PRELIMINARY OFFICIAL STATEMENT DATED APRIL 21, 2015

NEW ISSUE—FULL BOOK ENTRY

RATINGS:
S&P: "AA" (AGM-insured)
S&P: "A+" (Underlying)
(See "RATING" herein)

In the opinion of Quint & Thimmig LLP, Larkspur, California, Special Counsel, subject to compliance by the City with certain covenants, under present law, interest with respect to the Certificates 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. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

$20,000,000*
Certificates of Participation
(2015 Refinancing Project)
Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the CITY OF PORTERVILLE, CALIFORNIA as the Rental for Certain Property Pursuant to a Lease Agreement with the Porterville Public Improvement Corporation

Dated: Date of Delivery | **Due: October 1, as shown on the inside cover**

The $20,000,000* Certificates of Participation (2015 Refinancing Project) (the "Certificates"), are being executed and delivered to (a) provide for the defeasance of the City of Porterville's (the "City") outstanding Certificates of Participation (2002 Public Building Refunding Project), (b) provide for the prepayment of a lease agreement, dated as of April 1, 2013, by and between the Corporation and the City, which has been assigned to Rabobank, N.A., (c) purchase a municipal bond insurance policy in lieu of cash funding a reserve fund for the Certificates, and (d) pay costs incurred in connection with executing and delivering the Certificates. The Certificates will evidence direct, undivided fractional interests of the owners thereof in Lease Payments (as defined herein) to be made by the City to the Porterville Public Improvement Corporation (the "Corporation") for the use and occupancy of the Property (as defined herein) under and pursuant to a Lease Agreement, dated as of May 1, 2015, by and between the Corporation and the City (the "Lease Agreement"). The Corporation will assign its right to receive Lease Payments from the City under the Lease Agreement and its right to enforce payment of the Lease Payments when due or otherwise protect its interest in the event of a default by the City thereunder to U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2015, by and among the City, the Corporation and the Trustee, in book-entry form only, and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each April 1 and October 1, commencing October 1, 2015. The Certificates may be executed and delivered in denominations of $5,000 or any integral multiple thereof. Payments principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. (See "THE CERTIFICATES—Book-Entry-Only System" herein).

The Certificates are subject to optional, mandatory and extraordinary redemption, as described herein.

The City will covenant in the Lease Agreement to make all Lease Payments due under the Lease Agreement, subject to abatement during any period in which by reason of damage or destruction of the Property, or by reason of eminent domain proceedings with respect to the Property, there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The City will covenant in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS OR RESTRICTION OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

MATURITY SCHEDULE

SEE THE INSIDE COVER

The scheduled payment of principal and interest with respect to the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by **ASSURED GUARANTY MUNICIPAL CORP**.

ASSURED GUARANTY® MUNICIPAL

The cover page contains certain information for general reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriters subject to approval by Quint & Thimmig LLP, Larkspur, California, as Special Counsel. Certain matters will be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by McCormick, Kabot, Jenner & Lew, the City Attorney. It is anticipated that the Certificates will be available for delivery to DTC in New York, New York, on or about May 26, 2015.

WULFF, HANSEN & CO. | **GATES CAPITAL CORPORATION**

Dated: May __, 2015

*Preliminary, subject to change.

$20,000,000*
Certificates of Participation
(2015 Refinancing Project)
Evidencing Direct, Undivided Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the
CITY OF PORTERVILLE, CALIFORNIA
as the Rental for Certain Property Pursuant
to a Lease Agreement with the
Porterville Public Improvement Corporation

MATURITY SCHEDULE

$_____ Serial Certificates

CUSIP† Prefix: ______

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix

$_____ _____% Term Certificates maturing October 1, ____, Price: _____%, to yield _____%—CUSIP† ______

$_____ _____% Term Certificates maturing October 1, ____, Price: _____%, to yield _____%—CUSIP† ______

*Preliminary, subject to change.
† Copyright 2015, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the Certificates. Neither the City nor the Underwriters is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Certificates or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates.

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 Certificates 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.

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

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

The information set forth herein has been obtained from the City and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Director Finance for further information. See "INTRODUCTION—Other Information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way. Neither the City nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

The execution, sale and delivery of the Certificates has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Certificates or the advisability of in-vesting in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by the AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX H--SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

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 Certificates.

