required to be paid as a condition to the issuance of the Insurance Policy and is a charge for the transfer of substantially all of the credit risk for the payment of principal and interest on the Bonds.
- (iii) Financial Guaranty is not a co-obligor on the Bonds.
- (iv) Except for the premium paid to Financial Guaranty for the Insurance Policy, Financial Guaranty (and any related party within the meaning of section 1.150-1(b) of the Income Tax Regulations) will not use any portion of the proceeds of the Bonds.
- (v) No portion of the premium paid to Financial Guaranty for the Insurance Policy represents a payment for any direct or indirect services, other than the transfer of credit risk, including costs of underwriting or remarketing the Bonds or the cost of insurance for casualty to property financed with the proceeds of the Bonds.

April 12, 2005

Page 2

- (vi) The Issuer is not entitled to a refund of any portion of the premium paid for the Insurance Policy in the event that any of the Bonds are retired prior to their stated maturity.

Very truly yours,



Isabel Guerra
Senior Counsel

05010244



Moody's Investors Service

99 Church Street
New York, NY

April 11, 2005

Financial Guaranty Insurance Company
125 Park Avenue, 5th Floor
New York, New York 10017

To Whom It May Concern:

Moody's Investors Service has assigned the rating of **Aaa** (Financial Guaranty Insurance Company Insured - Policy No. **05010244**) to the **\$15,000,000.00, City of Lincoln City, Oregon - General Obligation Sewer Bonds, Series 2005**, dated April 12, 2005 which sold through negotiation on March 29, 2005. The rating is based upon an insurance policy provided by Financial Guaranty Insurance Company.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Margaret Kessler at (212) 553-7884.

Sincerely yours,

Margaret Kessler

Margaret L. Kessler
Vice President/Senior Analyst

MLK / DC

April 12, 2005

City of Lincoln City
P. O. Box 50
Lincoln City, Oregon 97367

Morgan Stanley DW Inc.
101 California Street, 7th Floor
San Francisco, California 94111

Subject: \$15,000,000 City of Lincoln City, Oregon; General Obligation Sewer Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Lincoln City, Oregon (the "City") of its General Obligation Sewer Bonds, Series 2005 (the "Bonds"), in the aggregate principal amount of Fifteen Million Dollars (\$15,000,000). The Bonds are issued pursuant to the authority granted by the voters of the City at an election held on November 2, 2004, a Bond Declaration that is dated the date of delivery of the Bonds, and Resolution 2005-03 of the City adopted on January 24, 2005 (collectively, the "Resolution"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the Bonds, and we express no opinion relating thereto.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The Bonds constitute valid and legally binding general obligations of the City enforceable in accordance with their terms. The City has pledged its full faith and credit to the payment of the Bonds. The Bonds are payable from ad valorem taxes which may be levied without limitation as to rate or amount on all taxable property within the boundaries of the City.
2. Interest on the Bonds is excluded from gross income for federal income tax purposes under existing law.
3. Interest on the Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals or corporations. Interest on a Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.
4. The initial public offering price for certain maturities of the Bonds is less than the amount payable at maturity. This difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. The appropriate portion of the original issue discount that is allocable to the original and each subsequent holder is treated as interest upon sale, exchange, redemption, or payment at maturity of such Bond and is excluded from gross income for federal income tax purposes under existing law to the same extent as the stated interest on the Bonds.

Legal Opinion
April 12, 2005
Page 2

5. Interest on the Bonds is exempt from Oregon personal income tax under existing law.

We note that the City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral federal income tax consequences.

Under the Code, the City is required to comply with certain requirements relating to the investment and use of the proceeds of the Bonds, and the City has covenanted to comply with these requirements. Failure to comply with these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Our opinion assumes compliance with such covenants, and we do not undertake to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

These opinions are based on existing law and we assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

The opinions set forth above are qualified only to the extent that enforceability of the Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on the opinions expressed. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to our attention or any change in law that may hereafter occur.

The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Preston Gates & Ellis LLP.

