

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 5, 2015

NEW ISSUE—FULL BOOK-ENTRY
BANK QUALIFIED

RATING:
S&P: "A"
(See "RATING" herein)

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the City with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, and the Bonds are "qualified tax exempt obligations" under the small issuer exception provided under section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.



\$4,500,000*
CITY OF HANFORD
(Kings County, California)
Wastewater Refunding Revenue Bonds, Series 2015

Dated: As of Date of Delivery

Due: October 1, as shown below

The \$4,500,000* Wastewater Refunding Revenue Bonds, Series 2015 (the "Bonds") are being issued by the City of Hanford, California (the "City"), in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Payments of the principal of and interest on the Bonds will be made by MUFG Union Bank, N.A., as trustee for the Bonds (the "Trustee"), to DTC, which is obligated in turn to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. The Bonds are being issued pursuant to an Indenture of Trust, dated as of January 1, 2015 (the "Indenture"), by and between the City and the Trustee. Interest on the Bonds will be payable semi-annually on each April 1 and October 1, commencing on April 1, 2015.

The Bonds are being issued to provide funds to (i) refund the City's outstanding City of Hanford, California, Variable Rate Demand Sewer System Refunding Revenue Bonds, 1996 Series A (the "1996 Bonds"), which were delivered for the purpose of refinancing the improvement, betterment, renovation and expansion of certain facilities within the City's municipal wastewater enterprise (the "Wastewater System"), (ii) fund a bond reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds.

The Bonds are payable from the net revenues (the "Net Revenues") of the Wastewater System, derived primarily from charges and revenues received by the City from the operation of the Wastewater System, less the costs of the operation and maintenance of the Wastewater System. The Net Revenues are pledged, as a first and prior lien thereon, to pay the principal of and interest on the Bonds on a parity, as to payment and security, with the City's outstanding City of Hanford (Kings County, California) Wastewater Revenue Refunding Bonds, Series 2012, and with any parity obligations issued or incurred by the City in accordance with the Indenture, as described herein (the "Parity Obligations"). The City has covenanted to set rates and charges for the service and facilities of the Wastewater System sufficient to provide Net Revenues in each year equal to at least 1.20 times the aggregate annual amount of principal of and interest due on the Bonds and all Parity Obligations.

Application has been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance and for a reserve account surety bond, the terms of which will be reflected in the final official statement if such insurance is purchased. The City will consider the purchase of such insurance after analysis of the insurance premiums.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption."

NEITHER THE BONDS NOR THE OBLIGATION TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTES A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF NET REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS*

\$ _____ Serial Bonds

CUSIP† Prefix: _____

Maturity October 1	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix	Maturity October 1	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix
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\$ _____ % Term Bonds Maturing October 1, _____; Price: _____ %, to Yield _____ %—CUSIP†: _____

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval as to their legality by Quint & Thimmig LLP, Larkspur, California, as Bond Counsel. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by Griswold, LaSalle, Cobb, Dowd & Gin, L.L.P., Hanford, California, the City Attorney. It is anticipated that the Bonds will be delivered in definitive form through the facilities of DTC on or about January 28, 2015.

GATES CAPITAL CORPORATION

ALAMO CAPITAL

Dated: January __, 2015

*Preliminary, subject to change.

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a 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.

CITY OF HANFORD

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David Ayers, *Vice Mayor* (District A)
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Justin Mendez, *Council Member* (District E)
Francisco Ramirez, *Council Member* (District D)

City Staff and Officials

Darrel L. Pyle, *City Manager*
Tom Dibble, *Finance Director*
Jennifer Gomez, *City Clerk*
Griswold, LaSalle, Cobb, Dowd & Gin, L.L.P., *City Attorney*

Special Services

Quint & Thimmig LLP
Larkspur, California
Bond Counsel and Disclosure Counsel

MUFG Union Bank, N.A.
San Francisco, California
Trustee

U.S. Bank National Association
Los Angeles, California
Escrow Bank

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the City with respect to the Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, shall have the meanings prescribed in the Indenture.

Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT SUCH LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

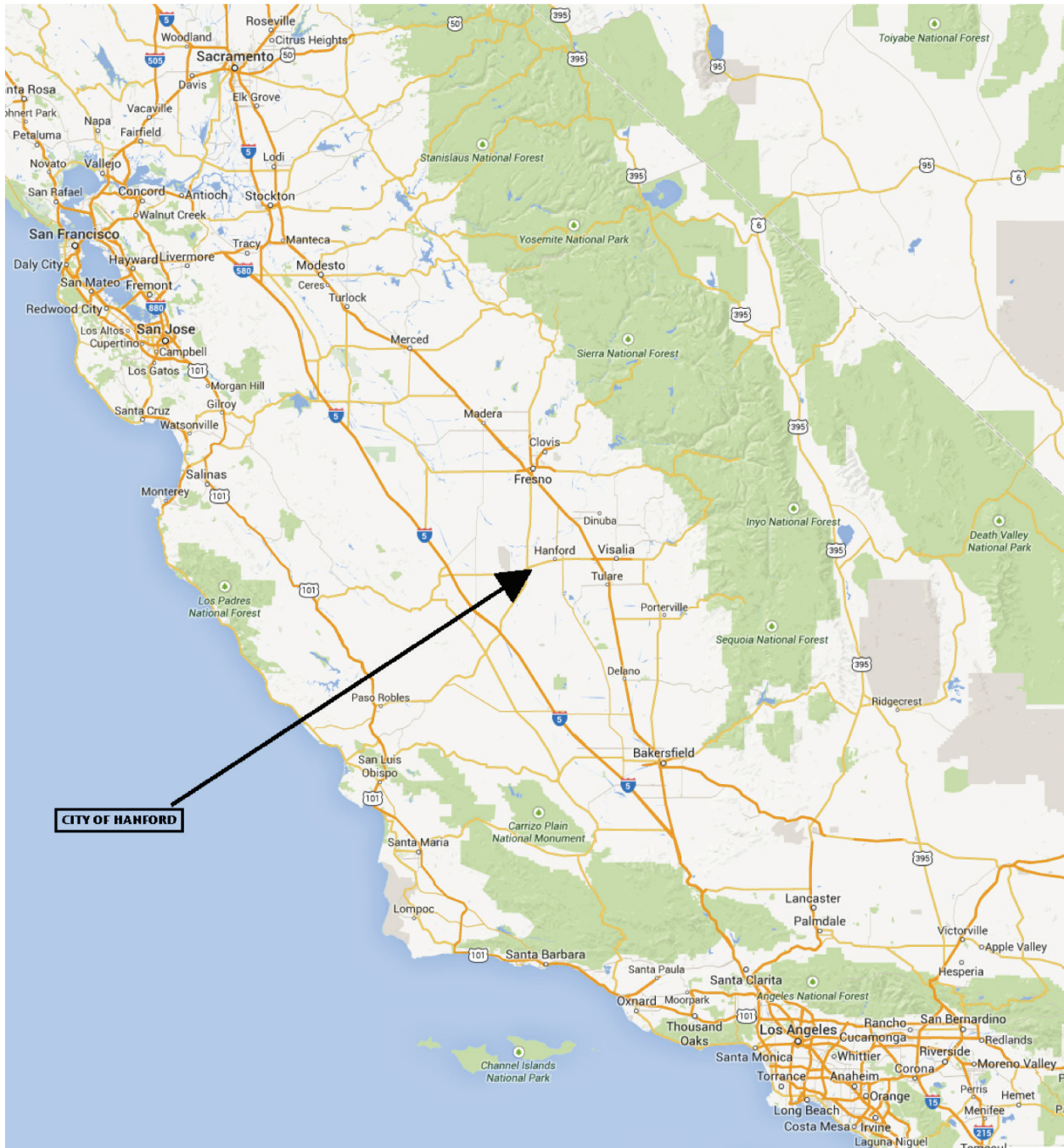
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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CITY OF HANFORD LOCATION MAP



OFFICIAL STATEMENT

\$4,500,000*

CITY OF HANFORD (Kings County, California)

Wastewater Refunding Revenue Bonds, Series 2015

INTRODUCTION

General

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of the Wastewater Refunding Revenue Bonds, Series 2015 (the “Bonds”), being issued by the City of Hanford, California (the “City”), in the aggregate principal amount of \$4,500,000.*

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used, but not otherwise defined herein, shall have the meanings assigned thereto as set forth in APPENDIX A—SUMMARY OF THE INDENTURE—Certain Definitions.

The City

The City is situated in the south central portion of California's San Joaquin Valley, 28 miles (45 km) south-southeast of the city of Fresno and 18 miles (29 km) west of the city of Visalia. The City is an important commercial and cultural center in the south central San Joaquin Valley and is the county seat of Kings County, California. See “THE CITY” and APPENDIX D—GENERAL INFORMATION REGARDING THE CITY OF HANFORD.

The Wastewater System

The City's municipal wastewater enterprise (the “Wastewater System”) provides sewer service to the incorporated area of the City and limited service is provided to facilities outside of the City limits, mostly to other governmental agencies. See “THE WASTEWATER SYSTEM” herein.

Purpose of the Bonds

The Bonds are being issued to provide funds to (i) refund the City's outstanding City of Hanford, California, Variable Rate Demand Sewer System Refunding Revenue Bonds, 1996 Series A (the “1996 Bonds”), which were delivered for the purpose of refinancing the improvement, betterment, renovation

* Preliminary, subject to change.

and expansion of certain facilities within the City's municipal wastewater enterprise (the "Wastewater System"), (ii) fund a bond reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. See "THE REFUNDING PLAN" herein.

Authority for Issuance

The Bonds are authorized pursuant to the provisions of section 53570 *et seq.* of the California Government Code, a resolution adopted by the City Council of the City on December 16, 2014 (the "Resolution"), and an Indenture of Trust (the "Indenture"), dated as of January 1, 2015, by and between the City and MUFG Union Bank, N.A., as trustee (the "Trustee").

Pledge of Net Revenues

The Bonds are payable from the net revenues (the "Net Revenues") of the Wastewater System, derived primarily from charges and revenues received by the City from the operation of the Wastewater System, less the costs of the operation and maintenance of the Wastewater System. The Net Revenues are pledged, as a first and prior lien thereon, to pay the principal of and interest on the Bonds on a parity, as to payment and security, with the City's outstanding City of Hanford (Kings County, California) Wastewater Revenue Refunding Bonds, Series 2012, and with any parity obligations issued or incurred by the City in accordance with the Indenture, as described herein (the "Parity Obligations").

See "SECURITY FOR THE BONDS—Pledge of Net Revenues."

Rate Covenant

The City has covenanted to set rates and charges for the service and facilities of the Wastewater System sufficient to provide Net Revenues in each year equal to at least 1.20 times the aggregate annual amount of principal of and interest due on the Bonds and all Parity Obligations. See "SECURITY FOR THE BONDS—Rate Covenant."

Additional Obligations

Additional obligations and bonds issued or incurred on a parity with or subordinate to the Bonds may be issued pursuant to the Indenture provided that certain conditions are met. See "SECURITY FOR THE BONDS—Limitations on Future Obligations Secured by Net Revenues."

Payment

Principal of the Bonds will be payable in each of the years and in the amounts set forth on the cover page hereof at the office of the Trustee. Interest on the Bonds will be paid by check or draft of the Trustee mailed by first class mail to the person entitled thereto. See "THE BONDS—General." Initially, principal of and interest on the Bonds will be payable when due by wire of the Trustee to The Depository Trust Company, New York, New York ("DTC"), which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds. See "THE BONDS—Book-Entry Only System."

Redemption

The Bonds are subject to redemption prior to their stated maturity dates, as provided herein. See “THE BONDS—Redemption.”

Form of Bonds

The Bonds will be dated as of their date of delivery and will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS—General.”

Book-Entry System

The Bonds will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Upon receipt of payments of principal of and interest on the Bonds, DTC will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

Risks of Investment

The Bonds are repayable only from certain money available to the City from the Wastewater System. For a discussion of some of the risks associated with the purchase of the Bonds, see “RISKS RELATING TO THE BONDS” herein.

NEITHER THE BONDS NOR THE OBLIGATION TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF NET REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE.

Continuing Disclosure

The City has covenanted, for the benefit of the owners and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the Wastewater System by not later than nine months following the end of each Fiscal Year (currently June 30), and to provide notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE” herein and APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled “REFUNDING PLAN,” “ESTIMATED SOURCES AND USES OF FUNDS,” “SECURITY FOR THE BONDS,” “THE WASTEWATER SYSTEM” AND APPENDIX D—GENERAL INFORMATION REGARDING THE CITY OF HANFORD, contains statements relating to future

results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 2000. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “RISK FACTORS RELATING TO THE BONDS.”

Other Matters

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the City, the Wastewater System, and certain other information relevant to the issuance of the Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors’ rights generally. Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee.

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

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Other Information

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of the Indenture are available from the City upon written request to the City, 315-321 North Douty Street, Hanford, CA 93230, Attention: City Manager. The City may impose a charge for copying, mailing and handling expenses related to any request for documents.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources:

Principal Amount of Bonds
Plus: Original Issue Premium
TOTAL SOURCES

=====

Uses:

Deposit to Escrow Fund (1)
Deposit to Bond Reserve Account (2)
Costs of Issuance (3)
TOTAL USES

=====

- (1) Amount required to defease the 1996 Bonds. See "THE REFUNDING PLAN."
(2) The amount deposited in the Bond Reserve Account is equal to the Bond Reserve Requirement
(3) Costs of Issuance include the Underwriters' discount, legal fees, printing costs, rating agency fees and other miscellaneous expenses.

THE REFUNDING PLAN

A portion of the proceeds from the sale of the Bonds will be deposited into an escrow fund (the "Escrow Fund") to be created and maintained by U.S. Bank National Association, as escrow bank (the "Escrow Bank"), under an escrow agreement by and between the City and the Escrow Bank. The moneys deposited in the Escrow Fund will be in an amount sufficient to redeem the 1996 Bonds in full on March 1, 2015, at a redemption price equal to 100% of the principal amount thereof together with accrued interest to such date. Because the 1996 Bonds pay interest at a variable interest rate and the actual rate from January 15, 2015, until the redemption date is not yet know, interest for that period will be funded at 12%, the maximum rate allocable to the 1996 Bonds. The moneys deposited in the Escrow Fund will be held in cash, uninvested, until such redemption date.

The moneys held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of amounts due and payable with respect to the 1996 Bonds. The funds deposited in the Escrow Fund will not be available for the payment of debt service on the Bonds.

DEBT SERVICE REQUIREMENTS

Annual debt service on the Bonds (assuming no redemptions of the Bonds) is presented below.

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
TOTALS			

THE BONDS

Authority for Issuance

The Bonds are authorized pursuant to the provisions of section 53570 *et seq.* of the California Government Code, a resolution adopted by the City Council of the City on December 16, 2014, and the Indenture.

General Provisions

The Bonds will be dated as of their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond shall have more than one maturity date. The Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the cover page of this Official Statement.

Repayment of the Bonds. Interest on the Bonds will be payable on April 1 and October 1 in each year, beginning April 1, 2015 (each an “Interest Payment Date”), to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books. In the event there exists a default in payment of interest due on such Interest Payment Date, such interest will be

payable on a payment date established by the Trustee to the persons in whose names the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the Bonds not less than 15 days preceding such special record date. Principal of any Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee in San Francisco, California. Both the principal of and interest on the Bonds will be payable in lawful money of the United States of America.

The Bonds will bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to March 15, 2015, in which event such interest is payable from their date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

DTC as Registered Owner. The Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of DTC. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See "THE BONDS—Book-Entry Only System."

Redemption

Optional Redemption. The Bonds maturing on or before October 1, _____, are not subject to optional redemption prior to maturity. The Bonds maturing on or after October 1, _____, are subject to redemption, at the option of the City on any date on and after October 1, _____, as a whole or in part, from any available source of funds, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

The City is required to give the Trustee written notice of its intention to optionally redeem Bonds at least forty-five (45) days prior to the date fixed for such redemption.

Sinking Fund Redemption. The Bonds maturing on October 1, _____, are also subject to mandatory sinking fund redemption in part by lot on October 1, _____, and on each August 1 thereafter, to and including October 1, _____, from Mandatory Sinking Account Payments made by the City at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

Sinking Account Redemption Date (October 1)	Principal Amount to be Redeemed
_____	_____

†Maturity

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the City, by the Trustee by providing a redemption notice 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 Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

All notices of redemption are required to include (i) the redemption date, (ii) the Redemption Price, (iii) if fewer 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, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Principal Corporate Trust Office of the Trustee.

Book-Entry Only System

The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made in book-entry form. One fully registered Bond certificate will be issued for each series and maturity of the Bonds having the same interest rate, in the aggregate principal amount of such maturity and will be deposited with DTC. Purchasers will not receive a certificate representing their beneficial ownership interest in Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a DTC Participant acquires an interest in the Bonds. See APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

SECURITY FOR THE BONDS

The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Wastewater System.

Pledge of Net Revenues

The Bonds and any Parity Obligations shall be secured by a first pledge of all of the Net Revenues. In addition, the Bonds shall be secured by a pledge of all of the moneys in the Bond Fund, including all amounts derived from the investment of such moneys. Such pledge shall constitute a lien on the Net Revenues and such other moneys for the payment of the principal of and interest on the Bonds and any Parity Obligations in accordance with the terms hereof. The Bonds and any Parity Obligations shall be equally secured by a pledge, charge and lien upon the Net Revenues, without priority for number or date

thereof, shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues and such moneys, except as set forth in the Indenture. So long as any of the Bonds are Outstanding, the Net Revenues and such moneys shall not be used for any other purpose, except as set forth in the Indenture; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

The Indenture defines “Wastewater System” as the entire wastewater system of the City, comprising any and all facilities, properties and improvements at any time owned, controlled or operated by the City for the collection, treatment, disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, disposal or reuse of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

The Indenture defines “Net Revenues” as, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operation and Maintenance Costs becoming payable during such period.

The Indenture defines “Gross Revenues” as all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to investment earnings thereon; but excluding the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Wastewater System, and the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System.

The Indenture defines “Operation and Maintenance Costs” as the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Wastewater System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Wastewater System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater System, and (d) the City’s payment obligations with respect to the 1999 SRF Loan; but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Wastewater System including but not limited to the Installment Payments and any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the City and the Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

Receipt, Deposit and Application of Gross Revenues and Net Revenues

Application of Gross Revenues. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Wastewater System Fund. All Gross Revenues shall be held in trust by the City in the Wastewater System Fund and shall be applied, transferred, used and withdrawn only for the following purposes:

Operation and Maintenance Costs. The City shall first pay from the moneys in the Wastewater System Fund the budgeted Operation and Maintenance Costs as such Operation and Maintenance Costs become due and payable.

Payment of Debt Service. On or before the 5th Business Day preceding each Interest Payment Date, the City shall withdraw from the Wastewater System Fund and (A) transfer to the Trustee, for deposit in the Bond Fund, an amount which, together with the balance then on deposit in the Bond Fund, the Interest Account, the Principal Account (other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on the next succeeding Interest Payment Date and (B) transfer to the Trustee an amount equal to the aggregate amount of principal of and interest coming due and payable on any Parity Obligations on the next succeeding Interest Payment Date.

Bond Reserve Account. After making the payments, allocations and transfers provided for above, (A) if the balance in the Bond Reserve Account is less than the Bond Reserve Requirement, the notice of which deficiency shall have been given by the Trustee to the City, or (B) if the balance in a bond reserve account established for any Parity Obligations is less than the bond reserve requirement established for such Parity Obligations, the notice of which deficiency shall have been given to the City, the deficiency shall be restored by transfers from the first moneys which become available in the Wastewater System Fund to the Trustee for deposit in the Bond Reserve Account and for deposit in the bond reserve requirement established for such Parity Obligations, such transfers to be made no less than semiannually.

Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above, inclusive, any moneys remaining in the Wastewater System Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Net Revenues. On or before the Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding;

Second: to the Principal Account, the aggregate amount of principal or sinking fund installment becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any; and

Third: to the Bond Reserve Account, the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account; provided that no deposit need be made into the Bond Reserve Account so long as the balance in said account shall be at least equal to the Bond Reserve Account Requirement.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying the principal of the Bonds when due and payable.

Application of Bond Reserve Account

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (b) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefor pursuant to the Indenture, all moneys then on deposit in the Bond Reserve Account shall be withdrawn by the Trustee and paid to the City.

Amounts in the Bond Reserve Account shall be valued by the Trustee not less often than semi-annually. If, on any date of computation, moneys and securities on deposit in the Bond Reserve Account are less than the Bond Reserve Account Requirement (unless such deficiency is a result of a transfer therefrom), the City covenants and agrees that it will, within twelve months thereof, increase the amount therein to the Bond Reserve Account Requirement. If such deficiency is a result of a transfer therefrom, the City covenants and agrees that it will, within twenty-four months thereof, increase the amount therein to the Bond Reserve Account Requirement. If, on any date of computation, moneys and securities on deposit in the Bond Reserve Account are in excess of the Bond Reserve Account Requirement, the Trustee shall withdraw such excess amount and transfer such amount to the Interest Account.

Application has been made to municipal bond insurance companies for qualification of the Bonds for a reserve account surety bond, the terms of which will be reflected in the final official statement if such insurance is purchased. The City will consider the purchase of such insurance after analysis of the insurance premium.

Rate Covenant

Covenant Regarding Revenues. The City covenants to fix, prescribe, revise and collect rates, fees and charges for the Wastewater System as a whole for the services and improvements furnished by the Wastewater System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues that are sufficient to pay the following amounts in the following order of priority:

(i) all anticipated Operation and Maintenance Costs of the Wastewater System for such Fiscal Year;

(ii) Debt Service payments on the Bonds and any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or such Parity Obligations, as applicable, or from any other source of legally available funds of the City that have been deposited with the Trustee or otherwise segregated for purposes prior to the commencement of such Fiscal Year (not including a debt service reserve fund); and

(iii) the amount, if any, required to restore the balance in the Bond Reserve Account, and in any reserve account established for Parity Obligations, to the full amount of the Reserve Requirement and the reserve requirement with respect to any such Parity Obligations;

(iv) all other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable, from the Revenues during such Fiscal Year.

Covenant Regarding Net Revenues. In addition, the City covenants to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to one hundred twenty percent (120%) of the total Debt Service Payments on the Bonds and any debt service on Parity Obligations coming due and payable in such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues

No Obligations Superior to Bonds or Parity Obligations. In order to protect further the availability of the Net Revenues and the security for the Bonds and any Parity Obligations, the City covenants that no additional bonds or other indebtedness will be issued or incurred on a senior basis to the Bonds or such Parity Obligations that are payable out of the Net Revenues in whole or in part.

Parity Obligations. The City further covenants that, except for obligations incurred to prepay or post a security deposit for the payment of the Bonds or Parity Obligations, the City may issue or incur Parity Obligations during the term of the Bonds if:

(i) No Event of Default shall have occurred and be continuing under the Indenture;

(ii) Net Revenues, calculated in accordance with generally accepted accounting procedures, as shown by the books of the City for the most recent completed Fiscal Year for

which audited financial statements are available, or for any more recent consecutive twelve (12) month period selected by the City, in either case verified by a certificate or opinion of an Independent Accountant or financial consultant, are at least equal to 1.20 times Maximum Aggregate Annual Debt Service on the Bonds and on all Parity Obligations then outstanding (including the Parity Obligations proposed to be issued).

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained in this paragraph (ii):

(A) An allowance for revenues from any additions to or improvements or extensions of the Wastewater System to be constructed with the proceeds of such Parity Obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Obligations, all as shown by the certificate or opinion of an Independent Accountant or financial consultant employed by the City.

(B) An allowance for earnings arising from any increase in the charges made for service from the Wastewater System which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such Parity Obligations, as shown by the certificate or opinion of an Independent Accountant or financial consultant employed by the City.

(iii) The Parity Obligations shall be payable as to principal on October 1 in each year in which principal becomes due, and shall be payable as to interest semiannually on February 1 and October 1, except that the first installment of interest may be payable on either February 1 or October 1 and shall be for a period not longer than twelve (12) months.

(iv) The Trustee shall act as trustee for such Parity Obligations.

(v) The Parity Obligations Instrument providing for the issuance of such Parity Obligations may provide for the establishment of separate funds and accounts or may make reference to and include any fund or account established under this Indenture;

(vi) The Parity Obligations Instrument providing for the issuance of such Parity Obligations shall provide for the deposit of moneys in the Bond Reserve Account if required to increase the balance of the Bond Reserve Account to at least equal to the Bond Reserve Requirement upon the issuance of such Parity Obligations.

Subordinate Obligations. Additional obligations may be issued on a basis subordinate to the Bonds and Parity Obligations to the extent required.

MUNICIPAL BOND INSURANCE

Application has been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance and for a reserve account surety bond, the terms of which will be reflected in the final official statement if such insurance is purchased. The City will consider the purchase of such insurance after analysis of the insurance premiums.

THE CITY

The City of Hanford is an important commercial and cultural center in the south central San Joaquin Valley and is the county seat of Kings County, California. The City is situated in the south central portion of California's San Joaquin Valley, 28 miles (45 km) south-southeast of the city of Fresno and 18 miles (29 km) west of the city of Visalia. The City is 249 feet (76 m) above sea level and has a flat terrain. According to the United States Census Bureau, the city has a total area of 16.6 square miles (43 km²), none of which is covered by water. The only natural watercourse is Mussel Slough, remnants of which still exist on the city's western edge. The Kings River is about 6.5 miles (10.5 km) north of Hanford. The People's Ditch, an irrigation canal dug in the 1870s, traverses Hanford from north to south.

THE WASTEWATER SYSTEM

Wastewater System

The Wastewater System is owned by the City and is managed, operated and maintained by the City's Public Works department. Management of the Wastewater System involves physical facilities planning; financial planning and budgeting; development of operating systems and procedures; and billing and collection activities. Operation of the Wastewater System involves cleaning, inspecting and repairing approximately 213 miles of sewer collection and transmission lines, 21 sewer lift stations and over 160 acres of ponding basins for percolation, evaporation and holding of treated effluent. The Wastewater System serves an area of approximately fifteen square miles. There are approximately 15,700 active sewer service accounts, and average wastewater flow from the Wastewater System to the Wastewater Treatment Plant is currently approximately 4.75 million gallons per day. In recent years, this flow rate has decreased as a result of permanent water conservation measures, as the average flow rate over the past ten years was 4.80 million gallons per day. The Wastewater Treatment Plant received an expansion upgrade in 2004, which increased treatment capacity from 5.5 MGD to 8.0 MGD.

Wastewater Treatment Plant

The Wastewater Treatment Plant (WWTP) is owned by the City and is managed, operated and maintained by the City's Public Works Department. Department staff are responsible for the treatment and recycling of Wastewater in an environmentally safe manner to ensure its reuse for irrigation purposes will not endanger heather or degrade groundwater quality. The WWTP is a sophisticated, multimillion-dollar facility responsible for the treatment of approximately 1.76 billion gallons of sewage each year. WWTP staff conduct over 84,000 laboratory tests each year to monitor the performance of the plant. Staff also manages reclaimed water usage to ensure compliance with the requirements of State Reclamation Discharge Permits; administers the Industrial Pre-Treatment Program; and monitors

Industrial User Compliance through daily observation and weekly analysis of discharge. WWTP operations are funded by user fees charged to customers for Sanitary Sewer Service.

Regulatory Requirements

Because the City discharges wastewater to the Wastewater Treatment Plant for treatment and disposal, the City's wastewater operations are subject to many regulatory requirements. These requirements are contained in the Federal Water Pollution Control Act, as amended, (the "Clean Water Act"), and in the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the California State Water Resources Control Board ("SWRCB"), and generally deal with the quality of effluent discharged from the sewer treatment facilities, the disposal of sludge from the wastewater treatment plant, the discharge of pollutants into the groundwater and the nature of waste material (particularly industrial waste) discharged into the collection system. There were grant related requirements regarding planning methodologies, design criteria, construction activities, and the operation, maintenance and financing of facilities. The City believes it is in compliance with all applicable regulatory requirements related to the Wastewater System.

Management and Employees

The City's Public Works Department is responsible for the management and operation of the Wastewater System and the City's municipal water system. Employees are cross trained and licensed to work in both systems. The City Engineer/Public Works Director is the Department Head for the systems and oversees the financial operation of the systems. The Assistant Public Works Director/Operations is the staff person with direct management and financial oversight of the Treatment Plant. Engineering staff is responsible for capital project development and strategic planning. The Treatment Plant is staffed from 7:30 am to 4:00 pm, five days a week (Monday through Friday) and operators are assigned 4 hour shifts on the weekends. A Treatment Plant operator is on call for all other times. Critical operations are monitored and alarmed through a SCADA system and electronic means. If an alarm condition occurs during off duty hours, the on-call operator is dispatched.