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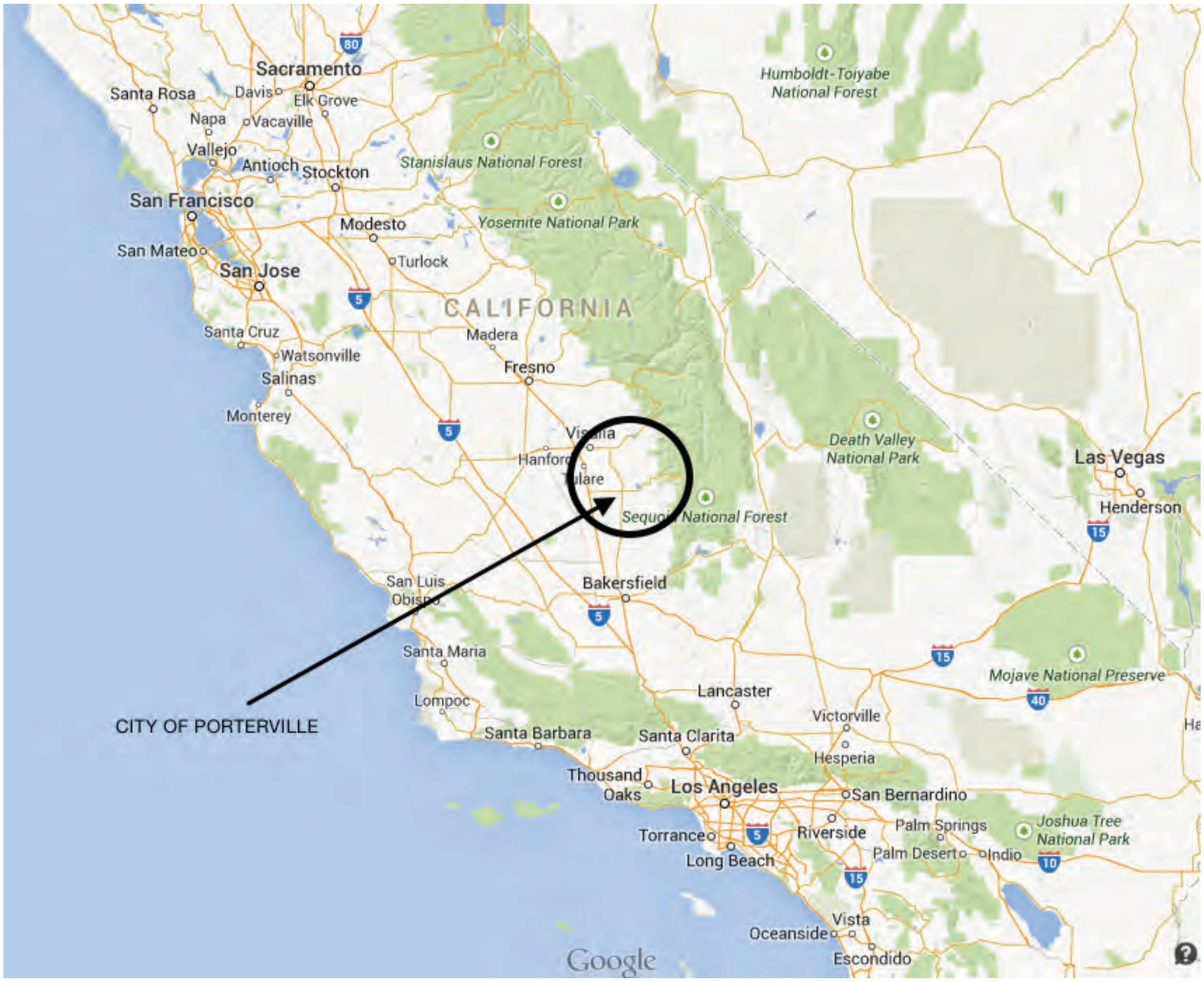

CITY OF PORTERVILLE

291 North Main Street
Porterville, California 93257
http://www.ci.porterville.ca.us/

CITY COUNCIL MEMBERS

Milt Stowe, *Mayor*
Cameron J. Hamilton, *Vice Mayor*
Brian Ward, *Councilmember*
Virginia R. Gurrola, *Councilmember*
A. Monte Reyes, *Councilmember*

CITY OFFICIALS
John Lollis, *City Manager & City Clerk*
Maria Bemis, *Finance Director*
Jenni Byers, *Interim Community & Economic Development Director*
Patrice Hildreth, *Administrative Services Director*
McCormick, Kabot, Jenner & Lew, *City Attorney*

SPECIAL SERVICES

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

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

Verification Agent
Grant Thornton LLP
Minneapolis, Minnesota

$20,000,000*
CERTIFICATES OF PARTICIPATION
(2015 Refinancing Project)
Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the
CITY OF PORTERVILLE
as the Rental for Certain Property
Pursuant to a Lease Agreement with the
Porterville Public Improvement Corporation

INTRODUCTION

This introduction does not purport to be complete and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the captioned Certificates. Potential investors are encouraged to read this entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement and in APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.