Legal Opinion
April 12, 2005
Page 3

We have served only as bond counsel to the City in connection with the Bonds and have not represented any other party in connection with the Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Our opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

By: 
Harvey W. Rogers, Esq.

April 12, 2005

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017


Subject: \$15,000,000 City of Lincoln City, Oregon, General Obligation Bonds, Series 2005

Ladies and Gentlemen:

We have this date delivered our legal opinion, copy enclosed, addressed to the City of Lincoln City, Oregon, and Morgan Stanley DW Inc., with respect to the subject bonds. You are authorized to rely upon such opinion as if it had been originally addressed to you.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

By: 
Harvey W. Rogers, Esq.



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
F 212-312-3093

April 12, 2005

City of Lincoln City

Morgan Stanley DW, Inc.,
as Underwriter or as Representative of the Underwriters

**Re: \$15,000,000.00 in aggregate principal amount of City of Lincoln City, Oregon
General Obligation Sewer Bonds, Series 2005**

Ladies and Gentleman:

I am Senior Counsel of Financial Guaranty Insurance Company ("Financial Guaranty"), and have been requested to render an opinion concerning the issuance by Financial Guaranty of its Municipal Bond New Issue Insurance Policy (the "Policy") in connection with the issuance of the captioned obligations (the "Bonds"). I have examined such documents and records as I have deemed relevant for purposes of this opinion, including (a) the Certificate of Incorporation of Financial Guaranty, including all amendments thereto, (b) the amended By-laws of Financial Guaranty as in effect on the date hereof, (c) the certificate of authority issued to Financial Guaranty by the Superintendent of Insurance of the State of New York, (d) the certificate of authority issued to Financial Guaranty by the Director, Department of Consumer and Business Services of the State of Oregon, (e) the executed Policy and (f) the statements in the Official Statement dated March 29, 2005 relating to the Bonds (the "Official Statement") under the caption "BOND INSURANCE".

On the basis of the foregoing, it is my opinion that:

- (1) Financial Guaranty is a stock insurance corporation validly existing and in good standing under the laws of the State of New York and qualified to do business therein and is licensed and authorized to issue its financial guaranty insurance policies under the laws of the State of Oregon.
- (2) The Policy is valid and binding upon Financial Guaranty and enforceable in accordance with its terms, subject to applicable laws affecting creditors' rights generally.
- (3) Financial Guaranty, as an insurance company, is not eligible for relief under the Federal Bankruptcy Laws. Any proceedings for the liquidation, conservation or rehabilitation of Financial Guaranty would be governed by the provisions of the

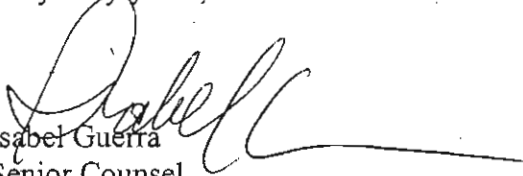
April 12, 2005

Page 2

Insurance Law of the State of New York.

- (4) The statements described above in the Official Statement relating to Financial Guaranty and the Policy accurately and fairly present the summary information set forth therein and do not omit any material fact with respect to the description of Financial Guaranty relative to the material terms of the Policy or the ability of Financial Guaranty to meet its obligations under the Policy.

Very truly yours,


Isabel Guerra
Senior Counsel



Regional Financial Advisors, Inc.

Rebecca Marshall Chao, President
Faye Brown, Vice President
Jonas Biery, Analyst
Raelene Garrison, Administrative Assistant
PHONE (503) 227-2009
FAX (503) 227-2510



733 SW Vista Ave.
Portland, OR 97205-1203

April 6, 2005

Via Email – 3 pages

FINAL
CLOSING PAYMENT MEMORANDUM

TO: Ron Tierney (541-996-1212) Lincoln City
Harvey Rogers (503-226-5721) Preston Gates & Ellis LLP
Gulgun Ugur (503-226-5779)
Margo Sharp (503-226-3200)
Andrea Riekena (415-693-6277) Morgan Stanley
Michael Cochrane (415-693-6393)
Mary D. Lee (213-630-6488) Bank of New York
Stephanie Cain (212-312-3230) FGIC