In addition to the Assistant Director, administrative support is provided by an Account Clerk. The Plant is operated by one Chief Treatment Plant Operator; one Treatment Plant Operator II; three Treatment Plant Operators I; and one Maintenance Worker II. Operators perform daily operations, sampling, monitoring, preventive maintenance tasks; repairs and scheduled maintenance. The collection system is operated and maintained by three and one-half full time equivalent employees, including two Maintenance Worker II, one Maintenance Assistant and allocated ½ of a Senior Maintenance Worker. When expertise beyond that of staff is required, contractors are used.

The Chief Treatment Plant Operator is licensed to oversee the laboratory and oversees the performance of most standard laboratory tests required for operation of the Treatment Plant.

Capital Improvement Program

The Capital Improvement Program (CIP) for the City, including the Wastewater System, is reviewed each year as part of the budget process. The CIP includes individual plans for improvement projects and capital expenditures for comprehensive studies (master plans, impact fee studies, etc.), special programs, and major vehicle and equipment replacement. The base Sewer CIP was developed as part of the user fee and capacity charge programs. For the Wastewater System, \$200,000 to \$600,000 per

year is allocated in capital expenditures for plant and collection system improvements. Funds may be carried from one year to the next to fund larger projects. Actual project work will fluctuate depending on Capacity Charge revenue, user fees, grants and private development.

The proposed improvements and the sources for payment are described in the following table:

**CITY OF HANFORD
WASTEWATER SYSTEM
FIVE YEAR CAPITAL IMPROVEMENT PLAN**

PROJECT TITLE	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Sanitary Sewer Main Oversizing Requirements	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Unscheduled Main Extensions/Repl	50,000	50,000	50,000	50,000	50,000
Sanitary Sewer Video Inspection	20,000	20,000	20,000	20,000	20,000
12 th Ave Sewer Trunk Main Oversizing	100,000	100,000	100,000	100,000	100,000
Soil Cement Sludge Bed Renovation Project	150,000	150,000	-	-	-
Manhole Repair and Coating Project	95,000	-	95,000	-	95,000
Sanitary Sewer Lift Sta #52 Upgrade	110,000	-	-	-	-
Sanitary Sewer Lift Sta #33 Upgrade	-	44,000	-	-	-
Sanitary Sewer Life Sta #64 Elec Panel Upgrade	-	-	25,000	-	-
TOTAL	\$ 575,000	\$ 414,000	\$ 340,000	\$ 220,000	\$ 315,000
FUNDING SOURCES					
12 th Ave Sewer Benefit Assessment District	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Wastewater Impact Fees	50,000	50,000	50,000	50,000	50,000
Wastewater Capital	425,000	264,000	190,000	70,000	165,000
TOTAL	\$ 575,000	\$ 414,000	\$ 340,000	\$ 220,000	\$ 315,000

Source: City of Hanford.

Users

The Wastewater System currently serves an area of approximately 15 square miles, which includes the City and certain surrounding areas, with an estimated population of 55,283 persons. The ultimate service area is approximately 30 square miles.

The tables below show the current number of connections of the Wastewater System by user type and service charge revenues.

**CITY OF HANFORD
WASTEWATER SYSTEM
NUMBER OF CONNECTIONS BY USER TYPE**

User Type	FY2010	FY2011	FY2012	FY2013	FY2014
Single Family Residential	13,992	14,129	14,183	14,338	14,455
Multiple Family Residential	529	533	534	531	529
Commercial/Industrial	764	765	776	779	791
Other	21	21	20	20	20
Total All Users	15,306	15,448	15,513	15,668	15,795

Source: City of Hanford.

**CITY OF HANFORD
WASTEWATER SYSTEM
REVENUES BY USER TYPE**

User Type	FY2010	FY2011	FY2012	FY2013	FY2014
Single Family Residential	\$ 3,078,319	\$ 3,193,294	\$ 3,412,412	\$ 3,596,952	\$ 3,427,850
Multiple Family Residential	709,545	779,407	832,574	836,647	841,926
Commercial/Industrial	1,056,336	1,217,973	1,151,870	1,107,616	1,801,697
Other	25,482	26,685	26,482	30,782	31,363
Total All Users	<u>\$ 4,869,682</u>	<u>\$ 5,217,360</u>	<u>\$ 5,423,338</u>	<u>\$ 5,571,997</u>	<u>\$ 6,102,836</u>

Source: City of Hanford.

The ten largest customers of the Wastewater System, as measured by Wastewater Service Charge billings for Fiscal Year, 2014, are responsible for approximately 14.74% of Wastewater Service Charge revenue in Fiscal Year 2014. The following table shows Wastewater Service Charge billings for the ten largest customers of the Wastewater System in Fiscal Year 2014.

**CITY OF HANFORD
WASTEWATER SYSTEM
REVENUE PROVIDED BY TEN LARGEST CUSTOMERS
FY2014**

User	Type of Business	Revenue	% of Total
Marquez Brothers	Cheese Manufacturing	\$ 651,964	10.44%
Edgewater Isle Apartments	Multifamily Housing	71,055	1.14
River Oaks Apartments	Multifamily Housing	44,492	.71
Lacey West Apartments	Multifamily Housing	34,272	.55
Hanford Arroyo Mobile Home	Residential	24,769	.40
Sierra Vista Mobile Home	Residential	21,738	.35
Hanford Grain	Agricultural	20,263	.32
GWF Power Systems	Power Plant	17,821	.29
Adventist Health	Medical	17,427	.28
Casa Del Sol Apartments	Multifamily Housing	16,456	.26
Total of Top Ten		<u>\$ 920,257</u>	<u>14.74%</u>

Source: City of Hanford.

Total Fiscal Year 2014 Wastewater System revenues were \$6,102,836.

Rate Setting Process

The wastewater service charges are established by resolution adopted by a majority vote of the City Council and become effective immediately. Prior to rate increases being implemented they must be presented to the rate payers through a Proposition 218 protest hearing process. This process has been completed for the rate increases associated with this financing. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES.”

Utility rates and charges are reviewed as part of the City’s budgetary process. Once results of operations for the various enterprise funds are known, a determination is made as to whether it is appropriate for rate adjustments to be made. The timing of rate adjustments may or may not coincide with the budget adoption process, but the implications of any rate adjustments are considered in budget

development. The process used to set rates follows State regulations concerning the operation of local government utilities. Typically, several public hearings are held to review staff studies and recommendations concerning rate adjustments before final adoption of rate changes. Annually, a compilation of charges for all City services is done to produce a comprehensive fee schedule for the City.

Prior to June 1, the City Manager submits to the City Council a proposed preliminary budget for the next two fiscal years. The City's fiscal year is July 1 through June 30. The proposed budget includes all funds, including the Sewer Fund and capital projects. The proposed budget includes expected expenditures (or expenses, as appropriate) and the means of financing them. Typically, extensive City Council review occurs during May, and public hearings are conducted in June to obtain citizen comments. The preliminary budget is legally adopted prior to July 1 with the final budget adopted after the State adopts its annual budget in August of each year.

In each year total expenditures of any fund may not exceed total appropriations for that fund. However, the City Council may legally amend the budget at any time during the fiscal year by the adoption of supplemental appropriations and transfers within the programs.

Rates

Rate changes are enacted by the City Council based upon the recommendations of City staff. On November 17, 2009, the City Council adopted Resolution No. 09-77-R. Rate categories exist for (1) residential users, and (2) commercial/industrial customers.

CITY OF HANFORD WASTEWATER SYSTEM HISTORICAL WASTEWATER RATES - RESIDENTIAL (SINGLE FAMILY)

Fiscal Year	Residential Monthly Fee
FY2011	20.40
FY2012	21.60
FY2013	22.90
FY2014	22.90
FY2015	22.90

Source: City of Hanford.

CITY OF HANFORD WASTEWATER SYSTEM HISTORICAL WASTEWATER RATES -INDUSTRIAL

Fiscal Year	Industrial Fee Flow Rate	BOD5 (per lb)	Suspended Solids (per lb)
FY2011	1,781	.197	.191
FY2012	1,889	.209	.202
FY2013	2,002	.222	.214
FY2014	2,002	.222	.214
FY2015	2,002	.222	.214

Source: City of Hanford.

**CITY OF HANFORD
WASTEWATER SYSTEM
HISTORICAL WASTEWATER RATES - COMMERCIAL**

<u>Fiscal Year</u>	<u>Commercial Fee (per 100 cubic feet of use⁽¹⁾)</u>
FY2011	1.75 - 3.29
FY2012	1.86 - 3.49
FY2013	1.97 - 3.10
FY2014	1.97 - 3.10
FY2015	1.97 - 3.10

Source: City of Hanford.

(1) Varies per type of use per Resolution 09-77-R.

Billing and Collection

Wastewater Service Charges for residential and commercial users are billed monthly. The Finance Department prepares a bill covering charges for water, wastewater, refuse conservation services and utility user's tax. A separate bill is sent for the Industrial Waste Fee.

A billing summary is sent to the Finance Department monthly, at which time accounts receivable are created and revenue is credited to the Wastewater Fund. When the actual monies are received, the accounts receivable is reduced accordingly. Payments received by the Finance Department are credited to the billed accounts in the following order: utility user's tax, refuse, sewer, water conservation, and water. Payments received are credited first to the accounts in arrears and then to the current amounts for each utility in the order stated above.

If an account is not paid within 15 days of date of billing, a penalty for late payment in the amount of 10% of the delinquent amount is added to the amount owed. In addition, the City may discontinue service on accounts not paid within 15 days of the date of the bill.

City and Wastewater System Financial Statements

The City's audited financial statements dated February 3, 2014, for the fiscal year ended June 30, 2013, which include the financial results of the Wastewater System, are attached hereto as APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2013.

Wastewater System Financial Information

The following table presents a five year summary of the revenues, expenses and net income of the Wastewater System.

CITY OF HANFORD WASTEWATER SYSTEM SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	FY 2011	FY 2012	FY 2013	Unaudited FY 2014	Budget FY 2015
OPERATING REVENUES					
Charges for services	\$ 5,202,563	\$ 5,413,260	\$ 5,549,392	\$ 5,886,806	\$ 5,146,990
Other revenues	385,665	115,302	209,703	238,869	415,890
Total operating revenues	\$ 5,588,228	\$ 5,528,562	\$ 5,759,095	\$ 6,125,675	\$ 5,832,880
OPERATING EXPENSES					
Personnel services	\$ 1,112,477	\$ 1,167,087	\$ 1,128,917	\$ 1,299,673	\$ 1,416,430
Services and supplies	2,041,899	2,242,696	2,051,596	1,978,679	2,249,250
Depreciation and amortization	1,199,508	1,226,559	1,225,493	1,443,565	1,443,565
Total operating expenses	4,353,884	4,636,342	4,406,006	4,721,917	5,109,245
Operating income/(loss)	\$ 1,234,334	\$ 892,220	\$ 1,353,089	\$ 1,403,758	\$ 723,635
NON-OPERATING REVENUES/(EXPENSES)					
Interest income	\$ 34,867	\$ 44,786	\$ 33,521	\$ 45,745	\$ 21,900
Interest expense	(720,067)	(1,327,453)	(985,458)	(842,586)	(862,780)
Unrealized gain/(loss) on investments	(6,262)	9,512	(39,943)	6,879	-
Total non-operating revenue/(expense)	\$ (691,482)	\$ (1,273,155)	\$ (991,880)	\$ (789,962)	\$ (840,880)
Income/(loss) before capital contributions and transfers	\$ 407,618	\$ (380,935)	\$ 361,209	\$ 613,796	\$ (117,245)
Capital contributions	149,465	242,181	47,116	3,419	-
Transfers in/(out)	-	(19,705)	-	-	-
CHANGES IN NET POSITION	\$ 557,083	\$ (158,459)	\$ 408,325	\$ 617,215	\$ (117,245)
NET POSITION, beginning of year	\$ 28,142,893	\$ 29,952,198	\$ 30,067,161 ⁽¹⁾	\$ 30,475,486	\$ 31,092,701
NET POSITION, end of year	\$ 28,699,976	\$ 29,793,739	\$ 30,475,486	\$ 31,092,701	\$ 30,975,456

Source: City of Hanford 2011-2013 CAFRs, City of Hanford. Fiscal data from FY 2014 is unaudited.

(1) Net Position was restated in FY 2014 from \$29,793,739 to \$30,067,161 account for a \$273,422 prior period adjustment.

The following table presents a five year summary of the statements of net position of the Wastewater System.

**CITY OF HANFORD
WASTEWATER SYSTEM
STATEMENT OF NET POSITION**

	FY 2010	FY 2011	FY 2012	FY 2013	Unaudited FY 2014
ASSETS					
Current assets:					
Cash and investments	\$ 6,984,500	\$ 7,330,555	\$ 10,887,969	\$ 7,407,290	\$ 7,746,863
Accounts receivable, net	388,954	416,001	470,678	512,637	508,416
Deposits	4,000	4,000	4,000	4,000	4,000
Deferred charges	-	-	-	407,569	407,569
Due from other funds	-	-	48,406	25,963	-
Total current assets	\$ 7,377,454	\$ 7,750,556	\$ 11,411,053	\$ 8,357,459	\$ 8,666,848
Noncurrent assets:					
Land	\$ 4,135,650	\$ 4,135,650	\$ 4,135,650	\$ 4,135,650	\$ 4,135,650
Buildings and improvements	66,700,907	68,208,175	68,478,465	73,040,896	73,178,384
Machinery and equipment	489,104	489,104	501,204	541,400	634,470
Construction in progress	1,178,102	-	1,577,569	-	-
Less accumulated depreciation	(22,239,297)	(23,438,805)	(24,665,364)	(25,890,857)	(27,141,343)
Total capital assets (net of depreciation)	50,264,466	49,394,124	50,027,524	51,827,089	50,807,161
Total noncurrent assets	50,264,466	49,394,124	50,027,524	51,827,089	50,807,161
Total assets	\$ 57,641,920	\$ 57,144,680	\$ 61,438,577	\$ 60,184,548	\$ 59,474,009
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 132,091	\$ 153,133	\$ 945,675	\$ 139,685	\$ 164,788
Salaries and benefits payable	48,046	11,651	17,358	23,958	31,047
Interest payable	304,261	295,155	653,278	361,046	341,052
Current portion of long-term debt	920,552	1,044,846	1,545,998	1,513,886	1,565,818
Total current liabilities	\$ 1,404,950	\$ 1,504,785	\$ 3,612,309	\$ 2,038,575	\$ 2,012,705
Noncurrent liabilities:					
Compensated absences payable	\$ 40,125	\$ 43,657	\$ 43,326	\$ 46,664	\$ 56,528
Net OPEB liability	27,770	44,444	60,049	76,421	76,421
Unamortized bond premium	-	-	-	406,106	406,106
Bonds and notes payable	26,644,442	25,599,596	28,379,154	27,141,296	25,575,478
Total noncurrent liabilities	26,712,337	25,687,697	28,482,529	27,670,487	26,114,533
Total liabilities	\$ 28,117,287	\$ 27,192,482	\$ 31,644,383	\$ 29,709,062	\$ 28,217,238
NET POSITION					
Invested in capital assets net of related debt	\$ 22,699,472	\$ 22,678,255	\$ 20,102,372	\$ 23,171,907	\$ 23,665,865
Unrestricted	6,825,161	7,273,943	9,691,367	7,303,579	7,590,906
Total net position	\$ 29,524,633	\$ 29,952,198	\$ 29,793,739	\$ 30,475,486	\$ 31,256,771

Source: City of Hanford 2010-2013 CAFRs, City of Hanford.

Outstanding Debt

The annual requirements to amortize all outstanding obligations of the City payable from Net Revenues, excluding the Bonds of this issue, are as follows:

CITY OF HANFORD WASTEWATER SYSTEM DEBT SERVICE

Fiscal Year Ended (6/30)	1996 Bonds (1)	2012 Bonds	Total
2015	\$ 400,000	\$ 945,256.26	\$1,345,256.26
2016	400,000	940,556.26	1,340,556.26
2017	400,000	940,556.26	1,340,556.26
2018	400,000	944,756.26	1,344,756.26
2019	400,000	942,956.26	1,342,956.26
2020	400,000	945,356.26	1,345,356.26
2021	500,000	945,856.26	1,445,856.26
2022	500,000	941,056.26	1,441,056.26
2023	500,000	940,856.26	1,440,856.26
2024	—	938,662.52	938,662.52
2025	—	936,862.52	936,862.52
2026	—	939,062.52	939,062.52
2027	—	938,687.52	938,687.52
2028	—	947,437.52	947,437.52
2029	—	938,981.26	938,981.26
2030	—	939,800.00	939,800.00
2031	—	641,400.00	641,400.00
2032	—	643,600.00	643,600.00
2033	—	644,800.00	644,800.00
Total	<u>\$3,900,000</u>	<u>\$16,996,500.20</u>	<u>\$20,896,500.20</u>

Source: The City.

(1) The 1996 Bonds are payable at a variable rate. The amounts in this table are principal amounts only.

Historical Revenues, Expenditures and Debt Service Coverage

The following table presents Wastewater System revenues and expenditures for each of the four fiscal years ended June, 30, 2010, through 2014, including debt coverage for the City's obligations payable from Net Revenues:

CITY OF HANFORD WASTEWATER SYSTEM HISTORICAL REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE					
	FY2010	FY2011	FY2012	FY2013	FY2014
Operating Revenue:					
Charges for services	\$ 4,846,516	\$ 5,202,563	\$ 5,413,260	\$ 5,549,392	\$ 5,886,806
Other revenue	-	-	-	-	238,869
Total Operating Revenue	4,846,516	5,202,563	5,413,260	5,549,392	6,125,675
Less Operating expenses	3,112,746	3,154,376	3,409,783	3,180,513	3,278,352
Net Operating Revenue	\$ 1,733,770	\$ 2,048,187	\$ 2,003,477	\$ 2,368,879	\$ 2,847,323
Non-operating Revenue					
Connection charges	\$ 403,065	\$ 385,665	\$ 115,302	\$ 209,703	\$ 333,773
Interest earnings	86,850	35,907	54,298	(6,422)	52,624
Total Non-operating Revenues	489,915	421,752	169,600	203,281	386,397
Net Revenues Available for Debt Service	\$ 2,223,685	\$ 2,469,759	\$ 2,173,077	\$ 2,572,160	\$ 3,233,720
1996 Bonds	\$ 327,023	\$ 320,130	\$ 411,089	\$ 408,017	\$ 403,844
1999 Bonds	340,799	340,266	344,170	32,037	-
2002 Bonds	696,839	697,396	692,463	111,238	-
2012 Bonds	-	-	-	842,633	928,781
Total Debt Service	\$ 1,364,661	\$ 1,357,792	\$ 1,447,722	\$ 1,393,925	\$ 1,332,625
Debt Service Coverage	1.63x	1.82x	1.50x	1.85x	2.43x

Source: City of Hanford.

Projection of Revenues, Expenditures and Debt Service Coverage

The following table presents a summary of the projected operating results of the Wastewater System, debt service and debt service coverage for the five fiscal years ending June 30, 2015 through June 30, 2019.

The projections are based on the following assumptions.

Revenues: The projections assume annual overall average growth of 2% per year with growth in numbers of sewer accounts and no change in flow and strength by non-residential users.

Expenses: The projections assume annual Operation and Maintenance Costs of the Wastewater System will increase 2% annually, primarily as a result of inflation, increased pension costs and increased costs for operations and maintenance.

Interest earnings: The projections assume annual interest earnings on Wastewater System funds will continue to be the same as FY 2014.

No Parity Obligations: The projections assume that the City will pay any capital improvement requirements from annual revenues and will not incur Parity Obligations. See “Capital Improvement Program” above. See also “SECURITY FOR THE BONDS – Limitations on Future Obligations Secured by Net Revenues.”

The following table represents the City’s estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. The obligation of the City to pay debt service with respect to the Bonds is limited to Net Revenues and the City is not obligated to apply any other revenues to pay debt service with respect to the Bonds.

**CITY OF HANFORD
WASTEWATER SYSTEM
PROJECTION OF REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE**

	FY2015	FY2016	FY2017	FY2018	FY2019
Operating Revenue:					
Charges for services	\$ 6,004,542	\$ 6,124,633	\$ 6,247,126	\$ 6,372,068	\$ 6,499,509
Other revenue	-	-	-	-	-
Total Operating Revenue	6,004,542	6,124,633	6,247,126	6,372,068	6,499,509
Less Operating expenses	3,343,919	3,410,797	3,479,013	3,548,594	3,619,566
Net Operating Revenue	\$ 2,660,623	\$ 2,713,836	\$ 2,768,112	\$ 2,823,474	\$ 2,879,944
Non-operating Revenue					
Connection charges	\$ 1,028,280	\$ 753,370	\$ 800,000	\$ 800,000	\$ 800,000
Interest earnings	52,624	52,624	52,624	52,624	52,624
Total Non-operating Revenues	1,080,904	805,994	852,624	852,624	852,624
Net Revenues Available for Debt Service	\$ 3,741,527	\$ 3,519,830	\$ 3,620,736	\$ 3,676,098	\$ 3,732,568
1996 Bonds					
2012 Bonds	937,906	930,556	930,156	933,856	931,656
2015 Bonds					
Total Debt Service					
Debt Service Coverage					

Source: City of Hanford

Risk Management

The City is partially self-insured for workers’ compensation and general liability insurance. For worker’s compensation, the City is responsible for claims up to \$250,000 per occurrence. Coverage in excess of the City’s self-insured retention is purchased through CSAC Excess Insurance Authority (CSAC-EIA) up to the statutory limits. The City participates in a risk pool through CSAC-EIA above the City’s self-insured retention up to \$5,000,000 per occurrence. Reinsurance coverage in excess of the pool layer up to \$25,000,000 is purchased through CSAC-EIA. For both workers’ compensation and general liability insurance, CSAC-EIA retains responsibility for claims in excess of each member’s self-insured retention. There were no reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage for the past three fiscal years.

Workers' compensation and general liability claims incurred prior to July 1, 2012 were covered through the City's participation in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool. For workers' compensation insurance, the City is self-insured up to \$200,000. Coverage between \$200,000 and \$500,000 is provided through a risk pool. CSJVRMA participates in an excess pool which provides coverage from \$500,000 to \$5,000,000 and purchases excess insurance above \$5,000,000 to the statutory limit. For general liability insurance, the City participates in a risk pool which covers the City above its self-insurance retention level of \$100,000 up to \$1,000,000. CSJVRMA participates in an excess pool which provides coverage from \$1,000,000 to \$29,000,000. CSJVRMA members may receive rebates or be required to make additional contributions through a retrospective adjustment process.

The City is not legally obligated under the Indenture to maintain, or cause to be maintained, earthquake insurance on the Wastewater System and the City does not presently maintain earthquake insurance on behalf of the Wastewater System. No assurance is made that any earthquake insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to the Wastewater System, the cost of repair of which could exceed the fund balance available therefore.

In the event of significant earthquake damage to the Wastewater System, there can be no assurance that Net Revenues would be sufficient to pay principal of and interest on the Bonds.

Pension Plan

Plan Description. The City's defined benefit plans, the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford, provide retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous, Police Safety and Fire Safety plans of the City of Hanford are part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered to by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statutes within the Public Employees' Retirement Law. The City of Hanford selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy. The City makes the contributions required by City employees on their behalf and for their account. The present required contribution rates of annual covered salaries are as follows: Local miscellaneous members 8%, Local police safety members 9%, and Local fire safety members 9%.

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013 was 27.327% for miscellaneous employees. The required employer contribution rate for police safety employees was 31.532% for the period July 1, 2012 through June 30, 2013. The required employer contribution rate for the fire safety employees was 29.883% for the period July 1, 2012 through June 30, 2013. The contribution requirements of plan members are established by State Statute and the employer contribution rate is established and may be amended by CalPERS.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions include a 4.5 percent investment rate of return, covered payroll increases of 3.25 percent per year, an inflation rate of 3.25 percent per year, and a medical increase trend rate starting at 10 percent per year, and decreasing gradually over a 10 year period to an ultimate rate of 4.50 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

Annual Pension Costs. For the fiscal year ended June 30, 2013, the City's annual pension cost of \$4,108,415 for PERS was equal to the City's required and actual contributions. The required contribution for the fiscal year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.55% to 14.45% for police and fire safety members), and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. The actuarial values of the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford's assets were determined by using a technique that smoothes the effects of short-term volatility in the next market value of investments over a two to five year period, depending on the size of investment gains and/or losses. The Miscellaneous and the Safety Plans of the City of Hanford's unfunded actuarial accrued liabilities (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 18 years for Miscellaneous, 17 years for Police Safety, and 17 years for Fire Safety.

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the plan was 78.4% funded for non-safety employees and 86.8% funded for safety employees. The actuarial accrued liability for benefits was \$78 million for non-safety employees and \$2.1 billion for safety employees and the actuarial value of assets was \$61 million for non-safety employees and \$1.9 billion for safety employees, resulting in an unfunded actuarial accrued liability (UAAL) of \$17 million for non-safety employees and \$287 million for safety employees. The covered payroll (annual payroll of active employees covered by the plan) was \$7.6 million for non-safety members and \$232 million for safety members, and the ratio of UAAL to the covered payroll was 218.4% and 123.8% respectively.

See Note 6: PENSION PLAN in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2013.

Post Employment Health Care Benefits

Plan Description. During the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 45, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provisions of this statement are applied on a prospective basis.

The City participates in the CalPERS medical program under the Public Employees' Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The City has selected the equal contribution method, where it resolves to contribute the same amount for retirees as is contributed toward active employee medical plan coverage. The City currently pays the minimum employer

contribution (MEC) for both active and retired employees as well as their survivors, if covered at the time of the employee's death. The MEC is \$115 per month for 2013.

Dental insurance is available to retired employees as well, though the cost of coverage is paid entirely by the retiree. Once the retiree reaches age 65 the City no longer allows the retiree to stay on the dental plan.

The above coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

Funding Policy. Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$115 per month for retiree benefits from the City funds as they are due with no prefunding for future years. The City recognizes expenditures for its share of the annual premiums as these benefits become due. For fiscal years 2012-2013, the City paid \$58,433 for benefits of 43 retirees or their beneficiaries receiving benefits.

Annual PPEB and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of the July 1, 2009 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

The City's OPEB unfunded actuarial accrued liability as of July 1, 2013, the date of the most recent actuarial valuation, was a total of \$3,283,849. The OPEB obligation has been adjusted by an annual inflation percentage of 3.00% based on the assumptions of the actuarial valuation and a general salary increase of 3.25%.

The City has calculated and recorded the Net OPEB obligation, representing the difference between the ARC, amortization and contributions, as follows:

**CITY OF HANFORD
NET OPEB OBLIGATION
FY 2013**

Annual required contributions (ARC) and annual OPEB cost	\$ 388,285
Interest on net OPEB obligation	51,973
Adjustment to the ARC	(53,737)
Annual required contribution annual OPEB cost/(expense)	386,521
Less: Employer contribution	(58,433)
Increase in net OPEB obligation	328,088
Net OPEB obligation, beginning of year	1,154,960
Net OPEB obligation, end of year	\$ 1,483,048

Source: City of Hanford 2013 CAFR.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

**CITY OF HANFORD
HISTORICAL OPEB OBLIGATION
FY 2011-2013**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
FY2011	\$ 335,163	12.35%	\$ 849,181
FY2012	358,543	12.71	1,154,960
FY2013	386,521	15.12	1,483,048

Source: City of Hanford 2013 CAFR.

See Note 7: POST EMPLOYMENT HEALTH CARE BENEFITS in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2013.

CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES

Article XIII A

Article XIII A of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the “full cash value,” which is defined as “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment,” subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the City’s water or wastewater user rates or Capacity Fees were determined by a court to exceed the reasonable cost of providing service, the City would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined

that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See “THE WASTEWATER SYSTEM—Rate Setting Process.”

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Wastewater System and payments due on the Bonds (including the funding of the Reserve Account), the City believes that such moneys are not subject to the annual appropriations limit of Article XIII B.

Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 1 of Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements.

Section 3 of Article XIII C expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIII C to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIII C or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIII C and Article XIII D (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIII D and are also fees or charges within the meaning of Section 3 of Article XIII C.

The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIII C.

In the *Bighorn* Decision, the Supreme Court did state that nothing in Section 3 of Article XIII C authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn* Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s sewer service fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Bonds, the 2003 Bonds or any additional Parity Bonds.

Notwithstanding the fact that sewer service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIII C, the City has covenanted to levy and charge rates which meet the requirements of the Indenture in accordance with applicable law.