General

This Official Statement, including the cover page, the inside cover page and appendices hereto, is provided to furnish information in connection with the execution, sale and delivery of $20,000,000* aggregate principal amount of Certificates of Participation (2015 Refinancing Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2015 (the "Trust Agreement"), by and among the City of Porterville (the "City"), the Porterville Public Improvement Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee").

The proceeds of the Certificates will be used to (a) provide for the defeasance of the City of Porterville's (the "City") outstanding Certificates of Participation (2002 Public Building Refunding Project) (the "2002 Certificates"), (b) provide for the prepayment of a lease agreement, dated as of April 1, 2013, by and between the Corporation and the City, which has been assigned to Rabobank, N.A. (the "2013 Lease"), (c) purchase a reserve fund municipal bond insurance policy in lieu of cash funding a reserve fund for the Certificates, and (d) pay costs incurred in connection with executing and delivering the Certificates. See "PLAN OF FINANCING."

The City will lease certain existing property (collectively, the "Property") to the Corporation pursuant to a Site and Facility Lease, dated as of May 1, 2015 (the "Site and Facility Lease"). The Corporation will lease the Property back to the City pursuant to a Lease Agreement, dated as of May 1, 2015 (the "Lease Agreement"). The Certificates are payable solely from and secured by certain lease payments ("Lease Payments") to be made by the City to the Corporation pursuant to the Lease Agreement. See "SOURCE OF PAYMENT FOR THE CERTIFICATES" and "THE PROPERTY."

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* Preliminary, subject to change.

Interest with respect to the Certificates is payable on April 1 and October 1 of each year, commencing October 1, 2015. The Certificates will mature in the amounts and on the dates and be payable at the interest rates shown on the inside cover page of this Official Statement. See "THE CERTIFICATES."

The Certificates will be delivered in fully registered form only, in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as the depository for the Certificates and all payments due with respect to the Certificates will be made to Cede & Co. Ownership interests in the Certificates may be purchased only in book-entry form. See "THE CERTIFICATES—Book-Entry Only System" and APPENDIX F—DTC'S BOOK-ENTRY ONLY SYSTEM.

The City

The City, incorporated on May 7, 1902, is located midway between San Francisco and Los Angeles, an hour from Fresno and Bakersfield. It is situated in the southeastern portion of California's San Joaquin Valley, the most diverse agricultural area in the world. The City currently occupies a land area of 16 square miles and serves a population of approximately 55,000. See "THE CITY," "CITY FINANCIAL INFORMATION" and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

Source of Payment for the Certificates

The Certificates represent direct, undivided fractional interests of the Owners thereof in the Lease Payments to be paid by the City to the Corporation pursuant to the Lease Agreement. Lease Payments are calculated to be sufficient to permit the payment of the principal and interest with respect to the Certificates when due. The Lease Payments are payable by the City from its general fund for the right to use and possess the Property. The Lease Payments are subject to abatement during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the City of the Property or any portion thereof. The City will covenant under the Lease Agreement to take such action as necessary to include the Lease Payments in its annual budget and to make all necessary appropriations therefor (subject to abatement under certain circumstances described in the Lease Agreement). Pursuant to an Assignment Agreement, dated as of May 1, 2015 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, certain of its rights under the Lease Agreement, including its right to receive Lease Payments from the City for the purpose of securing the payment of principal and interest with respect to the Certificates. See "SOURCE OF PAYMENT FOR THE CERTIFICATES" and "RISK FACTORS."

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Municipal Bond Insurance Policy; Reserve Policy

The scheduled payment of the principal and interest with respect to the Certificates when due will be guaranteed under a municipal bond insurance policy (the "Municipal Bond Insurance Policy") to be issued by Assured Guaranty Municipal Corp. ("AGM") simultaneously with the delivery of the Certificates. See "MUNICIPAL BOND INSURANCE." In addition, AGM has made a commitment to issue a municipal bond insurance policy for the Reserve Fund (the "Reserve Policy") in an amount equal to the Reserve Requirement. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Reserve Fund."