FROM: Jonas Biery (503-227-2009)

RE: Lincoln City, OR, \$15,000,000 General Obligation Sewer Bonds, Series 2005

Sale date: Tuesday, March 29, 2005

Closing: The closing is scheduled to occur by telephone at 8:30 a.m. (Prevailing Pacific Time), Tuesday, April 12 at the offices of Preston Gates & Ellis LLP, 222 SW Columbia, Suite 1400, Portland, OR 97201; (503) 228-3200

DISTRIBUTION OF BOND PROCEEDS FROM UNDERWRITER:**WIRE INSTRUCTIONS #1 -- Proceeds to City**

Underwriter: Delivers \$14,500,125.70 to Lincoln City
Method: Wire Transfer
Bank: Bank of America (Lincoln City, Oregon branch)
ABA Number: 323 070 380
Account Number: 26883-00175
Account Name: City of Lincoln City
Contact Name and Number: Jamie Lynch, 541-994-2161

WIRE INSTRUCTIONS #2 -- Proceeds to the Bond Insurer**Payment instructions for bond insurance premium**

Underwriter: Delivers \$61,500.00 to FGIC
Method: Wire Transfer
Bank: JPMorgan Chase Bank
ABA Number: 021 000 021
Account Number: 904951812
Account Name: Financial Guaranty Insurance Company Premium Account
FGIC Policy #05010244
Contact Name and Number: Stephanie Cain, 212-312-3230 (fax, 212-312-3206)

Instructions for Day of Closing:**Funds from Underwriter****SOURCES OF FUNDS**

Par Amount	\$15,000,000.00
Plus: Net Original Issue Premium	14,625.70
Subtotal - Bid Gross Production	15,014,625.70
Less: Net Underwriter's discount*	(214,500.00)
Net Proceeds	14,800,125.70
Less: Good Faith Deposit (received by City 3/30/05)	(300,000.00)
Total Sources of Funds	\$14,500,125.70

DISTRIBUTION OF FUNDS**To Issuer:**

For Projects	\$14,740,125.70
Cost of Issuance	60,000.00
Total Proceeds to Issuer	14,800,125.70
Less: Good Faith Deposit (received by City 3/30/05)	(300,000.00)
Total Distribution of Funds to Issuer at Closing	\$14,500,125.70 WIRE #1

* The total Net Underwriter's Bid Discount of \$214,500.00 includes the UW spread of \$153,000.00 and an amount of \$61,500.00 for Bond Insurance to be paid by the Underwriter to FGIC at closing (**WIRE #2**).

SOURCES AND USES OF FUNDS

Lincoln City GO Sewer Bonds
Final numbers from MS
FINAL rates from Morgan Stanley
Adjusted 1st draw amount to get to even \$15M par

Dated Date 04/12/2005
Delivery Date 04/12/2005

Sources:

Bond Proceeds:	
Par Amount	15,000,000.00
Net Premium	14,625.70
	<hr/>
	15,014,625.70

Uses:

Project Fund Deposits:	
Sewer Projects	14,740,125.70
Delivery Date Expenses:	
Cost of Issuance	60,000.00
Underwriter's Discount	153,000.00
Bond Insurance (FGIC)	61,500.00
	<hr/>
	274,500.00
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	15,014,625.70

BOND SUMMARY STATISTICS

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Dated Date	04/12/2005
Delivery Date	04/12/2005
First Coupon	12/01/2005
Last Maturity	06/01/2030
Arbitrage Yield	4.404328%
True Interest Cost (TIC)	4.461492%
Net Interest Cost (NIC)	4.464234%
All-In TIC	4.538200%
Average Coupon	4.405316%
Average Life (years)	15.657
Duration of Issue (years)	10.961
Par Amount	15,000,000.00
Bond Proceeds	15,014,625.70
Total Interest	10,346,399.75
Net Interest	10,484,774.05
Total Debt Service	25,346,399.75
Maximum Annual Debt Service	1,093,250.00
Average Annual Debt Service	1,008,366.00
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	10.200000
Total Underwriter's Discount	10.200000
Bid Price	99.077505