Article XIII D defines a “fee” or “charge” as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” In the *Bighorn Decision*, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIII D. Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

The City’s sewer charge is a commodity charge based on the volume of sewer consumed. The City has ratified prior sewer rate measures and otherwise complied with the applicable notice and protest procedures of Article XIII D for its current sewer rates and charges. There has not been nor is there any pending challenge to any of the City’s sewer fees and charges approved since the effective date of Proposition 218. While the City Attorney is of the opinion, based upon the judicial precedent in place during the period of these rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can predict with certainty the outcome of a challenge to the increases in the City’s sewer rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIII D if one were brought.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 “property-related fee” protest proceedings, the City Council adopted Resolution No. 4930 on January 16, 2007, establishing additional procedures for submitting protests against proposed increases to sewer rates, including the provision of notice of a proposed change in sewer fees to all owners of record on each identified parcel and all sewer customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to sewer rates, including guidelines for determining when a valid protest has been submitted.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 1996, are classified as exempt from the procedures and approval process of Article XIID. Expressly exempt assessments include (i) an assessment imposed exclusively to finance capital costs or maintenance and operation expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements; (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements); (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the U.S. Constitution’s prohibition against the impairment of contracts; and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

On July 14, 2008, the California Supreme Court ruled in *Silicon Valley Taxpayers Association, Inc. v. Santa Clara County Open Space City* (the “SCCOSA Decision”) that the Santa Clara County Open Space City’s county-wide assessment which was designed to fund the acquisition and maintenance of unspecified open-space lands in the County was invalid under Proposition 218. The Court held that deference should not be accorded to local agencies when Proposition 218 legislative acts are challenged. Under Proposition 218, courts must make an independent review of whether the assessment and formation of an assessment district meet the “special benefit” and proportionality requirements of Article XIID. Further, while an assessment will not be invalidated because it confers a benefit upon the public at large, the “special benefit” must affect the assessed property in a distinct and particular manner not shared by other parcels and the public at large. Specifically, in the SCCOSA Decision the assessment did not meet the requirements of a “special benefit” and the assessment was not proportional to the special benefits conferred. Finally, the Court held that the Santa Clara Open Space City did not meet the

proportionality requirement of Article XIID because it did not specifically identify the improvements to be financed by the assessment and failed to sufficiently connect any costs of and benefits received from the open space assessment to the specific assessed parcels.

The City and the City Attorney are of the opinion that current sewer fees and charges that are subject to Proposition 218 comply with the provisions thereof and that the City will continue to comply with the rate covenant set forth in the Installment Purchase Agreement in conformity with the provisions of Article XIID of the California State Constitution. The City and the City Attorney are also of the opinion that current sewer capacity fees are not subject to Proposition 218. Should it become necessary to increase the sewer fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. To date, there have been no legal challenges to sewer rate increases implemented by the City pursuant to Proposition 218 or otherwise. It is unclear whether under existing standards, rates and charges may be established at levels which would permit deposits to a Rate Stabilization Fund or maintenance of uncommitted cash reserves.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

RISK FACTORS RELATING TO THE BONDS

Payment of principal of and interest on the Bonds depends primarily upon the revenues derived from operation of the Wastewater System. Some of the events which could affect the revenues received by the Wastewater System are set forth below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order in which the risks are discussed does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay debt service on the Bonds from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Wastewater System such that the Net Revenues in the future will be sufficient for that purpose. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES— Articles XIIC and XIID.”

System Expenses

There can be no assurance that the City’s expenses for the Wastewater System will be consistent with the descriptions in this Official Statement. Changes in technology, changes in quality standards, loss of large customers, increased or decreased development, increases in the cost of operation, or other expenses could require increases in rates or charges in order to comply with the City’s rate covenant in

the Indenture. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES—Articles XIII C and XIII D.”

Limited Recourse on Default

Failure by the City to pay debt service on the Bonds constitutes an event of default under the Indenture and the Trustee is permitted to pursue remedies at law or in equity to enforce the City’s obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the debt service on the Bonds, there is no assurance that the City would have sufficient funds to pay the accelerated amounts. See also “Proposition 218” below.

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest with respect to the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES—Articles XIII C and XIII D.” Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinions to be delivered by Bond Counsel concurrently with the issuance of the Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See APPENDIX E—FORM OF BOND COUNSEL OPINION. If the City fails to comply with its covenants in the Indenture or fails to pay principal of and interest due on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Bonds.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Bonds. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES—Articles XIII C and XIII D.”

Bankruptcy

The rights and remedies provided in the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors’ rights, to the exercise of judicial discretion in appropriate cases and to

limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds and the Indenture, including the opinion of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

Tax Exemption

The City has covenanted in the Indenture that it will take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Internal Revenue in the gross income of the Owners thereof for federal tax purposes. See “TAX MATTERS.”

Additional Obligations

The Indenture permits the issuance of Bonds secured by Net Revenues on a parity basis or a subordinate basis to the Bonds. Such additional Bonds would increase debt service payable from Net Revenues and could adversely affect debt service coverage with respect to the Bonds. In such event, however, the Rate Covenant will remain in effect. See “SECURITY FOR THE BONDS—Rate Covenant.”

Seismic Risk

There are no known active seismic faults in the County or its immediate vicinity. Beyond surface rupture along the fault zone, potential hazards related to major earthquakes include ground shaking and related secondary ground failures. The principle earthquake hazard affecting the City area is ground shaking as opposed to surface rupture or ground failure. According to a 1974 5-County Seismic Study, the County is in an area where amplification of shaking that would affect low- to medium-rise structures is relatively high. The vast majority of deaths during earthquakes are the result of structural failure mainly due to ground shaking. Most such deaths are preventable with existing knowledge of design and construction methods. Ground shaking intensities are measured using the modified Mercalli Intensity Scale (a 12 point scale). Earthquakes of M5.0 or greater have occurred on fault systems in the region, including the San Andreas Fault.

The active fault closest to the City is the Nunez fault located in western Fresno County. The Nunez fault is a 4.2-km-long, north-south-trending, right-reverse, oblique-slip fault situated about 8 miles northwest of Coalinga. Surface rupture occurred along this fault in the 1983 Coalinga earthquakes, which had a magnitude of 6.7. This was followed by another earthquake with magnitude of 6.0 in 1985. The location of this fault however, is far away from the City and aftershocks during both earthquakes did not cause any damage. Secondary natural hazards associated with earthquakes result from the interaction of ground shaking with existing ground instabilities, and include liquefaction, settlement or subsidence, landslides and seiches. While some of these secondary hazards are a concern to other parts of the County and the 5-County Seismic Study region, none are considered of particular concern to the City area because of its distance from the major regional fault (San Andreas Fault), the lack of steep slopes, and the clay composition of area soils.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture. Otherwise, however, moneys held by the City, including Wastewater System moneys, will be invested in accordance with the City's adopted investment policies. For more information about the City's investment policy as well as information about recent investment performance of the City's pooled investment funds.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Bonds are "qualified tax-exempt obligations" under section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

In rendering its opinion, Bond Counsel will rely upon certifications of the City with respect to certain material facts within their respective knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporations' taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the

alternative tax net operating loss deduction). “Adjusted current earnings” would generally include certain tax-exempt interest, but not interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, 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 tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price, or purchase Bonds subsequent to the initial public offering, should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond’s stated redemption price at maturity (the “Reduced Issue Price”), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases a Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “IRS”) has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the IRS, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

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

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

CERTAIN LEGAL MATTERS

Quint & Thimmig LLP, Larkspur, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL. Bond Counsel has assumed no responsibility for the accuracy, completeness or fairness of the Official Statement. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. Certain legal matters will be passed upon for the City by Griswold, LaSalle, Cobb, Dowd & Gin, LLP, Hanford, California. *Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Bonds.*

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the authorization, execution or delivery of the Bonds, or the pledge of the Net Revenues or the collection of the payments to be made pursuant to the Indenture, or in any way contesting or affecting validity of the Bonds, the Indenture or the agreement for the sale of the Bonds, or in any way contesting or affecting the transactions described in this Official Statement.

RATING

Standard & Poor's Credit Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the rating of "A" to the Bonds. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P at 55 Water Street, New York, NY 10041. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Wastewater System by not later than seven months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2015, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

The City has existing disclosure undertakings that have been made pursuant to the Rule in connection with the issuance of the City's outstanding 1997 Variable Rate Demand Refunding Certificates of Participation, the Special Tax Refunding Bonds, Series 1998, and the 2001 Certificates of Participation. The Annual Reports for Fiscal Years 2006-07, 2008-09, and 2010-11 did not include certain information required to be included in these reports. Also, during the last five years some of these reports were not timely filed and notices of late filings were not made. Further, the City did not file event notices regarding changes to the underlying ratings of certain of its bonds and downgrades of bond insurance companies that insured its bonds. Supplemental annual reports and notices of the rating changes have been made. The City has engaged Urban Futures, Inc. to serve as its dissemination agent with respect to each of its disclosure undertakings, including the Continuing Disclosure Certificate to be executed in connection with the Bonds.

UNDERWRITING

The Bonds are being purchased by Gates Capital Corporation and Alamo Capital (the “Underwriters”). The Underwriters have agreed to purchase the Bonds at a price of \$_____ (which price is equal to the aggregate principal amount of the Bonds, plus original issue premium of \$_____ and less an Underwriters’ discount of \$_____). The bond purchase contract pursuant to which the Underwriters have agreed to purchase the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase contract, including the approval of certain legal matters by counsel and certain other conditions.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2013, are contained in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2013.

The execution of this Official Statement and its delivery have been authorized by the City Council of the City.

CITY OF HANFORD

By _____
City Manager

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APPENDIX A

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Indenture.

Definitions

“Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest falling due on the Bonds and all Parity Obligations in such Fiscal Year, assuming that all Bonds and Parity Obligations are retired as scheduled, plus (2) the principal amount of all Bonds and Parity Obligations falling due by their terms in such Fiscal Year; provided, that as to any Parity Obligations bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be one hundred ten percent (110%) of the greater of (A) the daily average interest rate on such Parity Obligations during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Obligations have borne interest) or (B) the most recent effective interest rate on such Parity Obligations prior to the date of such calculation; and provided further, that as to any such Parity Obligations having twenty-five percent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of such Parity Obligations; and provided further, that as to any such Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount shall be treated as interest in the calculation of Annual Debt Service; and provided further, that the amount on deposit in the reserve account for any Parity Obligations on any date of calculation of Annual Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligations and in each preceding year until such amount is exhausted; and provided further, that Annual Debt Service shall not include interest on Parity Obligations which is to be paid from amounts constituting capitalized interest; and provided further, that if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Obligations to which it relates, no amounts payable under such interest rate swap agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Obligations, plus (ii) the amounts payable by the City under such interest rate swap agreement, less (iii) the amounts receivable by the City under such interest rate swap agreement, are greater than the interest payable on such Parity Obligations, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Obligations shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in the first proviso of this definition.

“Authorized Representative” means, with respect to the City, the Mayor, the Vice Mayor, the City Manager, the Financial Services Director or any other person designated as an Authorized Representative of the City by a Certificate of the City signed by the City Manager or the Finance Director and filed with the Trustee.

“Average Annual Debt Service” means, with respect to any portion of the Outstanding Parity Obligations for which the calculation is being made, the average Annual Debt Service during the period from the date of calculation through the final maturity date of all of such Outstanding Parity Obligations.

“Bond Fund” means the fund by that name established pursuant to the Indenture.

“Bond Registration Books” means the books maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“*Bond Reserve Account*” means the account by that name in the Bond Fund so designated and established pursuant to the Indenture which shall serve as the reserve fund for the Bonds.

“*Bond Reserve Requirement*” means, as of any calculation date, an amount, calculated by or on behalf of the City and certified to the Trustee in writing, equal to the least of (a) Maximum Annual Debt Service on all Bonds, (b) 125% of average annual debt service on the Bonds, and (c) 10% of the then outstanding principal amount of the Bonds.

“*Bonds*” means the City’s Wastewater Refunding Revenue Bonds, Series 2015, issued and at any time Outstanding under the Indenture.

“*Bond Year*” means any twelve-month period commencing on October 2 in a year and ending on the next succeeding October 1, both dates inclusive; *provided, however*, that the first Bond Year shall commence on the Closing Date relating to the Bonds and shall end on October 1, 2015.

“*Business Day*” means a day of the year on which banks in Los Angeles, California, are not required or authorized to remain closed and on which The New York Stock Exchange is not closed.

“*Certificate*,” “*Statement*,” “*Request*,” “*Requisition*” and “*Order*” of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by an Authorized Representative of the City. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“*City*” means the City of Hanford, a municipal corporation and general law city organized and existing under the constitution and laws of the State, and any successor thereto.

“*City Council*” means the City Council of the City.

“*Closing Date*” means the date upon which there is an exchange of the Bonds for the proceeds representing the purchase of the Bonds by the Original Purchaser thereof.

“*Code*” means the Internal Revenue Code of 1986 as in effect on the Closing Date, or as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated under the Code.

“*Continuing Disclosure Certificate*” means that certain Continuing Disclosure Certificate executed by the City and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, operating expenses, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, fiscal consultants, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“*Costs of Issuance Fund*” means the fund so designated and established pursuant to the Indenture.

“*Debt Service*” means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount of all Outstanding Bonds coming due and payable by their terms in such period;
and

(b) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Escrow Agreement” means that certain Escrow Agreement, dated the Closing Date, by and between the City and the Escrow Bank, providing for the defeasance of the 1996 Bonds.

“Escrow Bank” means U.S. Bank National Association, appointed by the City to act as escrow bank under the Escrow Agreement, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Escrow Agreement.

“Escrow Fund” means the fund by that name established pursuant to the Escrow Agreement.

“Event of Default” means any of the events of default described in the Indenture.

“Federal Securities” means direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

“Gross Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the furnishing and supplying of services and facilities through the Wastewater System, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys to the extent that such earnings and income are available for use for the Wastewater System pursuant to law, and (c) the proceeds derived by the City directly or indirectly from the sale, lease, or other disposition of a part of the Wastewater System; provided the term “Gross Revenues” shall not include any of the following: (A) customers’ deposits or any other deposits or advances subject to refund until those deposits or advances become the property of the City, and (B) moneys that are derived from impact fees imposed for specified purposes as provided in a duly adopted resolution or ordinance, and that are accounted for by the City separate and apart from other revenues of the Wastewater System.

“Indenture” means the Indenture of Trust, dated as of January 1, 2015, by and between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

“Independent Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom:

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial interest, direct or indirect, with the City; and

(c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the City, and who, or each of whom: (a) is in fact independent and not under domination of the City; (b) does not have any substantial interest, direct or indirect, with the City; (c) is not connected with the City as an officer or employee of

the City, but who may be regularly retained to make reports to the City, and (d) is judged by the City to have experience in matters relating to the engineering matters relating to wastewater system enterprises.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>) or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information with respect to called bonds as the City may designate in a Certificate of the City delivered to the Trustee.

“Insurance Consultant” means a person (which may be the City’s insurance agent or broker) having experience and a favorable reputation in consulting on the insurance requirements of water utilities in the State of the general size and character of the Wastewater System, selected by the City.

“Interest Account” means the account by that name in the Bond Fund established pursuant to the Indenture.

“Interest Payment Date” means April 1 and October 1 in each year, beginning April 1, 2015, and continuing so long as any Bonds remain Outstanding.

“Maximum Annual Debt Service” means, as of any date of calculation by the City, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of the Bonds and all Parity Obligations.

“Moody’s” means Moody’s Investors Service, New York, New York, or its successors.

“Net Proceeds” means the par amount of the Bonds plus accrued interest and premium, if any, less the amount of any underwriter’s and original issue discount, less the proceeds applied to pay Costs of Issuance, and less the amount of proceeds deposited in the Bond Reserve Account..

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs during such period.

“1996 Bonds” means the City of Hanford, California, Variable Rate Demand Sewer System Refunding Revenue Bonds, 1996 Series A, of which \$3,900,000 remains outstanding as of the Closing Date.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Wastewater System determined in accordance with generally accepted accounting principles, including (a) all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits and licenses to operate the Wastewater System and insurance premiums, and (c) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Indenture; but excluding in all cases, the following: (A) debt service payable on obligations (including bonds, notes or other evidences of indebtedness, installment purchase payments under contract, and lease payments under any financing or capital lease, as determined to be such in accordance with generally accepted accounting principles) incurred by the City with respect to the Wastewater System, (B) depreciation, replacement and obsolescence charges or reserves therefor, and (C) amortization of intangibles or other bookkeeping entries of a similar nature.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to Bonds, means all Bonds theretofore executed, issued and delivered by the City under the Indenture except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to the Indenture or any Supplemental Indenture.

“*Owner*” or “*Bond Owner*”, when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

“*Parity Obligations*” means all bonds, notes or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred on a parity with the Bonds pursuant to the Indenture. Parity Obligations shall not include state revolving fund loans, which are payable as Operation and Maintenance Costs. For all purposes of the Indenture, the 2012 Bonds are Parity Obligations.

“*Participating Underwriter*” shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

“*Permitted Investments*” means:

- (a) Federal Securities.
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

2. U.S. Farmers Home Administration (FmHA)

Certificates of Beneficial Ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration

Participation Certificates

6. Government National Mortgage Association (GNMA or Ginnie Mae)

GNMA—guaranteed mortgage-backed bonds

GNMA—guaranteed pass-through obligations

7. U.S. Maritime Administration

Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Agency Bonds

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and 2010 Bonds - U.S. government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
Participation Certificate
Senior debt obligations
3. Federal National Mortgage Association (FNMA or Fannie Mae)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or Sallie Mae)
Senior debt obligations
5. Resolution Funding Corp. (REFCORP) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, which invest substantially in Federal Securities, if rated by S&P, having a rating at the time of investment of AA-Am-G; and if rated by Moody's having a rating at the time of investment of Aaa, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks or savings and loan associations (including the Trustee or its affiliates). The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC and, to the extent such deposits are in excess of the amounts protected by FDIC insurance, secured at all times by collateral described in (a) and/or (b) above.

(g) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.

(h) Federal funds or bankers acceptances with a maximum term of 180 days of any bank which has an unsecured, uninsured and unguaranteed obligation rating at the time of investment of "Prime-1" or better by Moody's and "A-1" or better by S&P.

(i) The Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code.

(j) Tulare County pooled investment fund.

(k) Municipal obligations rated “A” or higher by S&P.

(l) Other forms of investments that satisfy the City’s Statement of Investment Policy as of the time of investment.

“*Principal Account*” means the account by that name in the Bond Fund established pursuant to the Indenture.

“*Principal Payment Date*” means October 1 in each year, beginning October 1, 2015, and continuing so long as any Bonds remain Outstanding.

“*Rating Category*” means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody’s and/or S&P applicable to such Investment Security, without regard to any refinement or gradation of such rating category by a plus or minus sign.

“*Record Date*” means the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date.

“*Refunding Bond Law*” means Article 10 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53570) of the California Government Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“*S&P*” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, New York, New York, or its successors.

“*Securities Depositories*” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Certificate of the City delivered to the Trustee.

“*Special Record Date*” means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on Bonds.

“*State*” means the State of California.

“*Sinking Account*” means the account by that name in the Bond Fund established pursuant to the Indenture, if required.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the City and the Trustee, amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

“*Trust Office*” means the principal corporate trust office of the Trustee in San Francisco, California; provided that with respect to presentation of Bonds for payment or for registration of transfer and exchange or surrender and cancellation such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or such other address specified by the Trustee from time to time.

“*Trustee*” means MUFG Union Bank, N.A., appointed by the City to act as trustee under the Indenture, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

“Wastewater Fund” means the Wastewater Fund established and held by the City for purposes of accounting for the revenues and expenditures of the Wastewater System.

“Wastewater System” means the whole and each and every part of the wastewater and sewage collection, treatment and disposal system of the City, including the portion thereof existing on the date of the Indenture, and including all additions, betterments, extensions and improvements to such wastewater and sewerage system or any part thereof acquired or constructed after the dated date of the Indenture; provided, that to the extent the City is not the sole owner of an asset or property or to the extent that an asset or property is used in part for the above-described sewer and wastewater system purposes, only the City’s ownership interest in such asset or property or only the part of the asset or property so used for Wastewater System purposes shall be considered to be part of the Wastewater System.

Costs of Issuance Fund

The moneys in the Costs of Issuance shall be used and withdrawn by the Trustee to pay Costs of Issuance upon receipt by the Trustee of a Requisition of the City stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said account.

At the end of three months from the Closing Date, or upon earlier receipt of a Certificate of the City stating that amounts in the Costs of Issuance Fund are no longer required for the payment of Costs of Issuance, the Costs of Issuance Fund shall be closed and any amounts then remaining in said account shall be transferred to the Bond Fund.

Pledge of Net Revenues

The Bonds and any Parity Obligations shall be secured by a first pledge of all of the Net Revenues. In addition, the Bonds shall be secured by a pledge of all of the moneys in all funds and accounts held by the Trustee under the Indenture, including all amounts derived from the investment of such moneys. Such pledge shall constitute a lien on the Net Revenues and such other moneys for the payment of the principal of and interest and premium (if any) on the Bonds and any Parity Obligations in accordance with the terms of the Indenture. The Bonds shall be equally secured by a pledge, charge and lien upon the Net Revenues, without priority for number or date, shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues and such moneys, except as set forth in the Indenture. So long as any of the Bonds or any Parity Obligations are Outstanding, the Net Revenues and such moneys shall not be used for any other purpose, except as set forth in this the Indenture except, that out of the Net Revenues, there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the City and the Owners from time to time of the Bonds and the covenants and agreements set forth in the Indenture to be performed by or on behalf of the City shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein.

The Trustee shall establish and maintain the Bond Fund and, within the Bond Fund, the Interest Account, the Principal Account, the Sinking Account and the Bond Reserve Account.

Receipt, Deposit and Application of Gross Revenues and Net Revenues

(a) *Application of Gross Revenues.* All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Wastewater Fund. All Gross Revenues shall be held in trust by the City in the Wastewater Fund and shall be applied, transferred, used and withdrawn only for the following purposes:

(i) **Operation and Maintenance Costs.** The City shall first pay from the moneys in the Wastewater Fund the budgeted Operation and Maintenance Costs as such Operation and Maintenance Costs become due and payable.

(ii) **Payment of Debt Service.** On or before the 5th Business Day preceding each Interest Payment Date, the City shall withdraw from the Wastewater Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount which, together with the balance then on deposit in the Bond Fund, the Interest Account, the Principal Account and the Sinking Account (other than amounts required for payment of principal of or interest on any Bonds which have matured but which have not been presented for payment), is equal to the aggregate amount of principal of and interest coming due and payable on the Bonds and shall withdraw from the Wastewater Fund and transfer amounts required for the payment of debt service on any Parity Obligations. The transfers required to pay debt service on the Bonds and any Parity Obligations shall be made without preference or priority and, in the event moneys in the Wastewater Fund are not sufficient to pay the debt service requirement for the Bonds and any Parity Obligations, the City shall pay such amounts on a pro rata basis based on the debt service requirements for the Bonds and each outstanding Parity Obligations.

(iii) **Bond Reserve Account.** After making the payments, allocations and transfers provided for in subparagraphs (i) and (ii) above, (A) if the balance in the Bond Reserve Account is less than the Bond Reserve Requirement, the notice of which deficiency shall have been given by the Trustee to the City, or (B) if the balance in a bond reserve account established for any Parity Obligations is less than the bond reserve requirement established for such Parity Obligations, the notice of which deficiency shall have been given to the City, the deficiency shall be restored by transfers from the first moneys which become available in the Wastewater System Fund to the Trustee for deposit in the Bond Reserve Account and for deposit in the bond reserve requirement established for such Parity Obligations, such transfers to be made no less than semiannually.

(iv) **Surplus.** As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above, any moneys remaining in the Wastewater Fund may at any time be treated as surplus and applied for any lawful purpose.

(b) *Application of Moneys in the Bond Fund.* On or before the Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding;

Second: to the Principal Account, the aggregate amount of principal becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any;

Third: to the Sinking Account, the aggregate amount of sinking fund installment becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any; and

Fourth: to the Bond Reserve Account, the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account; provided that no deposit need be made into the Bond Reserve Account so long as the balance in said account shall be at least equal to the Bond Reserve Account Requirement.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying the principal of the Bonds when due and payable.

Application of Sinking Account

All amounts in the Sinking Account shall be used and withdrawn by the Trustee solely for the purposes of paying the sinking fund installments of the Bonds when due and payable.

Notwithstanding the foregoing, if some but not all of the Bonds have been theretofore redeemed, the total amount of all future mandatory Sinking Account payments shall be reduced by the aggregate principal amount of Bonds so redeemed, allocated among such mandatory Sinking Account payments on a pro rata basis in integral multiples of \$5,000 as determined by the City (notice of which determination shall be given to the Trustee).

Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund.

Application of Bond Reserve Account

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (b) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired under the Indenture or provision made therefor, all moneys then on deposit in the Bond Reserve Account shall be withdrawn by the Trustee and paid to the City.

Amounts in the Bond Reserve Account shall be valued by the Trustee not less often than semi-annually. If, on any date of computation, moneys and securities on deposit in the Bond Reserve Account are less than the Bond Reserve Account Requirement (unless such deficiency is a result of a transfer therefrom), the City covenants and agrees that it will, within twelve months thereof, increase the amount therein to the Bond Reserve Account Requirement. If such deficiency is a result of a transfer therefrom, the City covenants and agrees that it will, within twenty-four months thereof, increase the amount therein to the Bond Reserve Account Requirement. If, on any date of computation, moneys and securities on deposit in the Bond Reserve Account are in excess of the Bond Reserve Account Requirement, the Trustee shall withdraw such excess amount and transfer such amount to the Interest Account.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Indenture shall, upon Request of the City provided at least two Business Days prior to the date of investment, be invested by the Trustee, but solely in Permitted Investments. In the absence of any such directions from the City, the Trustee shall invest any such moneys in the money market fund set forth in the letter of authorization and direction executed by the City and

delivered to the Trustee. If no specific money market fund had been specified by the City, the Trustee shall make a request to the City for investment directions and, if no investment directions are provided within 10 days, such amount shall be held in cash, uninvested during such 10 day period and thereafter, until specific investment directions are provided by the City to the Trustee. All Permitted Investments shall be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City.

Moneys in the Bond Reserve Account shall be invested in Permitted Investments maturing prior to the final maturity of the Bonds. Moneys in the remaining funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required by the Trustee.

All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture shall be deposited when received in the Bond Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investment shall be credited to the fund or account for the credit of which such Permitted Investment was acquired.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment. The Trustee may sell, or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment.

The City acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Trustee shall furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Rate Stabilization Fund

At the City's sole discretion, the City may establish a special fund to be known as the "Rate Stabilization Fund," which shall be held by the City, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and Parity Obligations, as the City may determine. The Rate Stabilization Fund shall be accounted for as a separate fund, although amounts credited to it may be commingled with other funds of the City. The City may, but is not be required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Enterprise Fund in any Fiscal Year for the purpose of paying the principal of and interest on the Outstanding Bonds and Parity Obligations coming due and payable during such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Enterprise Fund in any Fiscal Year constitute Gross Revenues

for that Fiscal Year for the purposes of the Indenture. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not otherwise secure the Bonds or any other Parity Obligations. All interest or other earnings on deposits in the Rate Stabilization Fund shall be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City. Any moneys held in the Rate Stabilization Fund shall be invested in Permitted Investments or any other investments in which the City may lawfully invest such funds under State law.

Certain Covenants

Punctual Payment. The City shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Net Revenues therefrom.

Operation of Enterprise in Efficient and Economical Manner. The City covenants and agrees to operate, or cause to be operated, the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

Against Encumbrances. Except as provided in the Indenture, the City covenants that the property, facilities and improvements of the Enterprise shall not be voluntarily mortgaged or otherwise encumbered, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City shall cause to be filed with the Trustee written evidence from Moody's, if Moody's is rating the Bonds, and/or S&P, if S&P is rating the Bonds, that such sale or other disposition will not cause a reduction or withdrawal of the uninsured rating then assigned to the Bonds by each such rating agency; and (b) such sale or other disposition shall be so arranged as to provide for a continuance of payments into the Bond Fund sufficient in amount to permit payment therefrom of the principal of and interest on the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture. Notwithstanding the foregoing, the City may lease real property constituting a portion of the Enterprise; provided that the lease payments shall be considered Gross Revenues under the Indenture.

The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the Outstanding Bonds shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the

Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

Records and Accounts. The City covenants that it shall keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant. Any such audit may be combined with and be a part of the general audit of the City's financial records.

The City covenants that it will cause to be prepared annually, not more than two hundred ten (210) days after the close of each Fiscal Year a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of the Enterprise. The City shall furnish a copy of the statement to any Bond Owner upon written request.

Rates and Charges.

Covenant Regarding Gross Revenues. The City covenants to fix, prescribe, revise and collect rates, fees and charges for the Enterprise as a whole for the services and improvements furnished by the Enterprise during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues that are sufficient to pay the following amounts in the following order of priority:

- (i) all anticipated Operation and Maintenance Costs of the Enterprise for such Fiscal Year;
- (ii) Debt Service payments on the Bonds and any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or such Parity Obligations, as applicable, or from any other source of legally available funds of the City that have been deposited with the Trustee or otherwise segregated for purposes prior to the commencement of such Fiscal Year (not including a debt service reserve fund);
- (iii) the amount, if any, required to restore the balance in the Bond Reserve Account, and in any reserve account established for Parity Obligations, to the full amount of the Reserve Requirement and the reserve requirement with respect to any such Parity Obligations; and
- (iv) all other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable, from the Revenues during such Fiscal Year.

Covenant Regarding Net Revenues. In addition, the City covenants to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to one hundred twenty percent (120%) of the total Debt Service Payments on the Bonds and any debt service on Parity Obligations coming due and payable in such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues.