Continuing Disclosure

The City will covenant in a Continuing Disclosure Certificate to prepare and deliver an annual report to the Municipal Securities Rulemaking Board (the "MSRB") through the MSRB's Electronic Municipal Market Access system. See "CONTINUING DISCLOSURE" and APPENDIX G—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Summaries of Documents

This Official Statement contains descriptions of the Certificates, the Trust Agreement, the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and various other agreements and documents. 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 terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors' rights generally. Copies of the various documents described herein are available for inspection during business hours at the corporate trust office of the Trustee at 700 South Flower Street, Suite 500, Los Angeles, CA 90017.

Other Information

This Official Statement speaks only as of its date as set forth on the inside cover page hereof, the information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

Unless otherwise expressly noted, all references to internet websites in this Official Statement, including without limitation, the City's website, are shown for reference and convenience only and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the City and the City makes no representation regarding the accuracy or completeness of the information therein.

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of the proceeds from the sale of the Certificates and other moneys:

Sources	
Par Amount of the Certificates	
Plus: Net Original Issue Premium	
Plus: Released 2002 Reserve Fund Moneys	
Total Sources	
Uses	
Deposit to Escrow Fund [1]	
Prepayment of 2013 Lease	
Delivery Costs [2]	
Total Uses	

(1) Amounts deposited in the Escrow Fund will be used to defease the 2002 Certificates. See PLAN OF FINANCING.

(2) Delivery Costs include the Underwriters' discount, fees and expenses of the financial advisor, special counsel, disclosure counsel and the Trustee, printing expenses, rating fees, title insurance and other costs.

PLAN OF FINANCING

The proceeds of the Certificates will be used to (a) provide for the defeasance of the 2002 Certificates, (b) provide for the prepayment of the 2013 Lease, (c) purchase the Reserve Policy, and (d) pay costs incurred in connection with executing and delivering the Certificates.

Defeasance of the 2002 Certificates. A portion of the proceeds from the sale of the Certificates 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 deposit and trust agreement by and between the City and the Escrow Bank. A portion of the moneys deposited in the Escrow Fund will be invested in U.S. Treasury Securities (the "Treasuries") and the remaining amount will be held in cash, uninvested. The maturing Treasuries, the interest thereon and the uninvested cash will be applied to the payment of principal and interest with respect to the 2002 Certificates to and including their maturity date.

The sufficiency of the moneys, investment earnings and maturing Treasuries for such purposes will be verified by Grant Thornton LLP (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS." Assuming the accuracy of the Verification Agent's computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the obligations of the City with respect to the 2002 Certificates will be defeased and discharged. The maturing Treasuries, the interest income thereon and the uninvested cash in the Escrow Fund will be held in trust solely for the 2002 Certificates and will not be available to pay principal or interest with respect to the Certificates or any obligations other than the 2002 Certificates.

Prepayment of 2013 Lease. A portion of the proceeds from the sale of the Certificates will be applied, on the date of delivery of the Certificates, to the prepayment in full of the 2013 Lease.

THE PROPERTY

Pursuant to the Site and Facility Lease, the City will lease the Property to the Corporation. Pursuant to the Lease Agreement, the Corporation will, in turn, lease the Property back to the City. See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Site and Facility Lease and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The Property consists of the following:

1. **City Hall**, located at 291 North Main Street in Porterville. Constructed in 1968 and renovated in 1990. Total square footage is 25,908.

2. **Police Station**, located at 350 North D Street in Porterville. Constructed in 1988. Total square footage is 16,300.

3. **Fire Station No. 1**, located at 40 West Cleveland Avenue in Porterville. Constructed in 1936 and renovated in 1964 and 1987.

4. **Fire Station No. 2**, located at 500 North Newcomb Street in Porterville. Constructed in 1991. Total square footage is 4,830.

5. **Corporation Yard**, located at 555 North Prospect Street in Porterville. Constructed in 1980 and renovated in 1988, 1990 and 2007. Total square footage is 26,180.

6. **Murray Park**, located on Putnam Avenue in Porterville. Constructed in 2009.

7. **Heritage Center**, located at 256 East Orange Avenue in Porterville. Constructed in 2005. Total square footage is 10,037.