	TIC	All-In TIC	Arbitrage Yield
Par Value	15,000,000.00	15,000,000.00	15,000,000.00
+ Accrued Interest			
+ Premium (Discount)	14,625.70	14,625.70	14,625.70
- Underwriter's Discount	-153,000.00	-153,000.00	
- Cost of Issuance Expense		-60,000.00	
- Other Amounts		-61,500.00	-61,500.00
Target Value	14,861,625.70	14,740,125.70	14,953,125.70
Target Date	04/12/2005	04/12/2005	04/12/2005
Yield	4.461492%	4.538200%	4.404328%

BOND PRICING

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Premium (-Discount)
Serials:						
	06/01/2006	255,000	3.000%	2.400%	100.666	1,698.30
	06/01/2007	305,000	3.000%	2.600%	100.824	2,513.20
	06/01/2008	370,000	3.000%	2.750%	100.744	2,752.80
	06/01/2009	380,000	3.000%	3.000%	100.000	
	06/01/2010	395,000	4.000%	3.150%	103.998	15,792.10
	06/01/2011	405,000	4.000%	3.300%	103.856	15,616.80
	06/01/2012	425,000	4.000%	3.500%	103.129	13,298.25
	06/01/2013	440,000	4.000%	3.700%	102.087	9,182.80
	06/01/2014	465,000	4.000%	3.800%	101.527	7,100.55
	06/01/2015	490,000	4.000%	3.900%	100.826	4,047.40
	06/01/2016	510,000	4.000%	4.000%	100.000	
	06/01/2017	540,000	4.000%	4.100%	99.047	-5,146.20
	06/01/2018	565,000	4.200%	4.200%	100.000	
	06/01/2019	595,000	4.250%	4.250%	100.000	
	06/01/2020	620,000	4.250%	4.300%	99.443	-3,453.40
	06/01/2021	655,000	4.300%	4.350%	99.419	-3,805.55
	06/01/2022	685,000	4.375%	4.375%	100.000	
	06/01/2023	720,000	4.400%	4.400%	100.000	
	06/01/2024	755,000	4.400%	4.450%	99.355	-4,869.75
	06/01/2025	795,000	4.500%	4.500%	100.000	
	06/01/2026	835,000	4.500%	4.550%	99.320	-5,678.00
	06/01/2027	875,000	4.600%	4.600%	100.000	
	06/01/2028	920,000	4.625%	4.650%	99.642	-3,293.60
	06/01/2029	1,000,000	4.700%	4.700%	100.000	
	06/01/2030	1,000,000	4.625%	4.840%	96.887	-31,130.00
		15,000,000				14,625.70

Dated Date	04/12/2005	
Delivery Date	04/12/2005	
First Coupon	12/01/2005	
Par Amount	15,000,000.00	
Premium	14,625.70	
Production	15,014,625.70	100.097505%
Underwriter's Discount	-153,000.00	-1.020000%
Purchase Price	14,861,625.70	99.077505%
Accrued Interest		
Net Proceeds	14,861,625.70	

BOND DEBT SERVICE

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Dated Date 04/12/2005
 Delivery Date 04/12/2005