No Obligations Superior to Bonds. In order to protect further the availability of the Net Revenues and the security for the Bonds and any Parity Obligations, the City covenants that no additional bonds or other indebtedness that are payable out of the Net Revenues in whole or in part will be issued or incurred on a senior basis to the Bonds and any Parity Obligations .

Parity Obligations. Additional obligations may be issued on a parity with the Bonds and any then existing Parity Obligations subject to the following specific conditions which are made conditions precedent to the issuance and delivery of such Parity Obligations, except that the City need not comply with subparagraph (ii) if the proposed Parity Obligations are incurred to prepay or post a security deposit for the payment of the Bonds or Parity Obligations:

(i) The City shall be in compliance with all covenants set forth in the Indenture.

(ii) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the instrument issuing such Parity Obligations are issued, as shown by the books of the City, plus, at the option of the City, either or both of the items hereinafter in this covenant designated (A) and (B), but excluding connection charges, shall at least equal one hundred twenty percent (120%) of the amount of Maximum Annual Debt Service on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the issuance of such Parity Obligations. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Obligations under the Indenture are the following:

(A) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such Parity Obligations, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Financial Consultant engaged by the City.

(B) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown in the written report of an Independent Financial Consultant engaged by the City.

(iii) The instrument providing for the issuance of such Parity Obligations shall provide that:

(A) The proceeds of such Parity Obligations shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Enterprise, or otherwise for facilities, improvements or property which the City determines are of benefit to the Enterprise, or for the purpose of refunding any Bonds or Parity Obligations in whole or in

part, including all costs (including costs of issuing such Parity Obligations and including capitalized interest on such Parity Obligations during any period which the City deems necessary or advisable) relating thereto;

(B) Interest on such Parity Obligations shall be payable on June 1 and December 1 in each year of the term of such Parity Obligations except the first year, during which year interest may be payable on any June 1 or December 1; and

(C) The principal of such Parity Obligations shall be payable on June 1 in any year in which principal is payable.

(iv) A reserve fund may, but shall not be required to, be established for such Parity Obligations.

Subordinate Obligations. Additional obligations may be issued on a basis subordinate to the Bonds to the extent required.

Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

Tax Covenants.

Private Activity Bond Limitation. The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code.

Private Loan Financing Limitation. The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds, to be “arbitrage bonds” within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Small Issuer Exemption from Bank Nondeductibility Restriction. The City designates the Bonds for purposes of paragraph (3) of section 265(b) of the Code and covenants that the Bonds do not constitute private activity bonds as defined in section 141 of the Code and that the aggregate face amount of all tax-exempt obligations issued by the City (including all subordinate entities of the City and all entities which may issue obligations on behalf of the City) during the calendar year 2014 will not exceed \$10,000,000, excluding, however, private activity bonds, as defined in section 141 of the Code (other than qualified 501(c)(3) bonds as defined in section 145 of the Code) and current refunding obligations having a principal amount not in excess of the refunded obligation.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default; however, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Maintenance and Operation of the Enterprise. The City covenants and agrees that it will operate and maintain the Enterprise in accordance with all applicable governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the City.

Taxes, Assessments, Other Governmental Charges and Utility Charges. The City covenants and agrees that it will pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, and utility charges which may be or have been assessed or which may have become liens upon the Enterprise or the interest therein of the Trustee or of the Owners of the Bonds, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Enterprise or any part thereof, and upon request, will furnish to the Trustee receipts for all such payments, or other evidence satisfactory to the Trustee; provided, however, that the City shall not be required to pay any tax, assessment, rate or charge as provided in the Indenture as long as it shall in good faith contest the validity thereof, provided that the City shall have set aside adequate reserves with respect thereto.

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, so long as any Bonds or Parity Obligations remain outstanding, but only if and to the extent available at reasonable cost from reputable insurers, a standard comprehensive general insurance policy or policies in protection of the City and its members, officers, agents, assignees and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Enterprise. Said policy or policies shall provide coverage in such liability amounts and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds have been paid.

Casualty Insurance. The City shall procure and maintain or cause to be procured and maintained, so long as any Bonds or Parity Obligations remain outstanding, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary with respect to works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance coverage carried by the City and may be maintained, in whole or in part, in the form of self-insurance by the City, subject to the provisions of the Indenture, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or

destruction of any portion of the Enterprise shall be used to repair, rebuild or replace such damaged or destroyed portion of the Enterprise.

Insurance Net Proceeds; Form of Policies. The City shall pay or cause to be paid when due the premiums for all insurance policies. The City shall annually, on or before December 1, deliver to the Trustee a certificate to the effect that the City has complied with the requirements of the Indenture. In the event that any insurance required pursuant to the Indenture shall be provided in the form of self-insurance, the City shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from Net Revenues or from such reserves. The Trustee shall provide copies of all said certificates and notifications to the Owner.

Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee and the City) shall be used for the lease, acquisition or construction of improvements or extension of the Enterprise.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise, in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) default by the City in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained (other than as referred to in subsections (a) or (b) above), if such default shall have continued for a period of sixty (60) consecutive days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee, or to the City and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

(d) abandonment by the City of the Enterprise, or any substantial part thereof, and such abandonment shall continue for a period of sixty (60) consecutive days after written notice thereof shall have been given to the City by the Trustee, or to the City and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding, unless the City shall have assumed all of the City's obligations under the Indenture; *provided, however*, that abandonment by the City shall not constitute an Event of Default if such abandonment was caused by unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market and unusually severe weather or any similar even and/or occurrences beyond the control of the City; or

(e) the City's filing a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or making an assignment for the benefit of creditors, or admitting in writing to its insolvency or inability to pay debts as they mature, or consenting in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Enterprise.

Acceleration of Maturities. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the City and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Net Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges and expenses of the Trustee (including, but not limited to, reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference, and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with

interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondowners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondowners, the Trustee in its discretion may and shall upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding (or, if more than one such request is received, the written request executed by the Owners of the greatest percentage of Bonds then Outstanding in excess of twenty-five percent (25%)), and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Net Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondowners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction or would expose the Trustee to liability for which it has not been indemnified to its satisfaction.

Limitation on Bondowners' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Bond Law or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding (or, if more than one such request is received, the written request executed by the Owners of the greatest percentage of Bonds then Outstanding in excess of twenty-five percent (25%)) shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it

being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture, the Bond Law, the California Government Code or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Amendments Permitted

The Indenture and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may execute when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, provided in the Indenture for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (except as expressly provided in the Indenture), or terminate the insurance of the Bonds, without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondowners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondowners at the addresses shown on the Bond Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may execute without the consent of any Bondowners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the City in the Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Owners of the Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Owners of the Bonds; and

(iii) to make such additions, deletions or modifications as may be necessary to assure exclusion from gross income for purposes of federal income taxation of interest on the Bonds.

No such Supplemental Indenture shall modify any of the rights or obligations of the Trustee without its prior written consent thereto; nor shall the Trustee be required to consent to any such Supplemental Indenture which affects its rights or obligations under the Indenture.

Defeasance

Discharge of Indenture. Bonds may be paid by the City in any of the following ways; provided that the City also pays or causes to be paid any other sums payable under the Indenture by the City:

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

(b) by depositing with the Trustee, in trust, at or before maturity, money or Permitted Investments described in paragraph (a) of the definition thereof (“Defeasance Obligations”) in the necessary amount (as provided in the Indenture) to pay Bonds Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, Bonds Outstanding.

If the City shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Indenture. In such event, upon Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay any Outstanding Bond.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or Defeasance Obligations in the necessary amount to pay any Bonds, the money or Defeasance Obligations so to be deposited or held may include money or Defeasance Obligations held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity; or

(b) Defeasance Obligations the principal of and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity on the Bonds to be paid, as such principal and interest become due.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether at maturity or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee, as the case may be, may (at the cost of the City) first mail a notice, in such form as may be deemed appropriate by the Trustee, to the Owners of the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDED JUNE 30, 2013**

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CITY OF HANFORD

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2013

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CITY OF HANFORD
June 30, 2013

CITY COUNCIL

NAME

POSITION

Lou Martinez
Gary Pannette
Russ Curry
Joleen Jameson
Jim Irwin

Mayor
Vice Mayor
Council Member
Council Member
Council Member

ADMINISTRATION

Darrel Pyle
Griswold, LaSalle, Cobb, Dowd & Gin, L.L.P.
Melonie Patrick
Tom Dibble
Timothy Ieronimo
Melodie Haigh
Carlos Mestas
John Doyel
Milt Stowe
Lou Camara
Marissa Gonzales

City Manager
City Attorneys
City Clerk
Treasurer/Finance Director
Fire Chief
Community Development Manager
Police Chief
City Engineer
Interim Parks & Recreation Director
Public Works Director
Human Resources Manager

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Sampson, Sampson & Patterson, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Clovis, California 93612-4739
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February 3, 2014

The Honorable City Council of
The City of Hanford
Hanford, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hanford, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hanford as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 and the Public Employees Retirement System Schedule of Funding Progress and budgetary comparison information on pages 60-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hanford's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2014, on our consideration of the City of Hanford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hanford's internal control over financial reporting and compliance.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

This discussion and analysis of the City of Hanford's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- Assets of the City of Hanford exceed its liabilities at the close of the most recent fiscal year 2013 by about \$302.5 million. Of this amount, about \$51.7 million in unrestricted assets may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$57.6 million.
- Approximately 12.9% of the combined governmental fund balances is considered available for spending at the City's discretion.
- As of June 30, 2013, unassigned fund balance in the General Fund was \$7.5 million, or 36.3% of total General Fund Expenditures.
- The City's total debt decreased by \$1.67 million during the fiscal year 2013, which is due to 1) the normal maturity of debt in the water system, and the wastewater system; 2) refinancing of debt in the Wastewater Enterprise Fund.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Hanford (City) and its component units, using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. Additionally, certain eliminations have occurred as prescribed by the GASB statements in regards to inter-fund activity, payables and receivables.

The **Fund Financial Statements** include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities and Changes in Net Position

The Statement of Net Position and the Statement of Activities and Changes in Net Assets report information about the City as a whole and about its activities. These statements included all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and sales tax base.

The Statement of Net Position and the Statement of Activities and Changes in Net Position, we separate the City activities as follows:

Governmental activities – Most of the City's basic services are reported in this category, including General Government, Police, Fire, Public Works, Parks/Recreation, and Community Development. Property and sales taxes, user fees, interest income, franchise fees, and state and federal shared revenues and grants generally financed these activities.

Business-Type activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's Water, Sewer, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds are reported in this category.

FUND FINANCIAL STATEMENTS

The City, like other state and local governments, uses fund accounting to account for a number of funding sources and activities. In general, fund accounting provides a mechanism for separately accounting for a variety of different funding sources, and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and their purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements only present the most significant (or "major") funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the Government-Wide Financial Statements. This is designed to explain the difference created by the integrated approach.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the results shown in the governmental fund financial statements and those shown in the government-wide financial statements are explained in a reconciliation schedule following each governmental fund financial statement.

Proprietary Funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's self-insurance, fleet maintenance, and computer maintenance funds. The internal service funds are reported with governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary, for certain funds held on behalf of various third parties. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain "required supplementary information" concerning the City's progress in funding its obligation to provide pension benefits to its employees, budgetary comparison schedules for the general fund and other major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City presents its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The City is presenting prior fiscal years' data for the purpose of providing comparative information for the Management Discussion and Analysis (MD&A).

Statement of Net Position

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hanford, assets exceeded liabilities by \$302,540,874 at the close of the most recent fiscal year.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

By far the largest portion of the City of Hanford's net position 69.0% reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any outstanding debt used to acquire those assets. The City of Hanford uses these capital assets to provide services to citizens; consequently, their value is not available for future spending. Although the City of Hanford's investment in its capital assets is reported net of related debt, it should be noted that the sources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Of the total current assets \$71,642,898, approximately 91% or \$65,208,081, consists of cash and investments. These funds are invested in accordance with State law and the City's investment policy, and includes funds legally and/or contractually restricted as to their use.

STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current assets	\$ 43,830,413	\$ 44,829,151	\$ 27,812,485	\$ 29,769,298	\$ 71,642,898	\$ 74,598,449
Capital and non-current assets (net of depreciation)	<u>167,551,128</u>	<u>165,418,338</u>	<u>112,250,666</u>	<u>111,453,271</u>	<u>279,801,794</u>	<u>276,871,609</u>
Total assets	<u>211,381,541</u>	<u>210,247,489</u>	<u>140,063,151</u>	<u>141,222,569</u>	<u>351,444,692</u>	<u>351,470,058</u>
Liabilities:						
Current and other liabilities	1,316,583	1,276,794	3,668,457	4,794,120	4,985,040	5,824,464
Long-term liabilities	<u>2,285,330</u>	<u>1,732,466</u>	<u>41,633,448</u>	<u>43,281,462</u>	<u>43,918,778</u>	<u>45,260,378</u>
Total liabilities	<u>3,601,913</u>	<u>3,009,260</u>	<u>45,301,905</u>	<u>48,075,582</u>	<u>48,903,818</u>	<u>51,084,842</u>
Net Position:						
Invested in capital assets, net of related debt	139,541,724	138,323,412	69,223,425	69,249,494	208,765,149	207,572,906
Restricted	41,529,163	43,047,770	595,471	595,802	42,124,634	43,643,572
Unrestricted	<u>26,708,741</u>	<u>25,867,047</u>	<u>24,942,350</u>	<u>23,301,691</u>	<u>51,651,091</u>	<u>49,168,738</u>
Total net position	<u>\$207,779,628</u>	<u>\$207,238,229</u>	<u>\$ 94,761,246</u>	<u>\$ 93,146,987</u>	<u>\$302,540,874</u>	<u>\$300,385,216</u>

An additional portion of the City of Hanford's net position \$42,124,634 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$51,651,091 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Hanford is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities. This means the City has sufficient current assets to satisfy both its current and long-term liabilities, fulfill its obligations pursuant to external restriction imposed on City assets, and still have assets remaining for discretionary spending. In short, the City is in excellent financial condition.

Statement of Activities

As discussed earlier, the Statement of Net Position provides a measure of the financial health of an entity at a specific date in time (usually year end). The Statement of Activities provides details of how net position changed from the beginning of the year to the end of the year, and whether net assets increased or decreased. Thus, it indicates whether the City as a whole is better off at June 30, 2013 than it was at June 30, 2012.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES:						
Program revenues:						
Charges for services	\$ 3,894,116	\$ 3,137,476	\$18,825,518	\$18,582,319	\$ 22,719,634	\$ 21,719,795
Operating grants and contributions	784,540	478,516			784,540	478,516
Capital grants and contributions	2,891,606	1,912,822	496,399	911,970	3,388,005	2,824,792
General revenues:						
Taxes	21,849,093	19,753,533			21,849,093	19,753,533
Investment earnings	403,942	693,430	(33,852)	124,489	370,090	817,919
Other revenues	555,437	620,781	698,727	355,880	1,254,164	976,661
TOTAL REVENUES	<u>30,378,734</u>	<u>26,596,558</u>	<u>19,986,792</u>	<u>19,974,658</u>	<u>50,365,526</u>	<u>46,571,216</u>
EXPENSES:						
Governmental activities:						
General government	1,785,931	1,709,919			1,785,931	1,709,919
Public safety	14,202,515	13,971,460			14,202,515	13,971,460
Public works	8,768,132	11,713,618			8,768,132	11,713,618
Recreation	2,202,042	2,687,554			2,202,042	2,687,554
Community development	3,101,987	579,062			3,101,987	579,062
Interest on long-term debt		7,585				7,585
Business-type activities:						
Water system			5,900,237	5,555,687	5,900,237	5,555,687
Wastewater system			5,333,920	5,920,835	5,333,920	5,920,835
Storm drain			823,506	587,670	823,506	587,670
Refuse			5,847,516	6,044,857	5,847,516	6,044,857
Airport			449,165	382,711	449,165	382,711
Intermodal			108,306	86,055	108,306	86,055
Courthouse square			206,483	175,178	206,483	175,178
TOTAL EXPENSES	<u>30,060,607</u>	<u>30,669,198</u>	<u>18,669,133</u>	<u>18,752,993</u>	<u>48,729,740</u>	<u>49,422,191</u>
Increase in net position before transfers	318,127	(4,072,640)	1,317,659	1,221,665	1,635,786	(2,850,975)
Transfers	(23,178)	35,548	23,178	(35,548)		
Extraordinary item – dissolution of Redevelopment Agency		2,224,680				2,224,680
Change in net position	<u>294,949</u>	<u>(1,812,412)</u>	<u>1,340,837</u>	<u>1,186,117</u>	<u>1,635,786</u>	<u>(626,295)</u>
Net position, beginning of year, as previously reported	207,238,229	209,050,641	93,146,987	91,960,870	300,385,216	301,011,511
Prior period adjustment	246,450		273,422		519,872	
Net position, beginning of year, restated	<u>207,484,679</u>		<u>93,420,409</u>		<u>300,905,088</u>	
Net position, end of year	<u>\$207,779,628</u>	<u>\$207,238,229</u>	<u>\$94,761,246</u>	<u>\$93,146,987</u>	<u>\$302,540,874</u>	<u>\$300,385,216</u>

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

The City's revenue totaled \$50,365,526, with 45% generated from charges for services and 43% generated from taxes. The largest source of revenues in Governmental Activities comes from taxes at 72%. This is typical in that traditional services provided by a city, such as public safety, parks, recreation, and public works, are primarily funded from property, sales, transient occupancy, and other local taxes. The largest source of revenues in Business-Type Activities comes from charges for services at 94%. The Business-Type Activities include enterprise fund operations, such as Water, Sewer, Refuse, Airport and Intermodal Funds, all of which recover their costs through fees and charges just like a normal business.

Expenses of the City totaled \$48,729,740. The two largest categories of expense are public safety, which accounted for 29% of total costs and public works, which represents 18% of total costs. However, in relation to Governmental Activity expenses, public safety makes up 47% of the total.

As depicted in the Statement of Activities, net position increased during the year. In those funds included within the Governmental Activities category, net position increased by \$541,399 an increase of 0.3%. Net position increased in those funds included within the Business-Type Activities category by \$1,614,259, or 1.7%.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As previously noted, the City of Hanford uses fund accounting to demonstrate compliance with legal and contractual requirements. This section provides an analysis and discussion of individual funds and fund types presented in the financial statements.

Governmental Funds – The Focus of the City of Hanford's governmental funds is on short-term inflows and outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2013, the City's governmental statement of activities reported a total ending net position of \$207,779,628, an increase of \$541,399 from the beginning of the year. Approximately 13% of this total amount, \$26,708,741, is available for spending at the government's discretion as unrestricted fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to a specific future use.

The General Fund is the primary operating fund of the City of Hanford. At the end of the fiscal year, unassigned fund balance of the General Fund was \$7,466,441 while total fund balance reached \$16,511,070. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. The unassigned fund balance of the general fund represents approximately 36.4% of general fund expenditures.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

Capital Improvement Funds, which are categorized as governmental funds, show fluctuations in their ending fund balances because they are primarily used to account for capital improvement projects that span more than one year. Therefore, the change in fund balance is generally due to the timing of funding, which generally occurs in one year, in relation to the timing of expenditures, which occur over more than one year. Any remaining fund balances are either reserved or earmarked specifically for the continuing cost of the related projects.

Proprietary Funds – The City proprietary funds include the Water, Wastewater, Storm Drain, Refuse, Airport, Intermodal, and Courthouse Square Funds. All of the proprietary funds are highly capital intensive, requiring a significant investment in capital equipment and facilities to conduct their operations, whether it be in water and sewer lines, water and wastewater treatment facilities or runways.

The Water Fund has a total net position of \$28,925,439 at the end of the fiscal year. Total net position includes \$22,816,643 invested in capital assets and \$595,471 reserved for debt service, which are not available to pay for current expenses. The remaining net position of \$5,513,325 is unrestricted and available to cover current operating and capital needs of the fund.

The Refuse Fund has a total net position of \$4,719,269 at the end of the fiscal year. Total net position includes \$185,916 invested in capital assets, which are not available to cover current expenses. The remaining net position of \$4,533,353 is unrestricted and available to cover current operating and capital needs of the fund.

The Wastewater Fund has a total net position of \$30,475,486 at the end of the fiscal year. Total net position includes \$23,171,907 invested in capital assets, which are not available to cover current expenses. The fund has \$7,303,579 available to cover current operating and capital needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City of Hanford's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounts to \$251,792,390 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities and roads. The net increase in the City's investment in capital assets for the current fiscal year was \$2,015,707. This increase is a result of annual depreciation, land acquisition, normal equipment replacement, and construction of typical capital assets. Significant capital asset events during the fiscal year included the following:

- Construction on storm drainage facilities \$298,000.
- Construction on wastewater system treatment plan and collection system for \$4,562,431.
- Construction on the water system storage tanks, water wells, and water mains for \$211,821.
- Various street construction projects, rehabilitation and betterments for \$6,168,176.
- Depreciation for fiscal year 2012-13 \$8,471,936.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 60,432,656	\$ 60,432,656	\$ 11,037,597	\$ 11,035,847	\$ 71,470,253	\$ 71,468,503
Buildings	11,042,895	11,350,567	6,568,357	6,842,221	17,611,252	18,192,788
Infrastructure	60,182,724	58,882,422	91,388,119	88,610,687	151,570,843	147,493,109
Equipment	7,129,324	6,675,891	3,187,775	3,299,738	10,317,099	9,975,629
Construction in progress	<u>754,125</u>	<u>981,876</u>	<u>68,818</u>	<u>1,664,778</u>	<u>822,943</u>	<u>2,646,654</u>
Total capital assets	<u>\$139,541,724</u>	<u>\$138,323,412</u>	<u>\$112,250,666</u>	<u>\$111,453,271</u>	<u>\$251,792,390</u>	<u>\$249,776,683</u>

Long-Term Debt - At the end of the current fiscal year, the City of Hanford, primary government, had a total debt outstanding of \$44,822,044.

Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Compensated absences	\$ 842,850	\$ 803,467	\$ 165,294	\$ 161,223	\$ 1,008,144	\$ 964,690
Revenue bonds payable			23,595,000	24,480,000	23,595,000	24,480,000
Unamortized bond premium			540,209	143,043	540,209	143,043
Notes payable	246,450	246,450	14,268,334	14,878,713	14,514,784	15,125,163
Lease purchase	<u></u>	<u></u>	<u>5,163,907</u>	<u>5,776,607</u>	<u>5,163,907</u>	<u>5,776,607</u>
	<u>\$1,089,300</u>	<u>\$1,049,917</u>	<u>\$43,732,744</u>	<u>\$45,439,586</u>	<u>\$44,822,044</u>	<u>\$46,489,503</u>

In the Business-Type Activities, the revenue bonds payable consists of three bond issues. In 2003, for the water system, the city received \$8,925,000 from the issuance of Water Revenue Bonds for the purpose of refinancing an EDA Loan and 1993 Water Refunding Revenue Bond. For the sewer system there remains a 1996 \$7,855,000 Variable Rate Refunding Bond issue, and a 2012 \$13,165,000 Refunding Revenue Bond that refinanced a 1999 \$5,000,000 bond issue and a 2002 \$10,555,000 bond issue.

The notes payable portion of the outstanding \$14,514,784 debt consists of three loans. In 2002, the City obtained a \$10,000,000 loan for the purpose of expanding the wastewater treatment plant and in 2007, the City obtained \$8,150,000 to finance construction of arsenic remediation projects. In September, 2011, the City obtained a \$246,450 shared appreciation loan from the Kings County Economic Development Corporation for purchase of land in the Kings Industrial Park.

The outstanding lease purchase amount, \$5,163,907, is two capital leases. The first was for an original lease amount of \$3,050,000 to lease water meters and AMR devices. The second lease was for an energy efficient solar tracker system at the wastewater treatment plant for \$4,325,556.

For detail information regarding each of these bonds or notes, please refer to Note 5 – Long-Term Debt, page 47.

CITY OF HANFORD
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

The original 2013 fiscal year budget was increased by \$1,226,614 primarily from grant funds and interfund loans obtained for purchase of equipment. The actual revenues were less than budget estimates by about \$845,000 caused from reduced investment earnings and state and federal revenues. Expenditure savings were about \$2,990,100, from all general fund functions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The key assumptions in the General Fund revenue forecast for fiscal year 2013-2014 were:

- Service charges will increase due to new services and rate increases that went into effect during the fiscal year.
- Property tax revenues will increase about 2% with assessed valuation and general growth.
- Sales tax revenues will grow by about 2%.
- State budget actions will negatively affect general fund revenues.

Items addressed in the budget were:

Wastewater – Complete upgrades to sewer life stations and reserve funds for the 2018 sewer treatment plant expansion.

Airport – Design and construction of improvements /overlay of the airport apron and taxiway.

Community Development – Commence upgrade of the City general plan.

Water – The completion of construction of various water main replacements.

Streets – The design and construction of widening 10th Avenue from Third Street to Hanford Armona Road, install traffic signals at Grangeville Boulevard and 13th Avenue, extend Campus Drive and construct railroad crossing over the UP/SJVRR, seal various streets.

General Fund Operations – The budget maintains current services with the same level of employees and anticipates minimal revenue growth with no draw from reserves.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in the report or requests for additional financial information can be sent via e-mail to finance@ci.hanford.ca.us. Formal written requests should be addressed to: City of Hanford, Attn: Finance Department, 315 N. Douty Street, Hanford, California 93230.

FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF HANFORD
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 43,528,748	\$ 21,083,862	\$ 64,612,610
Receivables	3,149,043	1,967,681	5,116,724
Internal balances	(3,216,780)	3,216,780	
Inventories	184,284	187,609	371,893
Deposits	180,000	177,946	357,946
Deferred charges		583,136	583,136
Other assets	5,118		5,118
Long-term notes receivable	19,836,618		19,836,618
Loan to Successor Agency	7,679,886		7,679,886
Restricted cash and investments		595,471	595,471
Land held for resale	492,900		492,900
Capital assets:			
Non-depreciable capital assets:			
Land	60,432,656	11,037,597	71,470,253
Construction in progress	754,125	68,818	822,943
Depreciable capital assets, net of depreciation	<u>78,354,943</u>	<u>101,144,251</u>	<u>179,499,194</u>
Total assets	<u>211,381,541</u>	<u>140,063,151</u>	<u>351,444,692</u>
LIABILITIES			
Accounts payable	847,553	473,195	1,320,748
Salary and benefits payable	445,047	84,013	529,060
Accrued interest payable		487,117	487,117
Deposits and unearned revenue	23,983	237,818	261,801
Long-term debt – due within one year		2,386,314	2,386,314
Long-term debt – due in more than one year	246,450	40,640,927	40,887,377
Unamortized bond premium		540,209	540,209
Compensated absences – long-term	842,850	165,294	1,008,144
Net OPEB liability	<u>1,196,030</u>	<u>287,018</u>	<u>1,483,048</u>
Total liabilities	<u>3,601,913</u>	<u>45,301,905</u>	<u>48,903,818</u>
NET POSITION			
Invested in capital assets, net of related debt	139,541,724	69,223,425	208,765,149
Restricted for:			
Streets	6,860,188		6,860,188
Debt service		595,471	595,471
Housing	21,206,373		21,206,373
Public safety	1,852,235		1,852,235
Parks and recreation	1,829,624		1,829,624
Capital projects	9,780,743		9,780,743
Unrestricted	<u>26,708,741</u>	<u>24,942,350</u>	<u>51,651,091</u>
Total net position	<u>\$207,779,628</u>	<u>\$ 94,761,246</u>	<u>\$302,540,874</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,785,931	\$ 55,146	\$255,050	\$	\$ (1,475,735)
Public safety	14,202,515	1,151,202	254,543	182,124	(12,614,646)
Public works	8,768,132	687,164		2,709,482	(5,371,486)
Recreation	2,202,042	528,287			(1,673,755)
Community development	<u>3,101,987</u>	<u>1,472,317</u>	<u>274,947</u>		<u>(1,354,723)</u>
Total governmental activities	<u>30,060,607</u>	<u>3,894,116</u>	<u>784,540</u>	<u>2,891,606</u>	<u>(22,490,345)</u>
Business-type activities:					
Water system	5,900,237	5,267,506		433,783	(198,948)
Wastewater system	5,333,920	5,549,392		47,116	262,588
Storm drain	823,506	1,310,719		15,500	502,713
Refuse	5,847,516	6,474,826			627,310
Airport	449,165	72,400			(376,765)
Intermodal	108,306	44,996			(63,310)
Courthouse square	<u>206,483</u>	<u>105,679</u>			<u>(100,804)</u>
Total business-type activities	<u>18,669,133</u>	<u>18,825,518</u>		<u>496,399</u>	<u>652,784</u>
Total primary government	<u>\$48,729,740</u>	<u>\$22,719,634</u>	<u>\$784,540</u>	<u>\$3,388,005</u>	<u>\$(21,837,561)</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Activities
For the Year Ended June 30, 2013
(Continued)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Primary Government:			
Governmental activities:			
General government	\$ (1,475,735)	\$	\$ (1,475,735)
Public safety	(12,614,646)		(12,614,646)
Public works	(5,371,486)		(5,371,486)
Recreation	(1,673,755)		(1,673,755)
Community development	<u>(1,354,723)</u>		<u>(1,354,723)</u>
Total governmental activities	<u>(22,490,345)</u>		<u>(22,490,345)</u>
Business-type activities:			
Water system		(198,948)	(198,948)
Wastewater system		262,588	262,588
Storm drain		502,713	502,713
Refuse		627,310	627,310
Airport		(376,765)	(376,765)
Intermodal		(63,310)	(63,310)
Courthouse square		<u>(100,804)</u>	<u>(100,804)</u>
Total business-type activities		<u>652,784</u>	<u>652,784</u>
Total primary government	<u>(22,490,345)</u>	<u>652,784</u>	<u>(21,837,561)</u>
General revenues:			
Taxes:			
Property taxes	11,297,290		11,297,290
Sales and use tax	6,827,981		6,827,981
Franchise taxes	815,178		815,178
Other taxes	2,908,644		2,908,644
Revenue from use of money and property	403,942	(33,852)	370,090
Impact fees		517,829	517,829
Miscellaneous/other	555,437	180,898	736,335
Transfers - interfund	<u>(23,178)</u>	<u>23,178</u>	
Total general revenues and transfers	<u>22,785,294</u>	<u>688,053</u>	<u>23,473,347</u>
Change in net position	294,949	1,340,837	1,635,786
Net position – beginning of year, as previously reported	207,238,229	93,146,987	300,385,216
Prior period adjustment	<u>246,450</u>	<u>273,422</u>	<u>519,872</u>
Net position, beginning of year, restated	<u>207,484,679</u>	<u>93,420,409</u>	<u>300,905,088</u>
Net position, end of year	<u>\$207,779,628</u>	<u>\$94,761,246</u>	<u>\$302,540,874</u>

See independent auditor's report and notes to financial statements.