8. **Centennial Plaza**, located at 298 North Main Street in Porterville. Constructed in 2006. Total square footage is 13,219.

For a description of certain terms of the Lease Agreement see "SOURCE OF PAYMENT FOR THE CERTIFICATES" and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Pursuant to the Lease Agreement, the City may substitute the Property, in whole or in part, by other properties, upon the satisfaction of certain conditions. For more information regarding the substitution of property see "SOURCE OF PAYMENT FOR THE CERTIFICATES—Substitution or Release of Site or Facility" and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement.

The City has not granted any security interest in the Property for the benefit of the Certificates and there is no remedy of foreclosure on the Property upon the occurrence of an Event of Default under the Lease Agreement. For a discussion of remedies upon an Event of Default under the Lease Agreement, see "RISK FACTORS—Limitations on Remedies."

ANNUAL DEBT SERVICE

The following table shows the scheduled annual debt service for the Certificates:

Interest Payment Date (1)	Principal	Interest	Total
10/1/15			
10/1/16			
10/1/17			
10/1/18			
10/1/19			
10/1/20			
10/1/21			
10/1/22			
10/1/23			
10/1/24			
10/1/25			
10/1/26			
10/1/27			
10/1/28			
10/1/29			
10/1/30			
10/1/31			
10/1/32			
10/1/33			
10/1/34			
10/1/35			
10/1/36			
10/1/37			
10/1/38			
10/1/39			
10/1/40			
TOTAL			

(1) Principal and interest payments with respect to the Certificates on each April 1 and October 1 are derived from Lease Payments made by the City on the preceding March 15 and September 15.

THE CERTIFICATES

General

The Certificates will be executed and delivered in the aggregate principal amount and will mature on the dates and interest with respect thereto will be payable at the rates per annum as set forth on the inside cover page of this Official Statement. The Certificates will be delivered in the form of fully registered Certificates without coupons in the denomination of $5,000 or any integral multiple thereof. Interest with respect to the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on April 1 and October 1 of each year, commencing October 1, 2015 (each an "Interest Payment Date"), until maturity or earlier redemption thereof. The Certificates will be initially executed, delivered and registered in the name of "Cede & Co." as nominee of DTC and will be evidenced by one Certificate maturing on each of the maturity dates in a denomination corresponding to the total principal therein designated to mature on such date. See "THE CERTIFICATES—Book-Entry Only System."

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is executed after a Regular Record Date (i.e., the close of business on the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a Business Day) and before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (iii) it is executed on or before September 15, 2015, in which event interest with respect thereto will be payable from its dated date; *provided, however*, that if, as of the date of execution of any Certificate, interest is in default with respect to any Outstanding Certificates, interest represented by such Certificate shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Certificates. Payment of defaulted interest shall be paid by check mailed to the Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners not less than ten (10) days prior to such special record date.

Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request shall remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

Redemption

Optional Redemption. The Certificates maturing on or before October 1, _____, are not subject to optional redemption prior to maturity. The Certificates maturing on and after October 1, _____, are subject to optional redemption in whole or in part on any date in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, on or after October 1, _____, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest, without premium, to the date fixed for redemption, from the proceeds of the optional prepayment of Lease Payments made by the City pursuant to the Lease Agreement.

Mandatory Sinking Fund Redemption. The Certificates maturing on October 1, _____, are subject to mandatory redemption in part on October 1, ____, and on each October 1 thereafter to and including October 1, _____, from the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such redemption date (subject to abatement, as set forth in the Lease Agreement), at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (October 1)	Principal Amount of Certificates to be Redeemed

†Maturity.

The Certificates maturing on October 1, _____, are subject to mandatory redemption in part on October 1, ____, and on each October 1 thereafter to and including October 1, _____, from the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such redemption date (subject to abatement, as set forth in the Lease Agreement), at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (October 1)	Principal Amount of Certificates to be Redeemed

†Maturity.