Period Ending	Principal	Coupon	Interest	Debt Service
06/01/2005				
06/01/2006	255,000	3.000%	720,182.25	975,182.25
06/01/2007	305,000	3.000%	626,251.25	931,251.25
06/01/2008	370,000	3.000%	617,101.25	987,101.25
06/01/2009	380,000	3.000%	606,001.25	986,001.25
06/01/2010	395,000	4.000%	594,601.25	989,601.25
06/01/2011	405,000	4.000%	578,801.25	983,801.25
06/01/2012	425,000	4.000%	562,601.25	987,601.25
06/01/2013	440,000	4.000%	545,601.25	985,601.25
06/01/2014	465,000	4.000%	528,001.25	993,001.25
06/01/2015	490,000	4.000%	509,401.25	999,401.25
06/01/2016	510,000	4.000%	489,801.25	999,801.25
06/01/2017	540,000	4.000%	469,401.25	1,009,401.25
06/01/2018	565,000	4.200%	447,801.25	1,012,801.25
06/01/2019	595,000	4.250%	424,071.25	1,019,071.25
06/01/2020	620,000	4.250%	398,783.75	1,018,783.75
06/01/2021	655,000	4.300%	372,433.75	1,027,433.75
06/01/2022	685,000	4.375%	344,268.75	1,029,268.75
06/01/2023	720,000	4.400%	314,300.00	1,034,300.00
06/01/2024	755,000	4.400%	282,620.00	1,037,620.00
06/01/2025	795,000	4.500%	249,400.00	1,044,400.00
06/01/2026	835,000	4.500%	213,625.00	1,048,625.00
06/01/2027	875,000	4.600%	176,050.00	1,051,050.00
06/01/2028	920,000	4.625%	135,800.00	1,055,800.00
06/01/2029	1,000,000	4.700%	93,250.00	1,093,250.00
06/01/2030	1,000,000	4.625%	46,250.00	1,046,250.00
	15,000,000		10,346,399.75	25,346,399.75

BOND DEBT SERVICE

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Dated Date 04/12/2005
 Delivery Date 04/12/2005

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
06/01/2005					
12/01/2005			403,231.63	403,231.63	
06/01/2006	255,000	3.000%	316,950.63	571,950.63	975,182.25
12/01/2006			313,125.63	313,125.63	
06/01/2007	305,000	3.000%	313,125.63	618,125.63	931,251.25
12/01/2007			308,550.63	308,550.63	
06/01/2008	370,000	3.000%	308,550.63	678,550.63	987,101.25
12/01/2008			303,000.63	303,000.63	
06/01/2009	380,000	3.000%	303,000.63	683,000.63	986,001.25
12/01/2009			297,300.63	297,300.63	
06/01/2010	395,000	4.000%	297,300.63	692,300.63	989,601.25
12/01/2010			289,400.63	289,400.63	
06/01/2011	405,000	4.000%	289,400.63	694,400.63	983,801.25
12/01/2011			281,300.63	281,300.63	
06/01/2012	425,000	4.000%	281,300.63	706,300.63	987,601.25
12/01/2012			272,800.63	272,800.63	
06/01/2013	440,000	4.000%	272,800.63	712,800.63	985,601.25
12/01/2013			264,000.63	264,000.63	
06/01/2014	465,000	4.000%	264,000.63	729,000.63	993,001.25
12/01/2014			254,700.63	254,700.63	
06/01/2015	490,000	4.000%	254,700.63	744,700.63	999,401.25
12/01/2015			244,900.63	244,900.63	
06/01/2016	510,000	4.000%	244,900.63	754,900.63	999,801.25
12/01/2016			234,700.63	234,700.63	
06/01/2017	540,000	4.000%	234,700.63	774,700.63	1,009,401.25
12/01/2017			223,900.63	223,900.63	
06/01/2018	565,000	4.200%	223,900.63	788,900.63	1,012,801.25
12/01/2018			212,035.63	212,035.63	
06/01/2019	595,000	4.250%	212,035.63	807,035.63	1,019,071.25
12/01/2019			199,391.88	199,391.88	
06/01/2020	620,000	4.250%	199,391.88	819,391.88	1,018,783.75
12/01/2020			186,216.88	186,216.88	
06/01/2021	655,000	4.300%	186,216.88	841,216.88	1,027,433.75
12/01/2021			172,134.38	172,134.38	
06/01/2022	685,000	4.375%	172,134.38	857,134.38	1,029,268.75
12/01/2022			157,150.00	157,150.00	
06/01/2023	720,000	4.400%	157,150.00	877,150.00	1,034,300.00
12/01/2023			141,310.00	141,310.00	
06/01/2024	755,000	4.400%	141,310.00	896,310.00	1,037,620.00
12/01/2024			124,700.00	124,700.00	
06/01/2025	795,000	4.500%	124,700.00	919,700.00	1,044,400.00
12/01/2025			106,812.50	106,812.50	
06/01/2026	835,000	4.500%	106,812.50	941,812.50	1,048,625.00
12/01/2026			88,025.00	88,025.00	
06/01/2027	875,000	4.600%	88,025.00	963,025.00	1,051,050.00
12/01/2027			67,900.00	67,900.00	
06/01/2028	920,000	4.625%	67,900.00	987,900.00	1,055,800.00