**GOVERNMENTAL
FUND FINANCIAL STATEMENTS**

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CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 7,653,424	\$ 324,261	\$6,580,819	\$	\$11,141,504	\$25,700,008
Receivables	1,381,840	55,332	32,058	1,254,490	414,770	3,138,490
Loan receivable	25,000	17,229,026			2,582,592	19,836,618
Due from other funds	548,713		2,148,473			2,697,186
Deposits	100,000					100,000
Other assets	1,831		1,100			2,931
Land for resale	492,900					492,900
Advances to successor agency	<u>7,679,886</u>					<u>7,679,886</u>
Total assets	<u>\$17,883,594</u>	<u>\$17,608,619</u>	<u>\$8,762,450</u>	<u>\$1,254,490</u>	<u>\$14,138,866</u>	<u>\$59,648,019</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	375,814	64,092		14,678	44,382	498,966
Accrued wages payable	352,023					352,023
Consumer deposits	22,767	1,216				23,983
Due to other funds	375,470			280,950	267,763	924,183
Loans payable	<u>246,450</u>					<u>246,450</u>
Total liabilities	<u>1,372,524</u>	<u>65,308</u>		<u>295,628</u>	<u>312,145</u>	<u>2,045,605</u>
FUND BALANCES						
Nonspendable:						
Long-term receivables	7,679,886				2,533,123	10,213,009
Land for resale	246,450					246,450
Insurance deposits	100,000					100,000
Restricted for:						
Community development		17,543,311				17,543,311
Streets and roads				958,862	5,102,159	6,061,021
Recreation					1,829,624	1,829,624
Landscape maintenance					800,363	800,363
Public safety					1,853,604	1,853,604
Aviation					10,000	10,000

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Governmental Funds
For the Year Ended June 30, 2013
(Continued)

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
Committed for:						
Parking and business improvement			8,762,450		547,660	9,310,110
Community Development					1,153,572	1,153,572
Capital projects	1,018,293					1,018,293
Unassigned	<u>7,466,441</u>				(3,384)	<u>7,463,057</u>
Total fund balances	<u>\$16,511,070</u>	<u>\$17,543,311</u>	<u>\$8,762,450</u>	<u>\$ 958,862</u>	<u>\$13,826,721</u>	<u>\$57,602,414</u>
Total liabilities and fund balances	<u>\$17,883,594</u>	<u>\$17,608,619</u>	<u>\$8,762,450</u>	<u>\$1,254,490</u>	<u>\$14,138,866</u>	<u>\$59,648,019</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2013

Total fund balances governmental funds	\$ 57,602,414
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets at historical cost	\$200,555,169	
Accumulated depreciation	<u>(66,963,685)</u>	133,591,484

Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, risk management, building usage, and computer maintenance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position:	18,624,610
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated absences	\$ 842,850	
Unfunded OPEB liabilities	<u>1,196,030</u>	<u>(2,038,880)</u>

Total net position – governmental activities	<u>\$207,779,628</u>
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CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
REVENUES						
Taxes and special assessments	\$19,231,246	\$	\$	\$ 525,310	\$ 2,996,325	\$22,752,881
Aid from other government agencies	1,165,035	1,073,017	114,926	2,053,791	255,049	4,661,818
Licenses and permits	491,603					491,603
Fines and forfeitures	97,704				62,269	159,973
Charges for services	648,929					648,929
Revenue from use of money and property	306,730	193,778		3,607	62,859	566,974
Miscellaneous	317,240	901	229,726		45	547,912
Unrealized gain (loss) on investments		(2,172)	(36,859)	811	(61,570)	(99,790)
Total revenues	<u>22,258,487</u>	<u>1,265,524</u>	<u>307,793</u>	<u>2,583,519</u>	<u>3,314,977</u>	<u>29,730,300</u>
EXPENDITURES						
General government	1,407,244				337,976	1,745,220
Public safety	13,905,815					13,905,815
Public works	2,866,248				628,072	3,494,320
Recreation	1,334,695					1,334,695
Community development	1,023,840	1,033,151			876,607	2,933,598
Capital outlay		<u>781,577</u>	<u>465,176</u>	<u>2,077,576</u>	<u>3,875,208</u>	<u>7,199,537</u>
Total expenditures	<u>20,537,842</u>	<u>1,814,728</u>	<u>465,176</u>	<u>2,077,576</u>	<u>5,717,863</u>	<u>30,613,185</u>
Excess (deficiency) of revenues over expenditures	<u>1,720,645</u>	<u>(549,204)</u>	<u>(157,383)</u>	<u>505,943</u>	<u>(2,402,886)</u>	<u>(882,885)</u>
Other financing sources (uses)						
Operating transfers in	64,876			3,248	170,372	238,496
Operating transfers out	<u>(180,243)</u>				<u>(81,431)</u>	<u>(261,674)</u>
Total other financing sources (uses)	<u>(115,367)</u>			<u>3,248</u>	<u>88,941</u>	<u>(23,178)</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	CDBG Home/Housing Fund	Capital Project Fund	Transportation Funds	All Other Governmental Funds	Totals
Net change in fund balance	<u>1,605,278</u>	<u>(549,204)</u>	<u>(157,383)</u>	<u>509,191</u>	<u>(2,313,945)</u>	<u>(906,063)</u>
Fund balance beginning of year, as previously reported	14,659,342	18,092,515	8,919,833	449,671	16,140,666	58,262,027
Prior period adjustment	<u>246,450</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>246,450</u>
Fund balance beginning of year, restated	<u>14,905,792</u>	<u>18,092,515</u>	<u>8,919,833</u>	<u>449,671</u>	<u>16,140,666</u>	<u>58,508,477</u>
Fund balance end of year	<u>\$16,511,070</u>	<u>\$17,543,311</u>	<u>\$8,762,450</u>	<u>\$ 958,862</u>	<u>\$13,826,721</u>	<u>\$57,602,414</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Reconciliation of the Governmental Funds Statement
of Revenues, Expenditures, and Changes in Fund Balances
to the Government-Wide Statement of Activities
For the Year ended June 30, 2013

Total net change in fund balances – governmental funds			\$(906,063)
Amounts reported for governmental activities in the statement of activities different because:			
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:			
Expenditures for capital outlay	\$ 5,575,700		
Depreciation expense	<u>(5,159,338)</u>	416,362	
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position:			648,434
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and those earned was:			(39,383)
Internal service funds are used by management to charge the costs of fleet maintenance, purchasing, employee welfare, workers' compensation, general and unemployment insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities:			442,630
Unfunded OPEB liability: These expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds.			<u>(267,031)</u>
Change in net position of governmental activities			<u>\$ 294,949</u>

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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CITY OF HANFORD
Statement of Net Position
Proprietary Funds
June 30, 2013

	Water System Fund	Sewer Improvement Funds		Refuse Fund
		Wastewater Fund	Storm Drain Fund	
ASSETS				
Current assets:				
Cash and investments	\$ 5,389,123	\$ 7,407,290	\$ 3,800,932	\$ 4,311,984
Restricted cash	595,471			
Accounts receivable, net	560,433	512,637	224,710	613,129
Prepaid expenses				
Deposits	6,000	4,000	167,946	
Inventory	187,609			
Deferred charges	175,567	407,569		
Due from other funds		25,963		
Total current assets	<u>6,914,203</u>	<u>8,357,459</u>	<u>4,193,588</u>	<u>4,925,113</u>
Noncurrent assets:				
Capital assets:				
Land	324,114	4,135,650	3,454,826	
Buildings and improvements	46,301,146	73,040,896	16,016,498	234,665
Machinery and equipment	3,763,294	541,400	129,356	1,100,516
Construction in progress	58,318			10,500
Less accumulated depreciation	<u>(13,258,170)</u>	<u>(25,890,857)</u>	<u>(3,926,443)</u>	<u>(1,159,765)</u>
Total capital assets (net of accumulated depreciation)	<u>37,188,702</u>	<u>51,827,089</u>	<u>15,674,237</u>	<u>185,916</u>
Total noncurrent assets	<u>37,188,702</u>	<u>51,827,089</u>	<u>15,674,237</u>	<u>185,916</u>
Total assets	<u>\$ 44,102,905</u>	<u>\$ 60,184,548</u>	<u>\$ 19,867,825</u>	<u>\$ 5,111,029</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 138,853	\$ 139,685	\$ 2,463	\$ 173,475
Salaries and benefits payable	26,243	23,958		32,875
Deposits and unearned revenue	236,320			
Due to other funds				
Interest payable	126,071	361,046		
Current portion of long-term debt	<u>872,428</u>	<u>1,513,886</u>		
Total current liabilities	<u>1,399,915</u>	<u>2,038,575</u>	<u>2,463</u>	<u>206,350</u>
Noncurrent liabilities:				
Compensated absences payable	50,509	46,664		68,121
Net OPEB liability	93,308	76,421		117,289
Unamortized bond premium	134,103	406,106		
Bonds and notes payable	<u>13,499,631</u>	<u>27,141,296</u>		
Total noncurrent liabilities	<u>13,777,551</u>	<u>27,670,487</u>		<u>185,410</u>
Total liabilities	<u>15,177,466</u>	<u>29,709,062</u>	<u>2,463</u>	<u>391,760</u>
NET POSITION				
Invested in capital assets net of related debt	22,816,643	23,171,907	15,674,237	185,916
Restricted for debt service	595,471			
Unrestricted	<u>5,513,325</u>	<u>7,303,579</u>	<u>4,191,125</u>	<u>4,533,353</u>
Total net position	<u>\$ 28,925,439</u>	<u>\$ 30,475,486</u>	<u>\$ 19,865,362</u>	<u>\$ 4,719,269</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Net Position
Proprietary Funds
June 30, 2013
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total	Governmental Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 174,533	\$	\$	\$ 21,083,862	\$ 17,828,740
Restricted cash				595,471	
Accounts receivable, net	2,553		54,219	1,967,681	10,553
Prepaid expenses					2,187
Deposits				177,946	80,000
Inventory				187,609	184,284
Deferred charges				583,136	
Due from other funds				25,963	
Total current assets	<u>177,086</u>	<u></u>	<u>54,219</u>	<u>24,621,668</u>	<u>18,105,764</u>
Noncurrent assets:					
Capital assets:					
Land	2,596,623	526,384		11,037,597	
Buildings and improvements	6,710,403	1,784,997		144,088,605	
Machinery and equipment	54,971			5,589,537	16,585,473
Construction in progress				68,818	
Less: Accumulated depreciation	<u>(3,665,798)</u>	<u>(632,858)</u>	<u></u>	<u>(48,533,891)</u>	<u>(10,635,233)</u>
Total capital assets (net of accumulated depreciation)	<u>5,696,199</u>	<u>1,678,523</u>	<u></u>	<u>112,250,666</u>	<u>5,950,240</u>
Total noncurrent assets	<u>5,696,199</u>	<u>1,678,523</u>	<u></u>	<u>112,250,666</u>	<u>5,950,240</u>
Total assets	<u>\$ 5,873,285</u>	<u>\$1,678,523</u>	<u>\$ 54,219</u>	<u>\$136,872,334</u>	<u>\$ 24,056,004</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 4,740	\$ 1,007	\$ 12,972	\$ 473,195	\$ 372,343
Salaries and benefits payable	329		608	84,013	69,268
Deposits and unearned revenue	1,498			237,818	
Due to other funds	385,468	632,268	781,230	1,798,966	
Interest payable				487,117	
Current portion of long-term debt				2,386,314	
Total current liabilities	<u>392,035</u>	<u>633,275</u>	<u>794,810</u>	<u>5,467,423</u>	<u>441,611</u>
Noncurrent liabilities:					
Compensated absence payable				165,294	
Net OPEB liability				287,018	
Unamortized bond premium				540,209	
Bonds and notes payable				40,640,927	
Total noncurrent liabilities	<u></u>	<u></u>	<u></u>	<u>41,633,448</u>	<u></u>
Total liabilities	<u>392,035</u>	<u>633,275</u>	<u>794,810</u>	<u>47,100,871</u>	<u>441,611</u>
NET POSITION					
Invested in capital assets, net of related debt	5,696,199	1,678,523		69,223,425	5,950,240
Restricted for debt service				595,471	
Unrestricted	<u>(214,949)</u>	<u>(633,275)</u>	<u>(740,591)</u>	<u>19,952,567</u>	<u>17,664,153</u>
Total net position	<u>\$ 5,481,250</u>	<u>\$1,045,248</u>	<u>\$(740,591)</u>	<u>89,771,463</u>	<u>\$ 23,614,393</u>
Adjustments to reflect the consolidation of the internal service funds related to enterprise funds				<u>4,989,783</u>	
Net position of business-type activities				<u>\$ 94,761,246</u>	

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Water System Fund	Sewer Improvement Funds		Refuse Fund
		Wastewater Fund	Storm Drain Fund	
OPERATING REVENUES				
Charges for services	\$ 5,267,506	\$ 5,549,392	\$ 1,310,719	\$6,474,826
Other revenues	<u>270,279</u>	<u>209,703</u>	<u>108,558</u>	<u>3,316</u>
Total operating revenue	<u>5,537,785</u>	<u>5,759,095</u>	<u>1,419,277</u>	<u>6,478,142</u>
OPERATING EXPENSES				
Personnel services	1,305,318	1,128,917		1,654,808
Services and supplies	2,867,857	2,051,596	614,226	4,576,737
Depreciation and amortization	<u>1,115,706</u>	<u>1,225,493</u>	<u>208,507</u>	<u>4,372</u>
Total operating expenses	<u>5,288,881</u>	<u>4,406,006</u>	<u>822,733</u>	<u>6,235,917</u>
Operating income (loss)	<u>248,904</u>	<u>1,353,089</u>	<u>596,544</u>	<u>242,225</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	392,110			
Interest income	25,660	33,521	18,281	1,416
Interest expense	(667,251)	(985,458)		
Unrealized gain (loss) on investments	(28,985)	(39,943)	(20,123)	(22,952)
Miscellaneous				
Total non-operating revenue (expense)	<u>(278,466)</u>	<u>(991,880)</u>	<u>(1,842)</u>	<u>(21,536)</u>
Income (loss) before capital contributions and transfers	(29,562)	361,209	594,702	220,689
Capital contributions	41,673	47,116	15,500	
Transfers in (out)	<u>(390)</u>			
CHANGES IN NET POSITION	11,721	408,325	610,202	220,689
NET POSITION, Beginning of year, as previously reported	<u>28,913,718</u>	<u>29,793,739</u>	<u>19,255,160</u>	<u>4,498,580</u>
PRIOR PERIOD ADJUSTMENT		<u>273,422</u>		
NET POSITION, Beginning of year - restated	<u>28,913,718</u>	<u>30,067,161</u>	<u>19,255,160</u>	<u>4,498,580</u>
NET POSITION, End of year	<u>\$28,925,439</u>	<u>\$30,475,486</u>	<u>\$19,865,362</u>	<u>\$4,719,269</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013
(Continued)

	Airport Fund	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 72,400	\$ 44,996	\$ 105,679	\$18,825,518	\$ 5,608,378
Other revenues	<u>48,094</u>	<u>147</u>	<u> </u>	<u>640,097</u>	<u> </u>
Total operating revenue	<u>120,494</u>	<u>45,143</u>	<u>105,679</u>	<u>19,465,615</u>	<u>5,608,378</u>
OPERATING EXPENSES					
Personnel services	16,958		30,661	4,136,662	1,012,290
Services and supplies	194,017	72,218	175,435	10,552,086	3,119,329
Depreciation and amortization	<u>237,778</u>	<u>35,701</u>	<u> </u>	<u>2,827,557</u>	<u>1,022,508</u>
Total operating expenses	<u>448,753</u>	<u>107,919</u>	<u>206,096</u>	<u>17,516,305</u>	<u>5,154,127</u>
Operating income (loss)	<u>(328,259)</u>	<u>(62,776)</u>	<u>(100,417)</u>	<u>1,949,310</u>	<u>454,251</u>
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental				392,110	
Interest income	6			78,884	48,291
Interest expense				(1,652,709)	
Unrealized gain (loss) on investments	(980)	115	132	(112,736)	(95,242)
Miscellaneous	<u>58,630</u>	<u> </u>	<u> </u>	<u>58,630</u>	<u>41,931</u>
Total non-operating revenue (expense)	<u>57,656</u>	<u>115</u>	<u>132</u>	<u>(1,235,821)</u>	<u>(5,020)</u>
Income (loss) before capital capital contributions and transfers	(270,603)	(62,661)	(100,285)	713,489	449,231
Capital contributions				104,289	493,280
Transfers in (out)	<u>23,568</u>	<u> </u>	<u> </u>	<u>23,178</u>	<u> </u>
CHANGE IN NET POSITION	(247,035)	(62,661)	(100,285)	840,956	942,511
NET POSITION, Beginning of year as previously reported	<u>5,728,285</u>	<u>1,107,909</u>	<u>(640,306)</u>	<u> </u>	<u>22,671,882</u>
PRIOR PERIOD ADJUSTMENT	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET POSITION, Beginning of year - restated	<u>5,728,285</u>	<u>1,107,909</u>	<u>(640,306)</u>	<u> </u>	<u>22,671,882</u>
NET POSITION, End of year	<u>\$5,481,250</u>	<u>\$1,045,248</u>	<u>\$ (740,591)</u>	<u> </u>	<u>\$23,614,393</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				<u>499,881</u>	
Change in net position of business-type activities (Page 16)				<u>\$ 1,340,837</u>	

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year ended June 30, 2013

	Water System Fund	Sewer Improvement Funds Wastewater Fund	Storm Drain Fund	Refuse Fund	Airport Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received for current services	\$ 5,260,656	\$ 5,504,181	\$1,210,553	\$ 6,450,200	\$ 77,296
Cash received for other operating revenues	270,279	209,703	108,558	3,316	48,094
Cash paid for services and supplies	(2,890,826)	(2,078,985)	(614,082)	(4,595,323)	(193,241)
Cash paid for salaries and benefits	<u>(1,275,388)</u>	<u>(1,102,607)</u>	<u> </u>	<u>(1,628,301)</u>	<u>(16,823)</u>
Net cash provided (used) by operating activities	<u>1,364,721</u>	<u>2,532,292</u>	<u>705,029</u>	<u>229,892</u>	<u>(84,674)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Intergovernmental revenue	392,110				
Transfers (to) from other funds	(390)				23,568
Loans from/(to) other funds	<u> </u>	<u>22,443</u>	<u> </u>	<u> </u>	<u>(10,000)</u>
Net cash provided (used) by non-capital financing activities	<u>391,720</u>	<u>22,443</u>	<u> </u>	<u> </u>	<u>13,568</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on long-term debt	(835,190)	(14,434,970)			
Interest paid	(683,936)	(1,433,211)			
Proceeds from refunding bonds		13,592,480			
Capital expenditures	<u>(222,170)</u>	<u>(3,756,543)</u>	<u>(452,196)</u>	<u>(16,075)</u>	<u>(7,211)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,741,296)</u>	<u>(6,032,244)</u>	<u>(452,196)</u>	<u>(16,075)</u>	<u>(7,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Unrealized gain (loss) on investments	(28,985)	(39,943)	(20,123)	(22,952)	(980)
Other non-operating revenue (expense)					58,630
Interest received	<u>28,460</u>	<u>36,773</u>	<u>19,767</u>	<u>1,558</u>	<u>6</u>
Net cash provided by investing activities	<u>(525)</u>	<u>(3,170)</u>	<u>(356)</u>	<u>(21,394)</u>	<u>57,656</u>
Net increase (decrease) in cash and cash equivalents	14,620	(3,480,679)	252,477	192,423	(20,661)
Cash and cash equivalents, beginning of year	<u>5,969,974</u>	<u>10,887,969</u>	<u>3,548,455</u>	<u>4,119,561</u>	<u>195,194</u>
Cash and cash equivalents, end of year	<u>\$ 5,984,594</u>	<u>\$ 7,407,290</u>	<u>\$3,800,932</u>	<u>\$ 4,311,984</u>	<u>\$ 174,533</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013
(Continued)

	Water System Fund	Sewer Improvement Funds Wastewater Fund	Storm Drain Fund	Refuse Fund	Airport Fund
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 248,904	\$ 1,353,089	\$ 596,544	\$ 242,225	\$(328,259)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,102,691	1,225,493	208,507	4,372	237,778
(Increase) decrease in net assets:					
Accounts receivable	(14,480)	(45,211)	(100,166)	(24,626)	4,210
Prepaid expenses					
Deposits					
Inventory	28,956				
Increase (decrease) in net liabilities:					
Accounts payable	(38,910)	(27,389)	144	(18,586)	776
Salaries and benefits payable	4,803	6,600		6,216	135
Compensated absences	4,950	3,338		(4,217)	686
Deposits and deferred revenue	7,630				
OPEB liability	20,177	16,372		24,508	
Total adjustments	<u>1,115,817</u>	<u>1,179,203</u>	<u>108,485</u>	<u>(12,333)</u>	<u>243,585</u>
Net cash provided (used) by operating activities	<u>\$ 1,364,721</u>	<u>\$ 2,532,292</u>	<u>\$ 705,029</u>	<u>\$ 229,892</u>	<u>\$ (84,674)</u>
Noncash investing, capital, and financing activities:					
Contributions of capital assets	<u>\$ 41,673</u>	<u>\$ 47,116</u>	<u>\$ 15,500</u>	<u>\$</u>	<u>\$</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for current services	\$ 44,996	\$ 104,694	\$ 18,652,576	\$ 5,608,378
Cash received for other operating revenues	147		640,097	
Cash paid for services and supplies	(72,257)	(166,936)	(10,611,650)	(3,133,233)
Cash paid for salaries and benefits		(30,540)	(4,053,659)	(1,025,569)
Net cash provided (used) by operating activities	<u>(27,114)</u>	<u>(92,782)</u>	<u>4,627,364</u>	<u>1,449,576</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Intergovernmental revenue			392,110	
Transfers (to) from other funds	25,963		49,141	
Loans from/ (to) other funds		<u>92,650</u>	<u>105,093</u>	
Net cash provided (used) by non-capital financing activities	<u>25,963</u>	<u>92,650</u>	<u>546,344</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal paid on long-term debt			(15,270,160)	
Interest paid			(2,117,147)	
Proceeds from refunding bonds			13,592,480	
Capital expenditures			(4,454,195)	(682,744)
Net cash provided (used) by capital and related financing activities			<u>(8,249,022)</u>	<u>(682,744)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Unrealized gain (loss) on investments	115	132	(112,736)	(95,242)
Other non-operating revenue (expense)			58,630	41,931
Interest received			<u>86,564</u>	<u>52,516</u>
Net cash provided (used) by investing activities	<u>115</u>	<u>132</u>	<u>32,458</u>	<u>(795)</u>
Net increase (decrease) in cash and cash equivalents	(1,036)		(3,042,856)	766,037
Cash and cash equivalents, beginning of year	<u>1,036</u>		<u>24,722,189</u>	<u>17,062,703</u>
Cash and cash equivalents, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 21,679,333</u>	<u>\$17,828,740</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013
(Continued)

	Intermodal Fund	Courthouse Square	Total Enterprise Funds	Governmental Activities- Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income/(loss)	\$(62,776)	\$(100,417)	\$ 1,949,310	\$ 454,251
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	35,701		2,814,542	1,022,508
(Increase) decrease in net assets:				
Accounts receivable		(985)	(181,258)	
Prepaid expenses				(2,187)
Deposits				(80,000)
Inventory			28,956	(29,790)
Increase (decrease) in net liabilities:				
Accounts payable	(39)	8,499	(75,505)	89,087
Salaries and benefits payable		121	17,875	(4,293)
Compensated absences			4,757	
Deposits and deferred revenue			7,630	
OPEB liability			61,057	
Total adjustments	<u>35,662</u>	<u>7,635</u>	<u>2,678,054</u>	<u>995,325</u>
Net cash provided (used) by operating activities	<u><u>\$(27,114)</u></u>	<u><u>\$ (92,782)</u></u>	<u><u>\$ 4,627,364</u></u>	<u><u>\$ 1,449,576</u></u>
Noncash investing, capital, and financing activities:				
Contribution of capital assets	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 104,289</u></u>	<u><u>\$</u></u>

See independent auditor's report and notes to financial statements.

FIDUCIARY FUNDS FINANCIAL STATEMENTS

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CITY OF HANFORD
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Redevelopment Successor Agency Private-Purpose Trust Fund	Trust and Agency Funds
ASSETS		
Cash and investments	\$ 1,852,770	\$1,328,454
Accounts receivable	1,472	4,515
Assets held for resale	1,844,343	
Other	<u> </u>	<u>1,615,000</u>
Total assets	<u>\$ 3,698,585</u>	<u>\$2,947,969</u>
LIABILITIES		
Accounts payable	\$1,643,157	\$ 322,469
Deposits held for others		119,166
Advances from City of Hanford	7,679,886	
Bonds/notes payable	<u>893,470</u>	<u>1,615,000</u>
Total liabilities	<u>10,216,513</u>	<u>2,056,635</u>
NET POSITION (Deficit)		
Held in trust for the retirement of obligations of the former Hanford Redevelopment Agency and other purposes	<u>(6,517,928)</u>	<u>891,334</u>
Total net position (deficit)	<u>\$ (6,517,928)</u>	<u>\$ 891,334</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Period Ended June 30, 2013

	Redevelopment Successor Agency Private-Purpose Trust Fund	Trust and Agency Funds
ADDITIONS		
Taxes	\$ 154,390	\$
Investment earnings	5,701	
Other additions	<u>18,190</u>	<u>486,035</u>
Total additions	<u>178,281</u>	<u>486,035</u>
DEDUCTIONS		
General government	76,040	17,954
Other agencies	1,643,157	
Unrealized (gain) loss on investments	9,933	3,061
Debt service:		
Principal		355,000
Interest	<u> </u>	<u>107,195</u>
Total deductions	<u>1,729,130</u>	<u>483,210</u>
Change in net position	(1,550,849)	2,825
Net position (deficit) – beginning of year	<u>(4,967,079)</u>	<u>888,509</u>
Net position (deficit) – end of year	<u>\$(6,517,928)</u>	<u>\$891,334</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Hanford (the “City”) have been prepared in conformity with U.S. Generally Accepted Accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements present the financial position of the City and the various funds and fund types, the results of operations of the City and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2013 and for the year then ended.

A. Description of the Reporting Entity

The City of Hanford was incorporated as a General Law city in 1891. The City operates under a Council-Administrator form of government and provides the following services: Public safety (police and fire), community development, community services, public works, cultural, general administrative services, and capital improvements.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Hanford (the primary government) and its component units. The component units discussed below is included in the City’s reporting entity because of the significance of their operational or financial relationship with the City. However, elected officials of the City of Hanford have a continuing accountability for fiscal matters of the other entities. The financial reporting entity consists of: (1) the City (2) organizations for which the City is financially accountable and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

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

Blended Component Unit:

The financial statements of the City of Hanford include the financial activities of the City as well as of the Hanford Improvement Corporation. Although the Hanford Improvement Corporation is a legally distinct unit from the City, their financial operations are overseen by the City of Hanford and, in fact, the City Council is the board of directors of the Corporation. Separate financial statements of the Hanford Improvement Corporation may be obtained from the City of Hanford, 319 N. Douty Street, Hanford, CA 93230.