Extraordinary Redemption from Net Proceeds of Insurance, Title Insurance, Condemnation or Eminent Domain Award. The Certificates are subject to extraordinary redemption in whole on any date or in part on any Interest Payment Date from the Net Proceeds of an insurance, title insurance, condemnation or eminent domain award, to the extent credited towards the prepayment of the Lease Payments by the City pursuant to the Lease Agreement, in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Selection of Certificates for Redemption. Whenever provision is made in the Trust Agreement for the redemption of Certificates and less than all of the Outstanding Certificates are to be redeemed, the Trustee will select Certificates for redemption from the Outstanding Certificates not previously called for redemption in such order of maturity as will be designated by the City (and, in lieu of such designation, *pro rata* among maturities) and by lot within a maturity. The Trustee will select Certificates for redemption within a maturity by lot in any manner which the Trustee will, in its sole discretion, deems appropriate. For purposes of such selection, Certificates will be deemed to be composed of $5,000 portions and any such portion may be separately redeemed. The Trustee will promptly notify the City in writing of the Certificates so selected for redemption. Selection by the Trustee of Certificates for redemption will be final and conclusive.

Notice of Redemption. Unless waived in writing by any Owner of a Certificate to be redeemed, notice of any such redemption will be given by the Trustee on behalf and at the expense of the City, by mailing a copy of a redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption, to such Owner of the Certificate or Certificates to be redeemed at the address shown on the Registration Books or at such other address as is furnished in writing by such Owner to the Trustee; *provided, however*, that neither the failure to receive such notice nor any defect in any notice will affect the sufficiency of the proceedings for the redemption of the Certificates.

Effect of Redemption. If notice of redemption has been given as described above, the Certificates or portions of Certificates so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date, interest with respect to such Certificates or portions of Certificates will cease to be payable.

Partial Redemption of Certificate. Upon surrender of any Certificate redeemed in part only, the Trustee will execute and deliver to the Owner thereof a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same interest rate and the same maturity.

Transfer and Exchange of Certificates

The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his or her attorney duly authorized in writing upon surrender of such Certificate for cancellation at the Principal Corporate Trust Office, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such transfer, except that the Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Trustee shall not be required to transfer (i) any Certificates or portion thereof during the period between the date fifteen (15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificates selected for redemption.

Certificates may be exchanged, upon surrender thereof, at the Principal Corporate Trust Office for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. Whenever any Certificate or Certificates shall be surrendered for exchange, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to exchange (i) any Certificate or any portion thereof during the period between the date fifteen (15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificate selected for redemption.

Book-Entry Only System

The Certificates will be initially executed, delivered and registered as one fully registered certificate for each maturity, without coupons, in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive physical certificates representing their interest in the Certificates purchased. Principal and interest will be paid to DTC which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. So long as DTC's book-entry system is in effect with respect to the Certificates, notices to Owners of the Certificates by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Certificates, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See APPENDIX F—DTC'S BOOK-ENTRY ONLY SYSTEM.

In the event that such book-entry system is discontinued with respect to the Certificates, the City will cause the Trustee to execute and deliver replacements in the form of registered certificates and, thereafter, the Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request will remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided fractional interest in the Lease Payments. Pursuant to the Lease Agreement, the City will lease the Property from the Corporation and agree to make Lease Payments. See "THE PROPERTY." Upon satisfaction of certain conditions set forth in the Lease Agreement, the City may substitute the Property with other properties. See "Substitution or Release of Site or Facility" below.

As security for the Certificates, the Corporation will assign to the Trustee for the payment of principal and interest with respect to the Certificates, the Corporation's rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Lease Payments to be made by the City under the Lease Agreement. The Lease Payments are designed to be sufficient, in both time and amount, to pay when due, the principal and interest with respect to the Certificates. The Lease Payments are payable by the City from any source of legally available funds.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES AN INDEBTEDNESS OF THE CITY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS.

Lease Payments; Covenant to Appropriate

Pursuant to the Lease Agreement, the City has agreed to make Lease Payments for the lease of the Property which are calculated to be sufficient to pay principal and interest due with respect to the Certificates. Lease Payments will be made by the City to the Trustee on March 15 and September 15 in each year, in advance of the corresponding April 1 and October 1 Interest Payment Dates. The City will also pay as additional payments ("Additional Payments"), amounts required for the payment of all costs and expenses incurred by the City to comply with the provisions of the Trust Agreement and the Lease Agreement or in connection with the execution and delivery of the Certificates. The City has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments in its annual budget and to make the necessary annual appropriations for all such payments. Under certain circumstances described under the Lease Agreement, however, Lease Payments are subject to abatement during periods of substantial interference with the City's use and occupancy of the Property or any portion thereof. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Abatement."

Insurance

The City is required to keep or cause to be kept casualty insurance against loss or damage by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, in an amount at least equal to one hundred percent (100%) of the replacement cost of the Property. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The City is not required by the Lease Agreement to maintain earthquake coverage with respect to the Property and the City does not expect to purchase such coverage.