BOND DEBT SERVICE

Lincoln City GO Sewer Bonds
Final numbers from MS
FINAL rates from Morgan Stanley
Adjusted 1st draw amount to get to even \$15M par

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2028			46,625.00	46,625.00	
06/01/2029	1,000,000	4.700%	46,625.00	1,046,625.00	1,093,250.00
12/01/2029			23,125.00	23,125.00	
06/01/2030	1,000,000	4.625%	23,125.00	1,023,125.00	1,046,250.00
	15,000,000		10,346,399.75	25,346,399.75	25,346,399.75

COST OF ISSUANCE

Lincoln City GO Sewer Bonds
Final numbers from MS
FINAL rates from Morgan Stanley
Adjusted 1st draw amount to get to even \$15M par

Cost of Issuance	\$/1000	Amount
Bond Counsel	1.16667	17,500.00
Financial Advisor	1.77333	26,600.00
Paying Agent	0.05000	750.00
Moody's Rating Fee	0.70667	10,600.00
POS/OS printing/distribution	0.21667	3,250.00
CUSIP	0.02667	400.00
Miscellaneous	0.06000	900.00
	4.00000	60,000.00

PROOF OF ARBITRAGE YIELD

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Date	Debt Service	Present Value to 04/12/2005 @ 4.4043284%
12/01/2005	403,231.63	392,210.53
06/01/2006	571,950.63	544,331.05
12/01/2006	313,125.63	291,583.59
06/01/2007	618,125.63	563,198.04
12/01/2007	308,550.63	275,074.75
06/01/2008	678,550.63	591,897.43
12/01/2008	303,000.63	258,611.38
06/01/2009	683,000.63	570,381.08
12/01/2009	297,300.63	242,929.21
06/01/2010	692,300.63	553,501.18
12/01/2010	289,400.63	226,393.11
06/01/2011	694,400.63	531,512.82
12/01/2011	281,300.63	210,675.60
06/01/2012	706,300.63	517,574.71
12/01/2012	272,800.63	195,599.94
06/01/2013	712,800.63	500,070.63
12/01/2013	264,000.63	181,220.84
06/01/2014	729,000.63	489,633.35
12/01/2014	254,700.63	167,383.64
06/01/2015	744,700.63	478,855.66
12/01/2015	244,900.63	154,082.28
06/01/2016	754,900.63	464,721.22
12/01/2016	234,700.63	141,369.87
06/01/2017	774,700.63	456,579.53
12/01/2017	223,900.63	129,115.31
06/01/2018	788,900.63	445,127.73
12/01/2018	212,035.63	117,060.69
06/01/2019	807,035.63	435,948.18
12/01/2019	199,391.88	105,387.60
06/01/2020	819,391.88	423,753.83
12/01/2020	186,216.88	94,228.21
06/01/2021	841,216.88	416,494.98
12/01/2021	172,134.38	83,389.10
06/01/2022	857,134.38	406,284.75
12/01/2022	157,150.00	72,884.62
06/01/2023	877,150.00	398,047.86
12/01/2023	141,310.00	62,744.29
06/01/2024	896,310.00	389,403.17
12/01/2024	124,700.00	53,008.75
06/01/2025	919,700.00	382,531.53
12/01/2025	106,812.50	43,469.34
06/01/2026	941,812.50	375,029.41
12/01/2026	88,025.00	34,296.26
06/01/2027	963,025.00	367,128.63
12/01/2027	67,900.00	25,327.39
06/01/2028	987,900.00	360,556.63
12/01/2028	46,625.00	16,650.19
06/01/2029	1,046,625.00	365,705.44
12/01/2029	23,125.00	7,906.09
06/01/2030	1,023,125.00	342,254.23
	25,346,399.75	14,953,125.70