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Notes to Financial Statements
June 30, 2013
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B. Basis of Presentation

Government-Wide Financial Statements

The Government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units. For the most part, eliminations have been made to minimize the double counting on internal activities. These statements distinguish between the *governmental and business type activities* of the City and between the City and its discretely presented component unit. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements

The governmental fund financial statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds.

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the principle operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds. For the City, the general fund includes basic governmental activities such as general government, public safety, public works and community service.

CDBG Home/Housing Fund – To receive and disburse funds in accordance with grants received from the Department of Housing and Urban Development for the repair and improvement of targeted housing areas.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Transportation Funds – These are funds used to account for receipt and disbursement of Federal and State Transportation Program moneys. The funds reported here include 1971 State Transportation Development Act (TDA) Funds, Federal Congestion Management and Air Quality (CMAQ) Funds, 2006 Statewide Proposition 1-B Bond Funds, and 2009 Federal American Recovery and Reinvestment Act (ARRA) Stimulus Funds.

The City reports the following major enterprise funds:

Water Fund – The Water Fund is used to account for the financial activities of water utility of the City.

Wastewater Fund – The Wastewater Fund is used to account for financial activities of sewage collection and wastewater treatment utility of the City.

Storm Drain Fund – The Storm Drain Fund is used to account for the financial activities of the City's storm drains.

Refuse Fund – The Refuse Fund is used to account for the financial activities of the collection of solid waste and disposal utility of the City.

Airport Fund – To account for all activities necessary to provide an airport to the residents of the City and surroundings areas.

Intermodal Fund – The Intermodal Fund is used to account for the financial activities of a building used to support state regional and local transportation.

Courthouse Square Fund – The Courthouse Square Fund is used to account for the financial activities of the maintenance and improvement of the property known as the Courthouse Square in downtown Hanford.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The City reports the following fund types in aggregate as part of other non-major governmental funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs of the City other than debt service payments made by proprietary funds.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to another on a cost-reimbursement basis.

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and/or other governments.

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the 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. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

For its government-wide activities and enterprise funds, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

D. Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items

Cash and Investments

For purposes of the statement of cash flows, the City considers short term and highly liquid investments (including restricted assets) to be cash and cash equivalents.

Investments

Investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale).

Further cash and investment disclosures are presented in Note 2.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Services provided, deemed to be a market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include intergovernmental and tax receivable. Business-type activities report trade and intergovernmental as their major receivables.

Inventory

Inventories of materials and supplies in the proprietary and internal services funds are valued at the lower of cost or market, carried on a first-in, first-out (FIFO) basis.

Land Held for Resale

Land held for resale is recorded at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance the City's current operations.

Capital Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

The City's capitalization threshold is \$5,000. In other words, fixed assets are capitalized only if they have a cost in excess of \$5,000 and have an expected useful life of three years or more. Fixed assets that have a cost below \$5,000 are expended during the fiscal year they are acquired.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Infrastructure	20 to 50 years
Buildings	20 to 50 years
Improvements other than buildings	20 to 50 years
Machinery and equipment	4 to 20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time. All vacation, sick and compensatory pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. For additional information regarding compensated absences, see Note 4.

Long-Term Obligations

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. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the terms of the related debt.

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Net Assets/Fund Equity

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constructional provisions or enabling legislation.
- *Unrestricted net assets* – This category represents net assets of the City, not restricted for any project or other purpose.

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established by either the highest level of decision making, or by a body or an official designated for that purpose.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

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

Property Taxes

In 1978, a state constitutional amendment (Proposition 13) provided that the tax rate be limited to 1% of market value, levied only by the County and shared with all other jurisdictions. Such limitation on the rate may only be increased through voter approval. The County Collects property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdiction's assessed valuations and on the tax rate for voter-approved debt. In the fund financial statements, property tax is recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

The property tax calendar for the City and the Discretely Presented Component Unit is as follows:

Lien date	January 1
Levy dates	September 1
Due dates	November 1 – 1 st installment
	February 1 – 2 nd installment
Collection dates	December 10 – 1 st installment
	April 12 – 2 nd installment

E. Unearned Revenue

The City reports unearned revenue in its financial statements. Unearned revenue arises when resources are recovered by the government before it has legal claim to them.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

G. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The procedures established by the City Council in adopting the budgetary data reflected in the financial statements are as follows:

On or before the second meeting in May, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing the following July 1. Following publication and public hearings, the budget is legally enacted by resolution.

The City Manager is authorized to transfer funds appropriated with respect to all classifications within the same department. The City Manager may transfer appropriated funds from any classification within other expenditure categories to existing capital outlay and capital projects classifications within the same department only; however, any revisions that alter the total expenditures of any department or create additional projects must be approved by the City Council.

Supplemental budgetary appropriations were negligible for the fiscal year ended June 30, 2013. All unencumbered appropriations lapse at year end.

For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are considered a single department. Revenues are budgeted on a line item basis. A comparison of budgeted and actual revenues by line item would be too voluminous for this report.

Budgets for the General, Special Revenue, and Debt Service Funds are presented in the accompanying general purpose financial statements on a basis consistent with accounting principles generally accepted in the United States of America. Budgets for Capital Projects Funds are not presented because they are budgeted on a project basis rather than on an annual basis. No budgets are adopted for the Proprietary and Fiduciary Fund types.

Deficit Fund Equity/Net Position

The Courthouse Square Proprietary Fund had a deficit net position of \$740,591. The deficit is expected to be eliminated in future years through revenues or transfers from other funds.

Reclassification and Eliminations

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$64,612,610
Restricted cash and investments	595,471
Fiduciary funds:	
Cash and investments	<u>3,181,224</u>
Total cash and investments	<u>\$68,389,305</u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 1,745
Deposits with financial institutions	9,079,138
Investments	<u>59,308,422</u>
Total cash and investments	<u>\$68,389,305</u>

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

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

Authorized Investment type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustees that are not subject to California Government Code Restrictions.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Investments Authorized by Debt Agreements

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

Authorized Investment type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosure Relating to Interest Rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Hanford manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing and coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

		Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Federal Agency Securities	\$14,997,936	\$	\$ 721,765	\$14,276,171
State Investment Pool	39,907,101	39,907,101		
Negotiable Certificates of Deposits	3,157,529	250,240	710,897	2,196,392
Held by Bond Trustee:				
Money Market Funds	<u>1,245,856</u>	<u>1,245,856</u>	<u> </u>	<u> </u>
Total	<u>\$59,308,422</u>	<u>\$41,403,197</u>	<u>\$1,432,662</u>	<u>\$16,472,563</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Disclosures Relating to Credit Risk

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

Investment Type		Minimum Legal Rating	Standard & Poors Ratings as of Year End		
			AAA	AA	Not Rated
Federal Agency Securities	\$14,997,936	N/A	\$	\$14,997,936	\$
State Investment Pool	39,907,101	N/A			39,907,101
Negotiable Certificates of Deposits	3,157,529	N/A			3,157,529
Held by Bond Trustee:					
Money Market Funds	<u>1,245,856</u>	N/A	<u>650,386</u>		<u>595,470</u>
Total	<u>\$59,308,422</u>		<u>\$650,386</u>	<u>\$14,997,936</u>	<u>\$43,660,100</u>

Concentration of Credit Risk

The investment policy of the City of Hanford contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of **total City of Hanford investments** are as follows:

Issuer	Investment Type	Reported Amount
FNMA	Federal Agency Securities	\$6,765,410
FFCB	Federal Agency Securities	\$5,745,462

Custodial Credit Risk

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

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$10,077,922 of the City of Hanford's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Investment in State Investment Pool

The City of Hanford is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City of Hanford's investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Hanford's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2013 for the City's individual major funds, nonmajor funds and internal service funds in the aggregate are as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Grants</u>	<u>Interest</u>	<u>Loans</u>	<u>Total</u>
Governmental Funds						
General	\$ 445,135	\$ 911,050	\$	\$25,655	\$ 25,000	\$ 1,406,840
CDBG Home/Housing			54,692	640	17,229,026	17,284,358
Capital Project	32,058					32,058
Transportation Funds		524,963	728,572	955		1,254,490
Nonmajor and Other	295,144	110,591		9,035	2,582,592	2,997,362
Total	<u>\$ 772,337</u>	<u>\$1,546,604</u>	<u>\$783,264</u>	<u>\$36,285</u>	<u>\$19,836,618</u>	<u>\$22,975,108</u>
Enterprise Funds						
Water System	\$ 555,110	\$	\$	\$ 5,323	\$	\$ 560,433
Wastewater	505,387			7,250		512,637
Storm Drain	220,836			3,874		224,710
Refuse	612,819			310		613,129
Airport	723				1,830	2,553
Courthouse Square	54,219					54,219
Total	<u>\$1,949,094</u>	<u>\$</u>	<u>\$</u>	<u>\$16,757</u>	<u>\$ 1,830</u>	<u>\$ 1,967,681</u>
Internal Service Funds						
Fleet Maintenance Fund	\$	\$	\$	\$10,553	\$	\$ 10,553
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$10,553</u>	<u>\$</u>	<u>\$ 10,553</u>

CITY OF HANFORD
Notes to Financial Statements
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(Continued)

NOTE 4 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Addition Completions	Retirements/ Adjustments	Balance June 30, 2013
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 60,432,656	\$	\$	\$ 60,432,656
Construction in Progress	<u>981,876</u>	<u>683,042</u>	<u>(910,793)</u>	<u>754,125</u>
Total capital assets, not being depreciated	61,414,532	683,042	(910,793)	61,186,781
Capital assets being depreciated				
Buildings	18,109,731	11,749		18,121,480
Infrastructure	112,402,161	5,988,458		118,390,619
Equipment	<u>18,317,379</u>	<u>1,682,718</u>	<u>(558,335)</u>	<u>19,441,762</u>
Total capital assets being depreciated	148,829,271	7,682,925	(558,335)	155,953,861
Less: Accumulated depreciation				
Buildings	(6,759,164)	(319,421)		(7,078,585)
Infrastructure	(53,519,739)	(4,688,156)		(58,207,895)
Equipment	<u>(11,641,488)</u>	<u>(1,174,269)</u>	<u>503,319</u>	<u>(12,312,438)</u>
Total accumulated depreciation	(71,920,391)	(6,181,846)	503,319	(77,598,918)
Total capital assets being depreciated, net	<u>76,908,880</u>	<u>1,501,079</u>	<u>(55,016)</u>	<u>78,354,943</u>
Governmental activities capital assets, net	<u>\$138,323,412</u>	<u>\$ 2,184,121</u>	<u>\$ (965,809)</u>	<u>\$139,541,724</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 11,035,847	\$ 1,750	\$	\$ 11,037,597
Construction in progress	<u>1,664,778</u>	<u>20,148</u>	<u>(1,616,108)</u>	<u>68,818</u>
Total capital assets, not being depreciated	<u>12,700,625</u>	<u>21,898</u>	<u>(1,616,108)</u>	<u>11,106,415</u>
Capital assets being depreciated				
Buildings and improvement	138,968,404	5,120,201		144,088,605
Machinery and equipment	<u>5,524,724</u>	<u>85,946</u>	<u>(21,133)</u>	<u>5,589,537</u>
Total capital assets being depreciated	144,493,128	5,206,147	(21,133)	149,678,142
Less: Accumulated depreciation for:				
Buildings and improvement	(43,515,483)	(2,616,646)		(46,132,129)
Machinery and equipment	<u>(2,224,999)</u>	<u>(197,896)</u>	<u>21,133</u>	<u>(2,401,762)</u>
Total accumulated depreciation	(45,740,482)	(2,814,542)	21,133	(48,533,891)
Total capital assets being depreciated, net	<u>98,752,646</u>	<u>2,391,605</u>	<u> </u>	<u>101,144,251</u>
Business-type activities capital assets, net	<u>\$111,453,271</u>	<u>\$ 2,413,503</u>	<u>\$ (1,616,108)</u>	<u>\$112,250,666</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Depreciation expense for the fiscal year ending June 30, 2013 was charged to the following activities:

Governmental functions:

General governmental	\$ 34,579
Public safety	279,476
Culture and recreation	671,451
Public works	4,042,101
Community development	131,731
Capital assets held by the internal service funds were charged to the various functions based on their usage	<u>1,022,508</u>
Total	<u>\$6,181,846</u>

Business-type functions:

Water system	\$1,102,691
Wastewater	1,225,493
Storm drain	208,507
Refuse	4,372
Airport	237,778
Intermodal	<u>35,701</u>
Total	<u>\$2,814,542</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 5 – LONG-TERM DEBT

The following is a summary of the long-term debt activity for the year ended June 30, 2013:

Type of Debt	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Governmental activities					
Notes payable	\$ 246,450	\$	\$	\$ 246,450	\$
Compensated absences	<u>803,467</u>	<u>39,383</u>	<u></u>	<u>842,850</u>	<u></u>
Total governmental activities	<u>1,049,917</u>	<u>39,383</u>	<u></u>	<u>1,089,300</u>	<u></u>
Business activities					
Bonds payable	24,480,000	13,165,000	(14,050,000)	23,595,000	1,155,000
Add deferred amounts for issuance premium	143,043	427,480	(30,314)	540,209	
Notes payable	14,878,713		(610,379)	14,268,334	633,454
Capital lease	5,776,607		(612,700)	5,163,907	597,860
Compensated absences	<u>161,223</u>	<u>4,071</u>	<u></u>	<u>165,294</u>	<u></u>
Total business activities	<u>45,439,586</u>	<u>13,596,551</u>	<u>(15,303,393)</u>	<u>43,732,744</u>	<u>2,386,314</u>
Total primary government	<u>\$46,489,503</u>	<u>\$13,635,934</u>	<u>\$(15,303,393)</u>	<u>\$44,822,044</u>	<u>\$2,386,314</u>

Governmental Activities –

Notes Payable:

On September 20, 2011, the City entered into a loan agreement with the Kings County Economic Development Corporation in the amount of \$246,450 to fund 50% of the purchase price of 16.43 acres of vacant land for the Kings County Industrial Park Project. The note does not accrue interest at a fixed rate, but instead will pay a contingent deferred interest for a price in excess of \$30,000 per acre. The note represents a shared appreciation loan and the City is required to pay \$15,000 in principal for each acre it sells. The principal balance at June 30, 2013 was \$246,450.

Compensated Absences:

The City accounts for compensated absences (unpaid vacation, sick leave and compensatory time) in accordance with GASB Code Sec. C60. In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's intention to liquidate any unpaid compensated absences at June 30 from future resources, rather than current available financial resources. Accordingly, the unpaid liability for governmental funds is recorded in the government-wide statement of net assets.

\$842,850

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Business Type Activities –

Long-Term Debt – Bonds Payable:

On April 1, 1996, the City of Hanford issued \$7,855,000 of Variable Rate Demand Sewer System Refunding Revenue Bonds. The Bonds are payable from and secured by a lien on and pledge of the net revenues of the City Sewer System. The Bond shall mature on April 1, 2023, and shall bear interest annually, ranging from 2.0 to 7.5 percent. Interest on the Bonds is payable on the first day of January, April, July, and October, commencing July 1, 1996. The purpose of the bonds is to provide funds to refund the City of Hanford Certificates of Participation dated April 1, 1987 and February 1, 1993. At June 30, 2013 the outstanding balance was \$4,300,000.

The future maturities of the Bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 400,000	\$156,950	\$ 556,950
2015	400,000	142,350	542,350
2016	400,000	127,750	527,750
2017	400,000	113,150	513,150
2018	400,000	98,550	498,550
2019-2023	<u>2,300,000</u>	<u>262,800</u>	<u>2,562,800</u>
Total	<u>\$4,300,000</u>	<u>\$901,550</u>	<u>\$5,201,550</u>

On December 1, 2003, the City of Hanford issued \$8,925,000 CSCDA Water Revenue Bonds Series 2003 C. The Bonds shall mature on October 1, 2028, and shall bear interest annually ranging from 2.0 to 5.25 percent. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2004. The proceeds were used to refund the EDP Loan and 1993 Water Refunding Revenue Bond as well as to fund improvements to the City's water treatment facilities. As of June 30, 2013, the balance outstanding was \$6,650,000.

The future maturities of the Bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 285,000	\$ 327,218	\$ 612,218
2015	295,000	313,988	608,988
2016	315,000	297,975	612,975
2017	330,000	283,106	613,106
2018	345,000	269,606	614,606
2019-2023	1,960,000	1,084,753	3,044,753
2024-2028	2,530,000	500,588	3,030,588
2029	<u>590,000</u>	<u>15,488</u>	<u>605,488</u>
Total	<u>\$6,650,000</u>	<u>\$3,092,722</u>	<u>\$9,742,722</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

On July 1, 2012, the City of Hanford issued \$13,165,000 Wastewater Revenue Refunding Bonds Series 2012 bearing interest of 3.0% to 5.0% payable semi-annually on April 1 and October 1 commencing October 1, 2012. The bonds mature annually at various amounts through October 1, 2032. The bonds are payable from net revenues of the City's Wastewater System and from amounts on deposit in certain funds and accounts created under the Indenture.

The Bonds are being issued to refinance the City's previously issued \$5,000,000 CSCDA Water and Wastewater Revenue Bonds, dated October 1, 1999 and the \$10,555,000 CSCDA Water and Wastewater Revenue Bonds dated April 16, 2002. As a result the 1999 and 2002 Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities of the Business Activities Debt.

The aggregate debt service payments of the new debt is \$2,121,034 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the present value of the old debt and new debt payments of approximately \$1,537,677.

Bonds outstanding at June 30, 2013 are \$12,645,000

The future maturities of the Bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 470,000	\$ 462,306	\$ 932,306
2015	490,000	447,906	937,906
2016	500,000	430,556	930,556
2017	520,000	410,156	930,156
2018	545,000	388,856	933,856
2019-2023	3,070,000	1,564,135	4,634,135
2024-2028	3,625,000	953,272	4,578,272
2029-2032	<u>3,425,000</u>	<u>316,592</u>	<u>3,741,592</u>
Total	<u>\$12,645,000</u>	<u>\$4,973,779</u>	<u>\$17,618,779</u>

Long-Term Debt – Notes Payable

On May 28, 2002, the City of Hanford obtained a loan from the California Infrastructure and Economic Development Bank in the amount of \$10,000,000. The term of the agreement is thirty (30) years with a maturity date of February 1, 2034, and an annual interest rate of 3.50%. Prior to the Bond Date, there is a .26% reduction in the interest rate, resulting in an initial rate of 3.24%. Interest on the loan is payable semi-annually on each February 1 and August 1, commencing August 1, 2003. As of June 30, 2013, the balance outstanding was \$7,760,131.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 294,422	\$ 266,452	\$ 560,874
2015	304,727	255,967	560,694
2016	315,392	245,115	560,507
2017	326,431	233,883	560,314
2018	337,856	222,258	560,114
2019-2023	1,875,152	922,166	2,797,318
2024-2028	2,227,091	564,066	2,791,157
2029-2032	<u>2,079,060</u>	<u>148,662</u>	<u>2,227,722</u>
Total	<u>\$7,760,131</u>	<u>\$2,858,569</u>	<u>\$10,618,700</u>

On December 20, 2007, the City of Hanford entered into an installment sale agreement with the City of Hanford Public Improvement Corporation in the amount of \$8,150,000. The agreement was to enable the City to finance the costs of acquisition and construction of certain public facilities constituting a part of the City's water enterprise. The term of the agreement is thirty (30) years with a maturity date of December 1, 2027 and an annual interest rate of 2.0% to 5.25%. Interest on the loan is payable semi-annually on each June 1 and December 1, commencing June 1, 2008. As of June 30, 2013, the balance outstanding was \$6,508,203.

The future maturities of the Note payable were as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 339,032	\$ 256,409	\$ 595,441
2015	352,701	242,740	595,441
2016	366,921	228,520	595,441
2017	381,685	213,756	595,441
2018	397,105	198,336	595,441
2019-2023	2,238,992	738,063	2,977,055
2024-2028	<u>2,431,767</u>	<u>248,956</u>	<u>2,680,723</u>
Total	<u>\$6,508,203</u>	<u>\$2,126,780</u>	<u>\$8,634,983</u>

Capital Lease

In August, 2009, the City entered into a capital lease agreement with Government Capital Corporation, to lease water meters and AMR devices. The purchase price of the equipment was approximately \$3,050,000 and a down payment of \$950,000 was applied to the purchase. Semi-annual payments commenced on February, 2010, are \$151,096 including interest of 4.668%, with a final payment in August, 2017. The balance outstanding as of June 30, 2013 was \$1,213,856.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The annual debt service requirements for the 2009 Capital Lease outstanding at June 30, 2013 are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 248,396	\$ 53,796	\$ 302,192
2015	260,126	42,066	302,192
2016	272,410	29,782	302,192
2017	285,274	16,918	302,192
2018	<u>147,650</u>	<u>3,446</u>	<u>151,096</u>
Total	<u>\$1,213,856</u>	<u>\$146,008</u>	<u>\$1,359,864</u>

In November, 2011, the City entered into a capital lease agreement with Bank of America to design and construct an energy efficient tracker system for the City's wastewater treatment plant. The purchase price of this project is \$4,325,556, with annual payments in varying amounts including interest at 3.33% commencing on July 8, 2012 with a final payment in July, 2026. The balance outstanding as of June 30, 2013 was \$3,950,051.

The annual debt service requirements for the 2011 Capital Lease outstanding at June 30, 2013 are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 349,463	\$131,537	\$ 481,000
2015	371,092	119,899	490,991
2016	390,988	107,542	498,530
2017	418,118	94,522	512,640
2018	138,686	80,599	219,285
2019-2023	1,007,628	320,310	1,327,938
2024-2027	<u>1,274,076</u>	<u>111,052</u>	<u>1,385,128</u>
Total	<u>\$3,950,051</u>	<u>\$965,461</u>	<u>\$4,915,512</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 6 – PENSION PLAN

Plan Description

The City's defined benefit plans, the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford, provide retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous, Police Safety and Fire Safety plans of the City of Hanford are part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered to by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statues within the Public Employees' Retirement Law. The City of Hanford selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

The City makes the contributions required by City employees on their behalf and for their account. The present required contribution rates of annual covered salaries are as follows:

<u>Category</u>	<u>Members Rates as a Percentage of Wages</u>
Local miscellaneous members	8%
Local police safety members	9%
Local fire safety members	9%

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013 was 27.327% for miscellaneous employees. The required employer contribution rate for police safety employees was 31.532% for the period July 1, 2012 through June 30, 20123. The required employer contribution rate for the fire safety employees was 29.883% for the period July 1, 2012 through June 30, 2013. The contribution requirements of plan members are established by State Statue and the employer contribution rate is established and may be amended by CalPERS.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions include a 4.5 percent investment rate of return, covered payroll increases of 3.25 percent per year, an inflation rate of 3.25 percent per year, and a medical increase trend rate starting at 10 percent per year, and decreasing gradually over a 10 year period to an ultimate rate of 4.50 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

Annual Pension Costs

For the fiscal year ended June 30, 2013, the City's annual pension cost of \$4,108,415 for PERS was equal to the City's required and actual contributions. The required contribution for the fiscal year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expense), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.55% to 14.45% for police and fire safety members), and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. The actuarial values of the Miscellaneous, Police Safety and Fire Safety Plans of the City of Hanford's assets were determined by using a technique that smoothes the effects of short-term volatility in the next market value of investments over a two to five year period, depending on the size of investment gains and/or losses. The Miscellaneous and the Safety Plans of the City of Hanford's unfunded actuarial accrued liabilities (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 18 years for Miscellaneous, 17 years for Police Safety, and 17 years for Fire Safety.

Fiscal Year	Three-Year Trend Information for PERS		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/11	\$4,937,372	100.0%	
6/30/12	\$4,489,525	100.0%	
6/30/13	\$4,108,415	100.0%	

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 78.4% funded for non-safety employees and 86.8% funded for safety employees. The actuarial accrued liability for benefits was \$78 million for non-safety employees and \$2.1 billion for safety employees and the actuarial value of assets was \$61 million for non-safety employees and \$1.9 billion for safety employees, resulting in an unfunded actuarial accrued liability (UAAL) of \$17 million for non-safety employees and \$287 million for safety employees. The covered payroll (annual payroll of active employees covered by the plan) was \$7.6 million for non-safety members and \$232 million for safety members, and the ratio of UAAL to the covered payroll was 218.4% and 123.8% respectively.

The schedule of funding progress presented as RSI following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 7 – POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

During the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 45, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provisions of this statement are applied on a prospective basis.

The City participates in the CalPERS medical program under the Public Employees' Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The City has selected the equal contribution method, where it resolves to contribute the same amount for retirees as is contributed toward active employee medical plan coverage. The City currently pays the minimum employer contribution (MEC) for both active and retired employees as well as their survivors, if covered at the time of the employee's death. The MEC is \$115 per month for 2013.

Dental insurance is available to retired employees as well, though the cost of coverage is paid entirely by the retiree. Once the retiree reaches age 65 the City no longer allows the retiree to stay on the dental plan.

The above coverage is available for employees who satisfy the requirements for retirement under CalPERS (attained age 50 with 5 years of State or public agency service or approved disability retirement). An employee cannot terminate employment before meeting the age condition and be entitled to receive benefits.

Funding Policy

Currently the City funds retiree healthcare benefits on a pay-as-you-go basis, paying a maximum of \$115 per month for retiree benefits from the City funds as they are due with no prefunding for future years. The City recognizes expenditures for its share of the annual premiums as these benefits become due. For fiscal years 2012-2013, the City paid \$58,433 for benefits of 43 retirees or their beneficiaries receiving benefits.

Annual PPEB and Net OPEB Obligation

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of the July 1, 2009 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

The City's OPEB unfunded actuarial accrued liability as of July 1, 2013, the date of the most recent actuarial valuation, was a total of \$3,283,849. The OPEB obligation has been adjusted by an annual inflation percentage of 3.00% based on the assumptions of the actuarial valuation and a general salary increase of 3.25%.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The City has calculated and recorded the Net OPEB obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contributions (ARC) and annual OPEB cost	\$ 388,285
Interest on net OPEB obligation	51,973
Adjustment to the ARC	<u>(53,737)</u>
Annual required contribution annual OPEB cost (expense)	386,521
Less: Employer contribution	<u>(58,433)</u>
Increase in net OPEB obligation	328,088
Net OPEB obligations, beginning of year	<u>1,154,960</u>
Net OPEB obligations, end of year	<u>\$1,483,048</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$335,163	12.35%	\$ 849,181
6/30/12	\$358,543	12.71%	\$1,154,960
6/30/13	\$386,521	15.12%	\$1,483,048

Note: Disclosure of annual OPEB cost, percent contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The fiscal year ended June 30, 2009 is the first year of implementation of the City's post-retirement health care plan accounted for and reported in accordance with the requirements of GASB 45.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment return, future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

The funded status of the plan as of June 30, 2013 was as follows:

Actuarial accrued liability	\$ 3,843,191
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial accrued liability (UAAL)	\$ 3,843,191
 Funded ratio (actuarial value of plan assets/AAL)	 0%
Covered payroll (active plan members)	\$15,177,085
UAAL as a percentage of covered payroll	25.32%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

NOTE 8 – RISK MANAGEMENT

The City is partially self-insured for workers' compensation and general liability insurance. For worker's compensation, the City is responsible for claims up to \$250,000 per occurrence. Coverage in excess of the City's self-insured retention is purchased through CSAC Excess Insurance Authority (CSAC-EIA) up to the statutory limits. The City participates in a risk pool through CSAC-EIA above the City's self-insured retention up to \$5,000,000 per occurrence. Reinsurance coverage in excess of the pool layer up to \$25,000,000 is purchased through CSAC-EIA. For both workers' compensation and general liability insurance, CSAC-EIA retains responsibility for claims in excess of each member's self-insured retention. There were no reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage for the past three fiscal years.

Workers' compensation and general liability claims incurred prior to July 1, 2012 were covered through the City's participation in the Central San Joaquin Valley Risk Management Authority (CSJVRMA), a public entity risk pool. For workers' compensation insurance, the City is self-insured up to \$200,000. Coverage between \$200,000 and \$500,000 is provided through a risk pool. CSJVRMA participates in an excess pool which provides coverage from \$500,000 to \$5,000,000 and purchases excess insurance above \$5,000,000 to the statutory limit. For general liability insurance, the City participates in a risk pool which covers the City above its self-insurance retention level of \$100,000 up to \$1,000,000. CSJVRMA participates in an excess pool which provides coverage from \$1,000,000 to \$29,000,000. CSJVRMA members may receive rebates or be required to make additional contributions through a retrospective adjustment process.