PROOF OF ARBITRAGE YIELD

Lincoln City GO Sewer Bonds
Final numbers from MS
FINAL rates from Morgan Stanley
Adjusted 1st draw amount to get to even \$15M par

Proceeds Summary

Delivery date	04/12/2005
Par Value	15,000,000.00
Premium (Discount)	14,625.70
Arbitrage expenses	-61,500.00
	<hr/>
Target for yield calculation	14,953,125.70

FORM 8038 STATISTICS

Lincoln City GO Sewer Bonds
 Final numbers from MS
 FINAL rates from Morgan Stanley
 Adjusted 1st draw amount to get to even \$15M par

Dated Date 04/12/2005
 Delivery Date 04/12/2005

Bond Component	Date	Principal	Coupon	Price	Issue Price	Redemption at Maturity
Serials:						
	06/01/2006	255,000.00	3.000%	100.666	256,698.30	255,000.00
	06/01/2007	305,000.00	3.000%	100.824	307,513.20	305,000.00
	06/01/2008	370,000.00	3.000%	100.744	372,752.80	370,000.00
	06/01/2009	380,000.00	3.000%	100.000	380,000.00	380,000.00
	06/01/2010	395,000.00	4.000%	103.998	410,792.10	395,000.00
	06/01/2011	405,000.00	4.000%	103.856	420,616.80	405,000.00
	06/01/2012	425,000.00	4.000%	103.129	438,298.25	425,000.00
	06/01/2013	440,000.00	4.000%	102.087	449,182.80	440,000.00
	06/01/2014	465,000.00	4.000%	101.527	472,100.55	465,000.00
	06/01/2015	490,000.00	4.000%	100.826	494,047.40	490,000.00
	06/01/2016	510,000.00	4.000%	100.000	510,000.00	510,000.00
	06/01/2017	540,000.00	4.000%	99.047	534,853.80	540,000.00
	06/01/2018	565,000.00	4.200%	100.000	565,000.00	565,000.00
	06/01/2019	595,000.00	4.250%	100.000	595,000.00	595,000.00
	06/01/2020	620,000.00	4.250%	99.443	616,546.60	620,000.00
	06/01/2021	655,000.00	4.300%	99.419	651,194.45	655,000.00
	06/01/2022	685,000.00	4.375%	100.000	685,000.00	685,000.00
	06/01/2023	720,000.00	4.400%	100.000	720,000.00	720,000.00
	06/01/2024	755,000.00	4.400%	99.355	750,130.25	755,000.00
	06/01/2025	795,000.00	4.500%	100.000	795,000.00	795,000.00
	06/01/2026	835,000.00	4.500%	99.320	829,322.00	835,000.00
	06/01/2027	875,000.00	4.600%	100.000	875,000.00	875,000.00
	06/01/2028	920,000.00	4.625%	99.642	916,706.40	920,000.00
	06/01/2029	1,000,000.00	4.700%	100.000	1,000,000.00	1,000,000.00
	06/01/2030	1,000,000.00	4.625%	96.887	968,870.00	1,000,000.00
		15,000,000.00			15,014,625.70	15,000,000.00

	Maturity Date	Interest Rate	Issue Price	Stated Redemption at Maturity	Weighted Average Maturity	Yield	Net Interest Cost
Final Maturity	06/01/2030	4.625%	968,870.00	1,000,000.00			
Entire Issue			15,014,625.70	15,000,000.00	15.5903	4.4043%	4.4137%

Proceeds used for accrued interest	0.00
Proceeds used for bond issuance costs (including underwriters' discount)	213,000.00
Proceeds used for credit enhancement	61,500.00
Proceeds allocated to reasonably required reserve or replacement fund	0.00