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 9 – INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, service provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund due from/to other funds at June 30, 2013 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Governmental Funds		
General Fund	\$ 548,713	\$ 375,470
Capital Project Fund	2,148,473	
Transportation Funds		280,950
Other Governmental Funds		267,763
Proprietary Funds		
Wastewater Fund	25,963	
Airport Fund		385,468
Intermodal Fund		632,268
Courthouse Square		<u>781,230</u>
Total	<u>\$2,723,149</u>	<u>\$2,723,149</u>

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2012/13 fiscal year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 64,876	\$180,243
Capital Project Fund		
Transportation Funds	3,248	
Other Governmental funds	170,372	81,431
Proprietary Funds		
Airport Fund	23,568	
Water Fund		<u>390</u>
	<u>\$262,064</u>	<u>\$262,064</u>

CITY OF HANFORD
Notes to Financial Statements
June 30, 2013
(Continued)

NOTE 10 – CONTINGENT LIABILITIES

Litigation

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no material effect on the financial position of the City.

Special Tax Bond Series 1998

The City, by resolution, issued \$5,365,000 of “Special Tax Bonds, Series 1998,” pursuant to the Mello-Roos Community Facilities Act of 1982, as amended commencing with Section 53311, et seq., of the Government Code of the State of California. Neither the full faith and credit nor the taxing power (except with respect to the special taxes) of the City of Hanford, the State of California or any political subdivision thereof is pledged to the payment of the bonds. The bonds are not general or special obligations of the City or general obligations of the Community Facilities District No. 91-1, but are limited obligations of the district payable solely from the special taxes and funds held pursuant to that agreement. The City is acting only as an agent for the property owners.

The City participates in a number of programs that are fully or partially funded by grants received from federal, state, and county governments. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures are disallowed due to non-compliance with grant program regulations, the City may be required to reimburse the grantor agency. As of June 30, 2013, significant amounts of grant expenditures have not been audited by the grantor agencies, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the City’s overall financial position.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

The beginning fund balances/net assets of various funds and activities have been adjusted as follows:

	<u>Government-Wide Financial Statements</u>		<u>Fund Financial Statements</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental</u>	<u>Proprietary</u>
Net assets/fund balance, beginning of the year as previously reported	\$207,238,229	\$93,146,987	\$14,659,342	\$29,793,739
Adjustment to land held for resale for amounts expensed in prior years	246,450		246,450	
Adjustment to beginning balance of accrued interest on long-term liabilities		<u>273,422</u>		<u>273,422</u>
Net assets/fund balances, beginning - restated	<u>\$207,484,679</u>	<u>\$93,420,409</u>	<u>\$14,905,792</u>	<u>\$30,067,161</u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HANFORD
Required Supplementary Information
June 30, 2013

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Schedule of Funding Progress – Defined Benefit Retirement Plan

Budgetary Comparison Schedule – General Fund, all major Special Revenue Funds, and Capital Projects Fund.

CITY OF HANFORD
Schedule of Funding Progress
June 30, 2013

Actuarial Valuation Date	(A) Entry Age Actuarial Accrued Liability	(B) Actuarial Asset Value	(C) Unfunded Liability (Excess Assets) (A)-(B)	(D) Funded Ratio (B)/(A)	(E) Covered Payroll	(F) Unfunded Actuarial Liability as Percentage of Covered Payroll (A)-(B)/(E)
<u>6/30/2010</u>						
Miscellaneous	\$ 69,202,177	\$ 54,144,195	\$ 15,057,982	78.2%	\$ 8,277,932	181.9%
Police Safety	\$1,915,095,826	\$1,628,915,283	\$286,180,543	85.1%	\$224,562,018	127.4%
Fire Safety	\$1,915,095,826	\$1,628,915,283	\$286,180,543	85.1%	\$224,562,018	127.4%
<u>6/30/2011</u>						
Miscellaneous	\$ 73,954,232	\$ 58,023,428	\$ 15,930,804	78.5 %	\$ 8,442,338	188.7%
Police Safety	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5%
Fire Safety	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5 %
<u>6/30/2012</u>						
Miscellaneous	\$ 78,389,580	\$ 61,453,663	\$ 16,935,917	78.4%	\$ 7,755,806	218.4%
Police Safety	\$2,183,549,942	\$1,896,139,291	\$287,410,651	86.8%	\$232,078,083	123.8 %
Fire Safety	\$2,183,549,942	\$1,896,139,291	\$287,410,651	86.8%	\$232,078,083	123.8%

*Pooled as of July 1, 2003 with similar agencies throughout the State, pursuant to State law.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
General Fund
For the Year Ended June 30, 2013

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$19,150,150	\$19,150,150	\$19,231,246	\$ 81,096
Aid from other governmental agencies	1,483,070	1,666,530	1,165,035	(501,495)
License and permits	351,470	351,470	491,603	140,133
Fines and forfeits	160,580	160,580	97,704	(62,876)
Charges for services	603,600	603,600	648,929	45,329
Revenue from use of money and property	423,360	423,360	306,730	(116,630)
Miscellaneous	<u>172,290</u>	<u>747,760</u>	<u>317,240</u>	<u>(430,520)</u>
Total revenues	<u>22,344,520</u>	<u>23,103,450</u>	<u>22,258,487</u>	<u>(844,963)</u>
EXPENDITURES				
General government	1,732,600	1,736,100	1,407,244	328,856
Public safety	14,536,300	15,705,674	13,905,815	1,799,859
Public works	3,494,940	3,546,080	2,866,248	679,832
Recreation	1,451,610	1,451,610	1,334,695	116,915
Community development	<u>1,085,890</u>	<u>1,088,490</u>	<u>1,023,840</u>	<u>64,650</u>
Total expenditures	<u>22,301,340</u>	<u>23,527,954</u>	<u>20,537,842</u>	<u>2,990,112</u>
Excess (deficiency) of revenue over expenditures	43,180	(424,504)	1,720,645	2,145,149
Other financing sources (uses)				
Operating transfers in	63,000	63,000	64,876	1,876
Operating transfers out	<u>(13,400)</u>	<u>(13,400)</u>	<u>(180,243)</u>	<u>(166,843)</u>
Total other financing sources (uses)	<u>49,600</u>	<u>49,600</u>	<u>(115,367)</u>	<u>(164,967)</u>
Net change in fund balances	<u>92,780</u>	<u>(374,904)</u>	<u>1,605,278</u>	<u>1,980,182</u>
Fund balance beginning of year, as previously reported			14,659,342	
Prior period adjustment			<u>246,450</u>	
Fund balances, beginning of year, restated	<u>14,905,792</u>	<u>14,905,792</u>	<u>14,905,792</u>	
Fund balances, end of year	<u>\$14,998,572</u>	<u>\$14,530,888</u>	<u>\$16,511,070</u>	<u>\$1,980,182</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
CDBG Home/Housing
For the Year Ended June 30, 2013

	CDBG Home/Housing			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Aid from other governmental agencies	\$ 933,070	\$ 1,350,100	\$ 1,073,017	\$ (277,083)
Revenue from use of money and property	124,270	117,190	193,778	76,588
Miscellaneous			901	901
Unrealized gain on investments			(2,172)	(2,172)
Total revenues	<u>1,057,340</u>	<u>1,467,290</u>	<u>1,265,524</u>	<u>(201,766)</u>
EXPENDITURES				
Community development	1,129,070	1,440,498	1,033,151	407,347
Capital outlay		1,301,060	781,577	519,483
Principal payments	<u>318,370</u>	<u>318,370</u>		<u>318,370</u>
Total expenditures	<u>1,447,440</u>	<u>3,059,928</u>	<u>1,814,728</u>	<u>1,245,200</u>
Excess (deficiency) of revenue over expenditures	<u>(390,100)</u>	<u>(1,592,638)</u>	<u>(549,204)</u>	<u>1,043,434</u>
Fund balances, beginning of year	<u>18,092,515</u>	<u>18,092,515</u>	<u>18,092,515</u>	
Fund balances, end of year	<u>\$17,702,415</u>	<u>\$16,499,877</u>	<u>\$17,543,311</u>	<u>\$ 1,043,434</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Capital Projects Fund
For the Year Ended June 30, 2013

	Capital Projects Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Aid from other governmental agencies	\$	\$ 192,980	\$ 114,926	\$ (78,054)
Miscellaneous			229,726	229,726
Unrealized gain on investments			(36,859)	(36,859)
Total revenues		192,980	307,793	114,813
EXPENDITURES				
Capital outlay	1,480,000	2,477,437	465,176	2,012,261
Total expenditures	1,480,000	2,477,437	465,176	2,012,261
Excess (deficiency) of revenue over expenditures	(1,480,000)	(2,284,457)	(157,383)	2,127,074
Other financing sources (uses)				
Operating transfers in	10,000	10,000		(10,000)
Operating transfers out	(49,660)	(49,660)		49,660
Total other financing sources (uses)	(39,660)	(39,660)		39,660
Net change in fund balances	(1,519,660)	(2,324,117)	(157,383)	2,166,734
Fund balances, beginning of year	8,919,833	8,919,833	8,919,833	
Fund balances, end of year	\$ 7,400,173	\$ 6,595,716	\$ 8,762,450	\$ 2,166,734

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual (GAAP Basis)
Transportation Funds
For the Year Ended June 30, 2013

	Transportation Funds			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes and special assessments	\$338,410	\$ 338,410	\$ 525,310	\$ 186,900
Aid from other governmental agencies		730,330	2,053,791	1,323,461
Revenue from use of money and property	1,810	1,810	3,607	1,797
Unrealized gain on investments			811	811
Total revenues	<u>340,220</u>	<u>1,070,550</u>	<u>2,583,519</u>	<u>1,512,969</u>
EXPENDITURES				
Capital outlay	<u>25,000</u>	<u>2,886,710</u>	<u>2,077,576</u>	<u>809,134</u>
Total expenditures	<u>25,000</u>	<u>2,886,710</u>	<u>2,077,576</u>	<u>809,134</u>
Excess (deficiency) of revenue over expenditures	<u>315,220</u>	<u>(1,816,160)</u>	<u>505,943</u>	<u>2,322,103</u>
Other financing sources (uses)				
Operating transfers in			3,248	3,248
Total other financing sources (uses)			3,248	3,248
Net change in fund balances	315,220	(1,816,160)	509,191	2,325,351
Fund balances, beginning of year	<u>449,671</u>	<u>449,671</u>	<u>449,671</u>	
Fund balances, end of year	<u>\$764,891</u>	<u>\$(1,366,489)</u>	<u>\$ 958,862</u>	<u>\$2,325,351</u>

See independent auditor's report and notes to financial statements.

SUPPLEMENTARY INFORMATION SECTION

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CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2013

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
ASSETS					
Cash and investments	\$1,689,240	\$1,828,146	\$71,523	\$281,128	\$814,490
Accounts receivable	16,361	1,803		274	4,256
Loan receivable	<u> </u>	<u> </u>	<u> </u>	<u>49,469</u>	<u> </u>
Total assets	<u>\$1,705,601</u>	<u>\$1,829,949</u>	<u>\$71,523</u>	<u>\$330,871</u>	<u>\$818,746</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 9,225	\$ 325	\$	\$	\$ 19,579
Due to other funds	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,225</u>	<u>325</u>	<u> </u>	<u> </u>	<u>19,579</u>
Fund balances					
Nonspendable:					
Long-term receivables					
Restricted for:					
Streets and roads	1,696,376				
Recreation		1,829,624			
Landscape maintenance					799,167
Public safety					
Aviation					
Committed for:					
Parking and business improvement			71,523	330,871	
Community development					
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,696,376</u>	<u>1,829,624</u>	<u>71,523</u>	<u>330,871</u>	<u>799,167</u>
Total liabilities and fund balances	<u>\$1,705,601</u>	<u>\$1,829,949</u>	<u>\$71,523</u>	<u>\$330,871</u>	<u>\$818,746</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2013
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees
ASSETS				
Cash and investments	\$1,132,221	\$145,125	\$490,356	\$1,360,078
Accounts receivable	1,102	141	477	1,324
Loan receivable	<u>1,307,995</u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$2,441,318</u>	<u>\$145,266</u>	<u>\$490,833</u>	<u>\$1,361,402</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$	\$	\$	\$
Due to other funds	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balances				
Nonspendable:				
Long-term receivables	1,307,995			
Restricted for:				
Streets and roads				
Recreation				
Landscape maintenance				
Public safety			490,833	1,361,402
Aviation				
Committed for:				
Parking and business improvement		145,266		
Community development	1,133,323			
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>2,441,318</u>	<u>145,266</u>	<u>490,833</u>	<u>1,361,402</u>
Total liabilities and fund balances	<u>\$2,441,318</u>	<u>\$145,266</u>	<u>\$490,833</u>	<u>\$1,361,402</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2013
(Continued)

	Special Aviation	Learning Center Operation	Traffic Safety	Street Tree Committee
ASSETS				
Cash and investments	\$	\$19,357	\$1,980	\$1,196
Accounts receivable	61,122	19	1,405	
Loan receivable	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$61,122</u>	<u>\$19,376</u>	<u>\$3,385</u>	<u>\$1,196</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$	\$	\$1,988	\$
Due to other funds	<u>51,122</u>	<u> </u>	<u>28</u>	<u> </u>
Total liabilities	<u>51,122</u>	<u> </u>	<u>2,016</u>	<u> </u>
Fund balances				
Nonspendable:				
Long-term receivables				
Restricted for:				
Streets and roads				
Recreation				
Landscape maintenance				1,196
Public safety			1,369	
Aviation	10,000			
Committed for:				
Parking and business improvement				
Community development		19,376		
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>10,000</u>	<u>19,376</u>	<u>1,369</u>	<u>1,196</u>
Total liabilities and fund balances	<u>\$61,122</u>	<u>\$19,376</u>	<u>\$3,385</u>	<u>\$1,196</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2013
(Continued)

	State Gas Tax Fund	Grants	Public Housing Authority	Total Non-Major Special Revenue Funds
ASSETS				
Cash and investments	\$3,305,791	\$ 873	\$	\$11,141,504
Accounts receivable	108,549	217,937		414,770
Loan receivable	<u> </u>	<u> </u>	<u>1,225,128</u>	<u>2,582,592</u>
Total assets	<u>\$3,414,340</u>	<u>\$218,810</u>	<u>\$1,225,128</u>	<u>\$14,138,866</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 8,557	\$ 1,324	\$ 3,384	\$ 44,382
Due to other funds	<u> </u>	<u>216,613</u>	<u> </u>	<u>267,763</u>
Total liabilities	<u>8,557</u>	<u>217,937</u>	<u>3,384</u>	<u>312,145</u>
Fund balances				
Nonspendable:				
Long-term receivables			1,225,128	2,533,123
Restricted for:				
Streets and roads	3,405,783			5,102,159
Recreation				1,829,624
Landscape maintenance				800,363
Public safety				1,853,604
Aviation				10,000
Committed for:				
Parking and business improvement				547,660
Community development		873		1,153,572
Unassigned	<u> </u>	<u> </u>	<u>(3,384)</u>	<u>(3,384)</u>
Total fund balances	<u>3,405,783</u>	<u>873</u>	<u>1,221,744</u>	<u>13,826,721</u>
Total liabilities and fund balances	<u>\$3,414,340</u>	<u>\$218,810</u>	<u>\$1,225,128</u>	<u>\$14,138,866</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2013

	Transportation Impact Fees	Park Impact Fees	Parking Fund	Downtown Reinvestment Fund	Landscaping Assessment District
REVENUES					
Taxes and special assessments	\$ 220,921	\$ 301,278	\$	\$	\$355,612
Aid from other governmental agencies					
Fines and forfeits					
Revenue from use of money and property	3,701	8,714	8,306	4,325	
Miscellaneous					
Unrealized gain (loss) on investments	<u>(10,902)</u>	<u>(10,021)</u>	<u>(374)</u>	<u>(1,505)</u>	<u>(4,334)</u>
Total revenues	<u>213,720</u>	<u>299,971</u>	<u>7,932</u>	<u>2,820</u>	<u>351,278</u>
EXPENDITURES					
General government				3,398	327,078
Public works					
Community development					
Capital outlay	<u>1,568,513</u>	<u>433,113</u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>1,568,513</u>	<u>433,113</u>	<u> </u>	<u>3,398</u>	<u>327,078</u>
Excess (deficiency) of revenue over expenditures	<u>(1,354,793)</u>	<u>(133,142)</u>	<u>7,932</u>	<u>(578)</u>	<u>24,200</u>
Other financing sources (uses)					
Operating transfers in					
Operating transfers out					
Total other financing sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	(1,354,793)	(133,142)	7,932	(578)	24,200
Fund balances, beginning of year	<u>3,051,169</u>	<u>1,962,766</u>	<u>63,591</u>	<u>331,449</u>	<u>774,967</u>
Fund balances end of year	<u>\$ 1,696,376</u>	<u>\$ 1,829,624</u>	<u>\$71,523</u>	<u>\$330,871</u>	<u>\$799,167</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2013
(Continued)

	City Housing Fund	Central Parking and Business Improvement	Fire Protection Impact Fees	Police Protection Impact Fees
REVENUES				
Taxes and special assessments	\$	\$103,614	\$ 21,095	\$ 40,280
Aid from other governmental agencies				
Fines and forfeits				
Revenue from use of money and property	8,413	611	2,200	6,136
Miscellaneous	45			
Unrealized gain (loss) on investments	<u>(6,061)</u>	<u>(751)</u>	<u>(2,612)</u>	<u>(7,268)</u>
Total revenues	<u>2,397</u>	<u>103,474</u>	<u>20,683</u>	<u>39,148</u>
EXPENDITURES				
General government				
Public works				
Community development				
Capital outlay	<u> </u>	<u>81,090</u>	<u> </u>	<u> </u>
Total expenditures	<u> </u>	<u>81,090</u>	<u> </u>	<u> </u>
Excess (deficiency) of revenue over expenditures	<u>2,397</u>	<u>22,384</u>	<u>20,683</u>	<u>39,148</u>
Other financing sources (uses)				
Operating transfers in				
Operating transfers out	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	2,397	22,384	20,683	39,148
Fund balances, beginning of year	<u>2,438,921</u>	<u>122,882</u>	<u>470,150</u>	<u>1,322,254</u>
Fund balances end of year	<u>\$2,441,318</u>	<u>\$145,266</u>	<u>\$490,833</u>	<u>\$1,361,402</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2013
(Continued)

	Special Aviation	Learning Center Operation	Traffic Safety	Street Tree Committee
REVENUES				
Taxes and special assessments	\$381,826	\$	\$	\$
Aid from other governmental agencies				
Fines and forfeits			62,269	
Revenue from use of money and property		2,141		
Miscellaneous				
Unrealized gain (loss) on investments	_____	(135)	(11)	(6)
Total revenues	<u>381,826</u>	<u>2,006</u>	<u>62,258</u>	<u>(6)</u>
EXPENDITURES				
General government				
Public works	364,536	25,139		
Community development				
Capital outlay	_____	_____	_____	_____
Total expenditures	<u>364,536</u>	<u>25,139</u>	_____	_____
Excess (deficiency) of revenue over expenditures	<u>17,290</u>	<u>(23,133)</u>	<u>62,258</u>	<u>(6)</u>
Other financing sources (uses)				
Operating transfers in				
Operating transfers out	(17,290)	_____	(60,893)	_____
Total other financing sources (uses)	<u>(17,290)</u>	_____	<u>(60,893)</u>	_____
Net change in fund balances		(23,133)	1,365	(6)
Fund balances, beginning of year	<u>10,000</u>	<u>42,509</u>	<u>4</u>	<u>1,202</u>
Fund balances end of year	<u>\$ 10,000</u>	<u>\$ 19,376</u>	<u>\$ 1,369</u>	<u>\$1,196</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2013
(Continued)

	State Gas Tax Fund	Grants	Public Housing Authority	Total Non-Major Special Revenue Funds
REVENUES				
Taxes and special assessments	\$1,571,699	\$	\$	\$ 2,996,325
Aid from other governmental agencies		255,049		255,049
Fines and forfeits				62,269
Revenue from use of money and property	18,092		220	62,859
Miscellaneous				45
Unrealized gain (loss) on investments	<u>(17,650)</u>	<u>943</u>	<u>(883)</u>	<u>(61,570)</u>
Total revenues	<u>1,572,141</u>	<u>255,992</u>	<u>(663)</u>	<u>3,314,977</u>
EXPENDITURES				
General government	7,500			337,976
Public works		238,397		628,072
Community development			876,607	876,607
Capital outlay	<u>1,792,492</u>	<u></u>	<u></u>	<u>3,875,208</u>
Total expenditures	<u>1,799,992</u>	<u>238,397</u>	<u>876,607</u>	<u>5,717,863</u>
Excess (deficiency) of revenue over expenditures	<u>(227,851)</u>	<u>17,595</u>	<u>(877,270)</u>	<u>(2,402,886)</u>
Other financing sources (uses)				
Operating transfers in			170,372	170,372
Operating transfers out	<u>(3,248)</u>	<u></u>	<u></u>	<u>(81,431)</u>
Total other financing sources (uses)	<u>(3,248)</u>	<u></u>	<u>170,372</u>	<u>88,941</u>
Net change in fund balances	(231,099)	17,595	(706,898)	(2,313,945)
Fund balances, beginning of year	<u>3,636,882</u>	<u>(16,722)</u>	<u>1,928,642</u>	<u>16,140,666</u>
Fund balances end of year	<u>\$3,405,783</u>	<u>\$ 873</u>	<u>\$1,221,744</u>	<u>\$13,826,721</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Internal Service Funds
June 30, 2013

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
ASSETS			
Current assets			
Cash and investments	\$	\$3,965,148	\$1,816,215
Receivables, net			
Prepaid expenses	2,187		
Deposits		80,000	
Inventory			
Due from other funds	<u> </u>	<u>2,178</u>	<u> </u>
Total current assets	<u>2,187</u>	<u>4,047,326</u>	<u>1,816,215</u>
Capital assets			
Machinery and equipment			
Accumulated depreciation	<u> </u>	<u> </u>	<u> </u>
Capital assets, net	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$2,187</u>	<u>\$4,047,326</u>	<u>\$1,816,215</u>
LIABILITIES			
Accounts payable	\$	\$ 276,298	\$ 820
Salaries and benefits payable			2,280
Due to other funds	<u>2,178</u>	<u> </u>	<u> </u>
Total liabilities	<u>2,178</u>	<u>276,298</u>	<u>3,100</u>
NET POSITION			
Investment in capital assets, net of related debt			
Unrestricted	<u>9</u>	<u>3,771,028</u>	<u>1,813,115</u>
Total net position	<u>9</u>	<u>3,771,028</u>	<u>1,813,115</u>
Total liabilities and net position	<u>\$2,187</u>	<u>\$4,047,326</u>	<u>\$1,816,215</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Internal Service Funds
June 30, 2013
(Continued)

	Building Fund	Fleet Maintenance Fund	Totals
ASSETS			
Current assets			
Cash and investments	\$884,561	\$ 11,162,816	\$ 17,828,740
Receivables, net		10,553	10,553
Prepaid expenses			2,187
Deposits			80,000
Inventory		184,284	184,284
Due from other funds			2,178
Total current assets	<u>884,561</u>	<u>11,357,653</u>	<u>18,107,942</u>
Capital assets			
Machinery and equipment	12,341	16,573,132	16,585,473
Accumulated depreciation	<u>(12,341)</u>	<u>(10,622,892)</u>	<u>(10,635,233)</u>
Capital assets, net		<u>5,950,240</u>	<u>5,950,240</u>
Total assets	<u>\$884,561</u>	<u>\$ 17,307,893</u>	<u>\$ 24,058,182</u>
LIABILITIES			
Accounts payable	\$ 15,510	\$ 79,715	\$ 372,343
Salaries and benefits payable	39,789	27,199	69,268
Loans from (to) other funds			2,178
Total liabilities	<u>55,299</u>	<u>106,914</u>	<u>443,789</u>
NET POSITION			
Investment in capital assets, net of related debt		5,950,240	5,950,240
Unrestricted	<u>829,262</u>	<u>11,250,739</u>	<u>17,664,153</u>
Total net position	<u>829,262</u>	<u>17,200,979</u>	<u>23,614,393</u>
Total liabilities and net position	<u>\$884,561</u>	<u>\$ 17,307,893</u>	<u>\$ 24,058,182</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Internal Service funds
For the Year Ended June 30, 2013

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
REVENUES			
Charges for services	<u>\$</u>	<u>\$1,109,771</u>	<u>\$ 279,010</u>
EXPENSES			
Personnel services			120,749
Services and supplies		1,133,056	117,353
Depreciation	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses	<u>—</u>	<u>1,133,056</u>	<u>238,102</u>
Operating income (loss)	<u>—</u>	<u>(23,285)</u>	<u>40,908</u>
Non-operating revenues (expenses)			
Gain (loss) on sale of assets			
Interest income			
Unrealized gain on investments	(6)	(21,408)	(9,740)
Miscellaneous	<u>—</u>	<u>6,021</u>	<u>5,000</u>
Total non-operating revenue (expenses)	<u>(6)</u>	<u>(15,387)</u>	<u>(4,740)</u>
Income (loss) before contributions and transfers	<u>(6)</u>	<u>(38,672)</u>	<u>36,168</u>
Capital contributions	<u>—</u>	<u>—</u>	<u>—</u>
Change in net position	(6)	(38,672)	36,168
Net position, beginning of year	<u>15</u>	<u>3,809,700</u>	<u>1,776,947</u>
Net position, end of year	<u>\$ 9</u>	<u>\$3,771,028</u>	<u>\$1,813,115</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2013
(Continued)

	Building Fund	Fleet Management Fund	Totals
REVENUES			
Charges for services	<u>\$763,997</u>	<u>\$ 3,455,600</u>	<u>\$ 5,608,378</u>
EXPENSES			
Personnel services	433,593	457,948	1,012,290
Services and supplies	236,678	1,632,242	3,119,329
Depreciation	<u> </u>	<u>1,022,508</u>	<u>1,022,508</u>
Total expenses	<u>670,271</u>	<u>3,112,698</u>	<u>5,154,127</u>
Operating income (loss)	<u>93,726</u>	<u>342,902</u>	<u>454,251</u>
Non-operating revenue (expense)			
Interest income		48,291	48,291
Unrealized gain on investments	(4,623)	(59,465)	(95,242)
Miscellaneous	<u> </u>	<u>30,910</u>	<u>41,931</u>
Total non-operating revenue (expense)	<u>(4,623)</u>	<u>19,736</u>	<u>(5,020)</u>
Income before contributions and transfers	<u>89,103</u>	<u>362,638</u>	<u>449,231</u>
Capital contributions	<u> </u>	<u>493,280</u>	<u>493,280</u>
Change in net position	89,103	855,918	942,511
Net position, beginning of year	<u>740,159</u>	<u>16,345,061</u>	<u>22,671,882</u>
Net position, end of year	<u>\$829,262</u>	<u>\$17,200,979</u>	<u>\$23,614,393</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2013

	City Payroll Fund	Risk Management Fund	Computer Maintenance Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$	\$ 1,109,771	\$ 279,010
Cash paid for services and supplies		(1,134,828)	(126,821)
Cash paid for salaries and benefits	<u>(13,323)</u>	<u> </u>	<u>(120,249)</u>
Net cash provided (used) by operating activities	<u>(13,323)</u>	<u>(25,057)</u>	<u>31,940</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Loans from (to) other funds	<u>2,178</u>	<u>(2,178)</u>	<u> </u>
Net cash used by noncapital financing activities	<u>2,178</u>	<u>(2,178)</u>	<u> </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital contributions	<u> </u>	<u> </u>	<u> </u>
Capital expenditures	<u> </u>	<u> </u>	<u> </u>
Net cash used by capital and related financing activities	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain on investments	(6)	(21,408)	(9,740)
Other non-operating revenue		6,021	5,000
Interest received	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by investing activities	<u>(6)</u>	<u>(15,387)</u>	<u>(4,740)</u>
Net increase (decrease) in cash and cash equivalents	(11,151)	(42,622)	27,200
Cash and cash equivalents, beginning of year	<u>11,151</u>	<u>4,007,770</u>	<u>1,789,015</u>
Cash and cash equivalents, end of year	<u>\$</u>	<u>\$ 3,965,148</u>	<u>\$1,816,215</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$	\$ (23,285)	\$ 40,908
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization			
(Increase) decrease in net assets:			
Prepaid expenses	(2,187)		
Deposits		(80,000)	
Inventory			
Increase (decrease) in net liabilities:			
Accounts payable		78,228	(9,468)
Salaries and benefits payable	<u>(11,136)</u>	<u> </u>	<u>500</u>
Net cash provided (used) by operating activities	<u>\$ (13,323)</u>	<u>\$ (25,057)</u>	<u>\$ 31,940</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2013
(Continued)

	Building Fund	Fleet Maintenance Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for current services	\$ 763,997	\$ 3,455,600	\$ 5,608,378
Cash paid for services and supplies	(226,367)	(1,645,217)	(3,133,233)
Cash paid for salaries and benefits	<u>(430,081)</u>	<u>(461,916)</u>	<u>(1,025,569)</u>
Net cash provided by operating activities	<u>107,549</u>	<u>1,348,467</u>	<u>1,449,576</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Loans from (to) other funds	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by noncapital financing activities	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital contributions		493,280	493,280
Capital expenditures	<u> </u>	<u>(1,176,024)</u>	<u>(1,176,024)</u>
Net cash used by capital and related financing activities	<u> </u>	<u>(682,744)</u>	<u>(682,744)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Unrealized gain on investments	(4,623)	(59,465)	(95,242)
Other non-operating revenue		30,910	41,931
Interest received	<u> </u>	<u>52,516</u>	<u>52,516</u>
Net cash provided (used) by investing activities	<u>(4,623)</u>	<u>23,961</u>	<u>(795)</u>
Net increase (decrease) in cash and cash equivalents	102,926	689,684	766,037
Cash and cash equivalents, beginning of year	<u>781,635</u>	<u>10,473,132</u>	<u>17,062,703</u>
Cash and cash equivalents, end of year	<u>\$ 884,561</u>	<u>\$11,162,816</u>	<u>\$17,828,740</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income/(loss)	\$ 93,726	\$ 342,902	\$ 454,251
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization		1,022,508	1,022,508
(Increase) decrease in net assets:			
Prepaid expenses			(2,187)
Deposits			(80,000)
Inventory		(29,790)	(29,790)
Increase (decrease) in net liabilities:			
Accounts payable	3,512	16,815	89,087
Salaries and benefits payable	<u>10,311</u>	<u>(3,968)</u>	<u>(4,293)</u>
Net cash provided (used) by operating activities	<u>\$ 107,549</u>	<u>\$ 1,348,467</u>	<u>\$ 1,449,576</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Net Position
Trust and Agency Funds
June 30, 2013

	<u>Community Facilities District</u>	<u>Civil Subpoena</u>	<u>Renters' Insurance Deposits</u>	<u>COE Park Deposits</u>	<u>Miscellaneous Deposits Trust</u>	<u>Total</u>
ASSETS						
Cash and investments	\$ 891,839	\$117,699	\$430	\$478	\$318,008	\$1,328,454
Accounts receivable		602			3,913	4,515
Other	<u>1,615,000</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>1,615,000</u>
Total assets	<u>\$2,506,839</u>	<u>\$118,301</u>	<u>\$430</u>	<u>\$478</u>	<u>\$321,921</u>	<u>\$2,947,969</u>
LIABILITIES						
Accounts payable	\$	\$ 43	\$	\$	\$322,426	\$ 322,469
Deposits held for others		118,258	430	478		119,166
Bonds/notes payable	<u>1,615,000</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>1,615,000</u>
Total liabilities	<u>1,615,000</u>	<u>118,301</u>	<u>430</u>	<u>478</u>	<u>322,426</u>	<u>2,056,635</u>
NET POSITION						
Unreserved	<u>891,839</u>	<u> </u>	<u> </u>	<u> </u>	<u>(505)</u>	<u>891,334</u>
Total net position	<u>\$ 891,839</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (505)</u>	<u>\$ 891,334</u>

See independent auditor's report and notes to financial statements.

CITY OF HANFORD
Combining Statement of Changes in Fiduciary Net Position
Trust and Agency Funds
For the Year Ended June 30, 2013

	Community Facilities District	Miscellaneous Deposits Trust	Total
ADDITIONS			
Other additions	<u>\$485,785</u>	<u>\$ 250</u>	<u>\$486,035</u>
DEDUCTIONS			
General government	17,954		17,954
Unrealized (gain) loss on investments	1,316	1,745	3,061
Debt service:			
Principal	355,000		355,000
Interest	<u>107,195</u>	<u> </u>	<u>107,195</u>
Total Deductions	<u>481,465</u>	<u>1,745</u>	<u>483,210</u>
Change in net position	<u>4,320</u>	<u>(1,495)</u>	<u>2,825</u>
Net position, beginning of year	<u>887,519</u>	<u>990</u>	<u>888,509</u>
Net position (deficit), end of year	<u>\$891,839</u>	<u>\$ (505)</u>	<u>\$891,334</u>

See independent auditor's report and notes to financial statements.

SINGLE AUDIT REPORTS

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February 3, 2014

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hanford, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hanford's basic financial statements, and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hanford's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hanford's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hanford's internal.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hanford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hanford's Response to Findings

City of Hanford's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hanford's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP



February 3, 2014

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the City of Hanford's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hanford's major federal programs for the year ended June 30, 2013. City of Hanford's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hanford's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hanford's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Hanford's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Hanford complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-3. Our opinion on each major federal program is not modified with respect to these matters.

City of Hanford's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hanford's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of City of Hanford is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered City of Hanford's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hanford's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose to this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Catalog Number	Pass-Through Grantors Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through State Office of Homeland Security State Domestic Preparedness Equipment and Support Program	97.004	2011-35-0027-031-00000	\$ 65,022
Total U.S. Department of Homeland Security			<u>65,022</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration Airport Improvement	20.106	3-06-0098	371,826
Federal Highway Administration Passed through California Department of Transportation Highway Planning and Construction	20.205	CML-5091(48)	234,448
Highway Planning and Construction	20.205	CML-5091(36)	276,535
Highway Planning and Construction	20.205	CML-5091(46)	730,325
Passed through California Office of Traffic Safety National Highway Safety Programs	20.601	TSCAL1183	<u>6,096</u>
Total U.S. Department of Transportation			<u>1,619,230</u>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development CDBG/Entitlement Grants (A)	14.218	B-12-MC-06-0061	231,453
CDBG/Entitlement Grants (A)	14.218	B-13-MC-06-0061	782,001
CDBG/Entitlement Grants (A)	14.218	A-10-MC-06-0061	42,901
CDBG/Entitlement Grants (A)	14.218	B-11-MC-06-0061	149,402
Office of Sustainable Housing and Community Sustainable Communities Regional Housing	14.703	SC360080-11-13	33,428
Home Investment Partnership Program	14.239	10-HOME-6894	<u>681,578</u>
Total U.S. Department of Housing and Urban Development			<u>1,920,763</u>
<u>U.S. Department of Justice</u>			
Direct Program Public Safety Partnership and Community Policing Grants	16.710	2010UMWX0031	81,017
Edward Byrne Justice Assistance Grant	16.804	2012-DJ-BX-0137	13,602
Bullet Proof Vest Partnership Program	16.607	1121-0235	<u>1,792</u>
Total U.S. Department of Justice			<u>96,411</u>
<u>U.S. Department of Energy</u>			
Direct Program Energy Efficiency and Conservation Block Grant	81.128	EE0002294	<u>203,574</u>
Total U.S. Department of Energy			<u>203,574</u>
Total Expenditures of Federal Awards			<u>\$3,905,000</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF HANFORD
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2013

1. Summary of Significant Accounting Policies:

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the awards transactions of the City recorded in the governmental and proprietary fund types.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The accrual basis of accounting is utilized by proprietary funds. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California are included in the Schedule.

The Schedule was presented only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(s) identified not considered to be material weakness(es)?	<u> X </u> Yes	<u> </u> No	
Noncompliance material to financial statements notes?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(s) identified not considered to be material weakness(es)?	<u> X </u> Yes	<u> </u> No	
Type of auditor's report issued on compliance for major programs:			

	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510 (a))?	<u> </u> Yes	<u> X </u> No	

Programs Subjected to Audit Procedures as Major Programs

	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
14.218	CDBG Entitlement Grants
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Part II - Financial Statement Finding Section

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Financial Statements:

Significant Deficiency

2013-1 – Cash Receipts

Condition:

During our testing of internal controls over cash receipts in the recreation department, the following was noted:

1. Proper support is not being consistently attached and reviewed for cash received in the recreation department at its various offsite locations.
2. Proper controls have not been established to cover all of the recreation department's various offsite activities

Criteria:

Strong internal controls over cash payments should be established and continuously monitored for compliance to reduce the possibility of misappropriation of City funds.

Effect of Condition:

Inadequate controls over cash collections increase the risk that City funds can be misappropriated without being detected.

Cause of Condition:

Although some internal controls over cash collection had been established, they were not adequately monitored to make sure they were working as intended.

Recommendation:

We recommend cash receipts controls be put in place for every event the recreation department oversees. Any time money is received at an event it should be accompanied by proper support that is able to be reviewed and verified by a supervisor and then the finance department. If events are scheduled in which the recreation department is partnering with another organization or sponsor there should be written documentation that clearly identifies how revenues and expenses will be shared.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued)

Response:

City Management agrees with the audit findings and recommendations. Finance is updating the City's cash handling policy to include cash handling procedures for events overseen by the Recreation Department as well as any department receipting cash. The procedures will define appropriate support to accompany cash deposits that may be verified by department supervisors as well as Finance staff. The Recreation Department will have written documentation that specifies how revenues and expenses will be shared between the City and a co-sponsoring organization.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued)

Significant Deficiency

2013-2 – Loans Receivable

Condition:

During our testing of the balance of receivables for outstanding housing loans, we found that approximately \$280,000 in uncollectible loans related to foreclosed properties were still recorded as an asset on the City's books.

Criteria:

Receivable balances recorded on the books should only include those amounts that are deemed to be ultimately collectible. Any write-offs or adjustments to outstanding balances should be made after approval by the appropriate City personnel.

Effect of Condition:

Failure to write-off uncollectible loan balances would result in the overstatement of City assets.

Cause of Condition:

The outstanding housing loans recorded on the books were not adequately reviewed at year-end to determine if they were still collectible.

Recommendation:

We recommend that a thorough review of loan balances be made at least on an annual basis to determine the ultimate collectibility of the amounts outstanding. Any loans that are considered to be uncollectible should be written off immediately after approval by the Finance Director.

Response:

City Management agrees with the audit findings and recommendations. A policy is in place to review loans semi-annually to determine the collectibility of outstanding loans and provide the Finance Director with uncollectible loans to be written off.

CITY OF HANFORD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued)

Part III - Federal Award Findings and Questioned Costs Section

U.S. Department of Housing and Urban Development C.F.D.A. #14.218

Significant Deficiencies, Material Weaknesses and Instances of Noncompliance Related to the Audit of Major Federal Programs:

Significant Deficiency

2013-3 – CDBG Grant Programs

Condition:

In the prior year deficiencies were (1) staff was unable to provide copies of activity reports, performance reports and annual reports (2) outside consultant administering CDBG grant programs was not being monitored as required and (3) there appeared from HUD correspondence that the City failed to perform approved activities in a timely manner. These conditions persisted through the June 30, 2013 fiscal year and per review of a 2013 Program Monitoring Report by an on-site monitoring representative from HUD other findings and concerns were observed, namely in the area of documentation, and management systems.

Criteria:

CDBG standards require sufficient documentations to support programs that meet the National objective of assistance to benefit low-to-moderate-income areas and program management to see that timely expenditures and program reports are submitted.

Effect of Condition:

Failure to follow CDBG rules and regulations could put the City in jeopardy for receiving future funding.

Cause of Condition:

There does not appear that there is knowledgeable management of these programs and that staff is not adequately trained to accomplish and comply with all the requirements of these programs.

Recommendations:

Although it appears that the City has assigned a responsible manager and staff to these programs , on-going training and review should be initiated so that all programs are in compliance with CDBG regulations.

Response:

City Management agrees with the audit findings and recommendations. The CDBG program's administering staff will review its policies on an ongoing basis, and attend any training available to them to ensure that the City's program is in compliance with CDBG regulations. Until actual training is available, staff remains in close contact with the City's CDBG representative.

CITY OF HANFORD
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

U.S. Department of Housing and Urban Development

Finding – 2012-3 – 14.218 CDBG/Entitlement Grants

Condition:

This finding was a significant deficiency, and the following deficiencies were noted. (1) Staff was unable to provide various required reports (2) Failure to provide documentation of monitoring CDBG grant programs outside consultants (3) It appeared from correspondence from H.U.D. that program fund activities were not being performed timely.

Recommendation:

The City should appoint a Grant Manager to oversee these programs and Staff assigned to grant programs need to be adequately trained.

Current Status:

Although it appears that the City has assigned a responsible manager and staff to these programs ongoing training should be initiated so that all programs are in compliance with CDBG regulations. See response at 2013-3.

APPRORIATIONS LIMIT REPORT

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February 3, 2014

The Honorable City Council
City of Hanford
Hanford, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH ARTICLE XIII B – APPROPRIATIONS LIMIT

We have applied the procedures enumerated below to the accompanying appropriations limit of the City of Hanford for the year ended June 30, 2013. These procedures, which were agreed to by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirement of Section 1.5 of Article XIII B of the California Constitution. This report is intended for the information of management and the City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

The procedures performed and our findings were as follows:

1. We obtained computations from the City of Hanford and determined that the limit and annual adjustment factors were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
2. For the accompanying Appropriations Limit, we added last year's limit to total adjustments, and agreed the resulting amount of this year's limit.
3. We agreed the current year information presented in the accompanying Appropriations Limit to the other computations described above.
4. We agreed the prior year Appropriations Limit presented in the accompanying Appropriations Limit to the Prior year Appropriations Limit adopted by the City Council during the prior year.

These agreed upon procedures are substantially less in scope than an audit, the objective of which is the expression of an opinion on the accompanying Appropriations Limit. Accordingly, we do not express such an opinion.

Based on the application of the procedures referred to above, nothing came to our attention that caused us to believe that the accompanying Appropriations Limit was not computed in accordance with Article XIII B of the California Constitution. Had we performed additional procedures or had we made an audit of the accompanying Appropriations Limit and the other completed worksheets described above, matters might have come to our attention that would have been reported to you.

Sampson, Sampson & Patterson, LLP

CITY OF HANFORD
Appropriations Limit
Schedules A and B
June 30, 2013

Schedule A	Fiscal Year 2012-2013	Amount
A. Last Year's Limit – 2012		\$48,364,684
B. Add: Adjustment for Annexation Service Deliver Charge		<u>0</u>
Subtotal		<u>\$48,364,684</u>
Apply ratio of Change Factor (Schedule B)		1.0465
C. Appropriations Limit – Fiscal Year 2012-2013		<u>\$50,613,642</u>

Schedule B	Worksheet for Permitted Growth in Appropriations Limit 2012-2013	
Kings County Population Change	(1)	.85%
Converted to a Ratio		1.0085
California Per Capita Income Change	(1)	3.77%
Converted to a Ratio		1.0377
Calculation of Factor for 2012-2013		1.0085 x 1.0377
Ratio of Change Factor		1.0465

(1) Provided by the California State Department of Finance

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF HANFORD (the “City”) in connection with the issuance by the City of its \$4,500,000* City of Hanford (Kings County, California) Wastewater Refunding Revenue Bonds, Series 2015 (the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of January 1, 2015 (the “Indenture”), by and between the City and MUFG Union Bank, N.A., as trustee. The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“*Dissemination Agent*” shall mean Urban Futures, Inc. or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Owner*” or “*Bond Owner*,” when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered.

“*Participating Underwriter*” shall mean the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2014-15 Fiscal Year, which is due not later than January 31, 2016, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the tables in the official statement for the Bonds under the heading "THE WASTEWATER SYSTEM."

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, trustee or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than

in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition to the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so

requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

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

(c) *Consent of Owners; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following 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 Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

Date: [Closing Date]

CITY OF HANFORD

By _____
Darrel L. Pyle
City Manager

ACKNOWLEDGED:

URBAN FUTURES, INC., as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Hanford

Name of Issue: City of Hanford (Kings County, California) Wastewater Refunding Revenue Bonds, Series 2015

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate dated v, furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

URBAN FUTURES, INC., as Dissemination Agent

By _____
Name _____
Title _____

cc: MUFG Union Bank, N.A., as Trustee

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APPENDIX D

GENERAL INFORMATION REGARDING THE CITY OF HANFORD

The following information concerning the City of Hanford and surrounding areas is included only for the purpose of supplying general information regarding the community. The Bonds are not a debt of the City, County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General

The City of Hanford is an important commercial and cultural center in the south central San Joaquin Valley and is the county seat of Kings County, California. The City is situated in the south central portion of California's San Joaquin Valley, 28 miles (45 km) south-southeast of the city of Fresno and 18 miles (29 km) west of the city of Visalia. The City is 249 feet (76 m) above sea level and has a flat terrain. According to the United States Census Bureau, the city has a total area of 16.6 square miles (43 km²), none of which is covered by water. The only natural watercourse is Mussel Slough, remnants of which still exist on the city's western edge. The Kings River is about 6.5 miles (10.5 km) north of Hanford. The People's Ditch, an irrigation canal dug in the 1870s, traverses Hanford from north to south.

Kings County is located in the San Joaquin Valley, a rich agricultural region. The county seat is Hanford. According to the U.S. Census Bureau, the County has a total area of 1,392 square miles (3,610 km²), of which 1,389 square miles (3,600 km²) is land and 2.1 square miles (5.4 km²) (0.2%) is water. The County is bordered on the north and northwest by Fresno County, on the east by Tulare County, on the south by Kern County and a small part of San Luis Obispo County and on the west by Monterey County. The economy of the County is primarily based on agriculture. Other important employers include NAS Lemoore, the U.S. Navy's newest and largest master jet base, a Del Monte Foods tomato processing plant, Adventist Health, the J. G. Boswell Company, an Olam International tomato processing facility, Leprino Foods, the largest mozzarella cheese maker in the world, the Kings County Government and the California Department of Corrections and Rehabilitation which operates three state prisons in Kings County.

Organization

The City was incorporated on August 12, 1891 as a general law city. The City operates under a Council/Manager form of government. The five City Council members, are elected at large. The policies of the City Council are carried out by the appointed City Manager.

Population

The table below summarizes population of the City and the County for the past five years.

POPULATION
City of Hanford and Kings County

Year	City of Hanford	Kings County
2010	53,967	152,982
2011	54,658	152,533
2012	54,860	151,774
2013	55,122	151,127
2014	55,283	150,181

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2014, with 2010 Census Benchmark. Sacramento, California, May 2014.

Employment

The following table summarizes the historical numbers of workers by industry in Kings County for the last five years:

**KINGS COUNTY
HANFORD-CORCORAN MSA
Labor Force and Industry Employment
Annual Averages by Industry**

	2009	2010	2011	2012	2013 ⁽¹⁾
Total, All Industries	43,800	42,800	42,500	42,800	43,200
Total Farm	6,500	6,600	6,200	6,300	6,400
Total Nonfarm	37,300	36,300	36,200	36,500	36,800
Total Private	21,700	21,400	21,500	21,900	22,500
Goods Producing	5,200	5,000	5,200	5,200	5,300
Mining, Logging, and Construction	900	900	900	800	800
Manufacturing	4,300	4,100	4,300	4,400	4,500
Trade, Transportation & Utilities	5,200	5,200	5,300	5,400	5,700
Information	300	200	200	200	200
Financial Activities	1,000	900	1,000	1,000	900
Professional & Business Services	1,400	1,700	1,200	1,300	1,300
Educational & Health Services	5,400	5,200	5,300	5,400	5,500
Leisure & Hospitality	2,700	2,700	2,800	2,800	2,900
Other Services	500	500	500	600	600
Government	15,600	14,900	14,800	14,600	14,300

Source: California Employment Development Department based on March 2013 benchmark.

(1) Last available full year data.

*Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

The following tables summarize historical employment and unemployment for Kings County, the State of California and the United States for the past five years:

KINGS COUNTY, CALIFORNIA, AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate ⁽¹⁾
2009	Kings County	60,600	51,800	8,800	14.5%
	California	18,208,300	16,144,500	2,063,900	11.3
	United States	154,142,000	139,877,000	14,265,000	9.3
2010	Kings County	61,600	51,400	10,200	16.5%
	California	18,316,400	16,051,500	2,264,900	12.4
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	Kings County	61,200	51,200	9,900	16.2%
	California	18,384,900	16,226,600	2,158,300	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	Kings County	60,800	51,600	9,200	15.1%
	California	18,494,900	16,560,300	1,934,500	10.5
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Kings County	60,000	51,900	8,100	13.5%
	California	18,596,800	16,933,300	1,663,500	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4

Source: California Employment Development Department, based on March 2013 benchmark and US Department of Labor, Federal Bureau of Labor Statistics

(1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.

Major Employers

The table below sets forth the principal employers of the County.

KINGS COUNTY 2014 Major Employers

Company	Location	Industry
Adventist Medical Ctr-Hanford	Hanford	Hospitals
California State Prison	Corcoran	State Govt-Correctional Institutions
California State Prison	Corcoran	State Govt-Correctional Institutions
Central Valley Meat Co Inc	Hanford	Meat Packers (Mfrs)
Del Monte Foods	Hanford	Canned Specialties (Mfrs)
Hanford Comm Medical Ctr	Hanford	Health Services
Hanford Regional Healthcare	Hanford	Physicians & Surgeons
Hanford Sentinel	Hanford	Newspapers (Publishers/Mfrs)
Hotel At Tachi Palace	Lemoore	Casinos
J G Boswell Co	Corcoran	Cotton Goods-Manufacturers
Kings County Admin	Hanford	Government Offices-County
Kings County Government Ctr	Hanford	Government Offices-County
Kmart	Lemoore	Department Stores
Lemoore High School	Lemoore	Schools
Leprino Foods Co	Lemoore	Cheese Processors (Mfrs)
Leprino Foods Co	Lemoore	Grocers-Retail
Naval Air Station	Lemoore	Military Bases
Nichol's Farm	Hanford	Farms
Olam Spices & Vegetables	Hanford	Agricultural Products
US Naval Air Station	Lemoore	Federal Government-National Security
US Naval Hospital	Lemoore	Hospitals
Walmart Distribution Ctr	Hanford	Distribution Centers (Whls)
Walmart Supercenter	Hanford	Department Stores
Warmerdam Packing	Hanford	Fruits & Vegetables-Growers & Shippers
West Hills College-Lemoore	Lemoore	Schools-Universities & Colleges Academic

Source: California Employment Development Department. Data retrieved November 17, 2014.

Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

CITY OF HANFORD Building Permits and Valuation (Dollars in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation:</u>					
New Single-family	\$ 12,489	\$ 12,701	\$ 6,871	\$ 17,781	\$ 19,084
New Multi-family	-	8,235	-	-	1,500
Res. Alterations/Additions	1,529	1,632	2,522	1,073	774
Total Residential	14,018	22,569	9,393	18,855	21,358
Total Nonresidential	11,972	14,783	7,508	13,276	34,966
Total All Building	\$ 17,653	\$ 37,353	\$ 16,901	\$ 32,132	\$ 56,325
<u>New Dwelling Units:</u>					
Single Family	81	82	49	118	127
Multiple Family	-	52	-	-	6
Total	81	134	49	118	133

KINGS COUNTY Building Permits and Valuation (Dollars in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation:</u>					
New Single-family	\$ 28,761	\$ 26,005	\$ 18,733	\$ 38,696	\$ 36,406
New Multi-family	-	10,693	6,125	-	1,500
Res. Alterations/Additions	5,421	5,580	8,884	5,330	5,531
Total Residential	34,182	42,279	33,742	44,026	43,438
Total Nonresidential	35,539	51,955	22,139	33,717	67,713
Total All Building	\$ 69,722	\$ 94,234	\$ 55,881	\$ 77,744	\$ 111,151
<u>New Dwelling Units:</u>					
Single Family	188	169	115	247	232
Multiple Family	-	72	80	-	6
Total	188	241	195	247	238

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

Commercial Activity

Taxable sales in the City and County are shown below. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

TAXABLE SALES, 2008-2012 CITY OF HANFORD (Dollars in thousands)

	2008			
Retail Stores				
Apparel Stores	\$ 31,923			
General Merchandise	171,513			
Food Stores	52,892			
Eating and Drinking	71,305			
Household Group	14,544			
Building Material Group	43,761			
Automotive Group	102,013			
Service Stations	38,683			
All Other Retail Stores	70,274			
Retail Stores Totals	596,908			
All Other Outlets	104,635			
Total All Outlets ⁽²⁾	\$ 701,543			
	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽¹⁾	2012 ⁽¹⁾⁽³⁾
Retail and Food Services				
Motor Vehicles and Parts Dealers	\$ 84,739	\$ 87,526	\$ 112,691	\$ 126,219
Furniture and Home Furnishings Stores	12,331	12,796	13,699	14,483
Bldg Mtrl. and Garden Equip. and Supplies	54,104	55,517	58,776	59,905
Food and Beverage Stores	40,560	38,950	40,048	41,703
Gasoline Stations	42,330	56,253	69,403	72,197
Clothing and Clothing Accessories Stores	42,563	45,353	45,441	46,733
General Merchandise Stores	139,165	135,884	137,831	135,917
Food Services and Drinking Places	70,318	71,947	72,623	76,986
Other Retail Group	49,860	48,080	49,392	49,931
Total Retail and Food Services	535,969	552,307	599,904	624,073
All Other Outlets	97,018	89,168	100,397	111,016
Totals All Outlets ⁽²⁾	\$ 632,987	\$ 641,474	\$ 700,301	\$ 735,089

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Starting in 2009, categories were revised from prior years.

(2) Totals may not add up due to independent rounding.

(3) Last available full year data.

Sales omitted because its publication would result in disclosure of confidential information.

TAXABLE SALES, 2008-2012
KINGS COUNTY
(Dollars in thousands)

	2008			
Retail Stores				
Apparel Stores			\$ 34,296	
General Merchandise			195,143	
Food Stores			97,704	
Eating and Drinking			114,749	
Household Group			17,892	
Building Material Group			57,010	
Automotive Group			137,155	
Service Stations			139,711	
All Other Retail Stores			128,238	
Retail Stores Totals			921,899	
Business & Personal Services			55,037	
All Other Outlets			412,473	
Total All Outlets ⁽²⁾			1,389,409	

	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽¹⁾	2012 ⁽¹⁾⁽³⁾
Retail and Food Services				
Motor Vehicles and Parts Dealers	\$ 109,406	\$ 112,865	\$ 142,967	\$ 156,367
Furniture and Home Furnishings Stores	10,777	11,183	11,375	11,742
Electronics and Appliance Stores	6,633	7,446	21,082	9,871
Bldg Mtrl. and Garden Equip. and Supplies	78,132	81,301	89,777	87,512
Food and Beverage Stores	75,363	74,792	79,085	81,947
Health and Personal Care Stores	20,418	20,331	21,454	23,094
Gasoline Stations	119,863	141,009	168,438	174,535
Clothing and Clothing Accessories Stores	46,267	49,450	50,077	51,980
Sporting Goods, Hobby, Book and Music Stores	13,046	12,743	12,849	12,745
General Merchandise Stores	156,093	153,502	155,030	153,928
Miscellaneous Store Retailers	30,288	29,654	29,959	30,544
Nonstore Retailers	6,946	7,702	10,440	12,004
Food Services and Drinking Places	114,110	115,283	117,891	124,430
Total Retail and Food Services	787,342	817,260	910,423	930,699
All Other Outlets	387,639	371,071	413,615	455,163
Totals All Outlets ⁽²⁾	\$ 1,174,981	\$ 1,188,331	\$ 1,324,038	\$ 1,385,862

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Starting in 2009, categories were revised from prior years.

(2) Totals may not add up due to independent rounding.

(3) Last available full year data.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

CITY OF HANFORD, KINGS COUNTY, STATE AND UNITED STATES Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2009	City of Hanford	\$ 877,038	\$ 42,224
	Kings County	2,102,750	41,266
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Hanford	\$ 822,005	\$ 39,631
	Kings County	1,953,315	38,319
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Hanford	\$ 820,230	\$ 39,239
	Kings County	2,041,173	38,001
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Hanford	\$ 913,950	\$ 42,166
	Kings County	2,053,198	39,204
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Hanford	\$ 1,043,870	\$ 47,885
	Kings County	2,241,710	43,288
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

APPENDIX E
FORM OF BOND COUNSEL OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

City Council of the
City of Hanford
319 North Douty Street
Hanford, California 91502

OPINION: \$4,500,000* City of Hanford (Kings County, California) Wastewater Refunding Revenue Bonds, Series 2015

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Hanford (the “City”) of its \$4,500,000* Wastewater Refunding Revenue Bonds, Series 2015 (the “Bonds”), under the provisions of Article 10 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53570) of the California Government Code (the “Law”), an Indenture of Trust, dated as of January 1, 2015 (the “Indenture”), by and between the City and MUFG Union Bank, N.A., as trustee (the “Trustee”), and Resolution No. 14-62-R, adopted by the City Council of the City on December 16, 2014 (the “Resolution”). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The City is a duly created and validly existing municipal corporation and general law city with the power to enter into the Indenture and to perform the agreements on its part contained therein.
2. The Indenture has been duly authorized, executed and delivered by the City and is valid, binding and enforceable against the City in accordance with its terms.
3. The Bonds constitute valid and binding special obligations of the City payable solely from Net Revenues of the Wastewater System (as such terms are defined in the Indenture) and certain other amounts held under the Indenture, as described in the Indenture.
4. Subject to the City’s compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative

* Preliminary, subject to change.

minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

With respect to the opinions expressed herein, the enforceability of the Indenture is subject to the limitations on the imposition of certain fees and charges by the City related to its municipal wastewater system under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F, concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of principal of or interest on the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (as used in this Appendix F, 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 maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 DTC 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 the 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. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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 any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