To insure against loss of rental income caused by perils mentioned above, the City is required to maintain, or cause to be maintained throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property as a result of any of the hazards described above in an amount equal to two times the maximum annual Lease Payments.

Public liability and property damage insurance coverage is required in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $100,000 (subject to a deductible clause of not to exceed $5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. 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 the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The net proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

The City shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date, a CLTA title insurance policy in the amount of not less than the principal amount of the Certificates, insuring the City's leasehold estate in the Property, subject only to Permitted Encumbrances.

See APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT—Insurance.

Abatement

Pursuant to the Lease Agreement, Lease Payments will be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the City of the Property or any portion thereof (other than certain portions of the Property which have been modified by the City as described in the Lease Agreement) to the extent to be agreed upon by the City and the Corporation and communicated by a City Representative to the Trustee. The parties agree that amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in an exhibit attached to the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed (giving due consideration to the factors identified related to fair rental value as discussed in the Lease Agreement), based upon the opinion of an MAI appraiser with expertise in valuing such properties, or based upon any other appropriate method of valuation, in which event the Lease Payments will be abated such that they represent said fair rental value. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction as communicated by a City Representative to the Trustee. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there will be no abatement of Lease Payments under the Lease Agreement to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Reserve Fund and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance," APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Insurance and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Abatement of Lease Payments in the Event of Damage or Destruction.

Eminent Domain

Pursuant to the Lease Agreement, if all of the Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Property is taken permanently, or if all of the Property or any part thereof is taken temporarily under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there will be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments under the Lease Agreement, in an amount to be agreed upon by the City and the Corporation and communicated to the Trustee such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property, except to the extent of special funds, such as amounts in the Reserve Fund available for the payment of Lease Payments. The Net Proceeds of such eminent domain award are required to be applied to the redemption of Certificates as provided in the Lease Agreement and the Trust Agreement.

Reserve Fund

The Trust Agreement provides that the Trustee will establish and maintain a reserve fund (the "Reserve Fund"). On the date of Delivery of the Certificates, in lieu of a cash deposit to the Reserve Fund, AGM will issue the Reserve Policy, in an amount equal to the Reserve Requirement. "Reserve Requirement" means an amount equal to the least of maximum annual Lease Payments, 125% of average annual Lease Payments and 10% of the principal amount of the Certificates, which amount shall be $__________ on the Closing Date. The amount of the Reserve Requirement shall not be reduced unless the Certificates are partially refunded, in which such amount shall be reduced to an amount equal to the maximum annual Lease Payments relating to the Certificates not so refunded.

Optional Prepayment

Pursuant to the Lease Agreement, the City has an option to prepay the principal components of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments, or in part, in a prepayment amount equal to the principal amount of Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, together with the premium set forth for the redemption of Certificates. See "THE CERTIFICATES—Redemption—Optional Redemption."

Said option may be exercised with respect to Lease Payments due on and after September 15, _____, in whole or in part on any date, commencing September 15, _____. In the event of prepayment in part, the partial prepayment will be applied against Lease Payments in such order of payment date as will be selected by the City. Lease Payments due after any such partial prepayment will be in the amounts set forth in a revised Lease Payment schedule which will be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. The Trustee agrees to notify the Corporation in the event of any prepayment of Lease Payments, as provided in the Trust Agreement.

Mandatory Prepayment from Net Proceeds of Insurance, Title Insurance or Eminent Domain

The City will be obligated to prepay the Lease Payments, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance, title insurance or condemnation award with respect to the Property theretofore deposited in the Lease Payment Fund for such purpose pursuant to the Lease Agreement and the Trust Agreement. The City and the Corporation agree that such Net Proceeds will be applied first to the payment of any delinquent Lease Payments, and thereafter will be credited towards the City's obligations under the mandatory prepayment provisions of the Lease Agreement. Lease Payments due after any such partial prepayment will be in the amounts set forth in a revised Lease Payment schedule which will be provided by, or caused to be provided by, the City to the Trustee and which will represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. See "THE CERTIFICATES—Redemption—Extraordinary

Redemption from Net Proceeds of Insurance, Title Insurance, Condemnation or Eminent Domain Award."

Substitution or Release of Site or Facility

Substitution of Site or Facility. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a "Substitute Site") and/or a substitute facility (a "Substitute Facility") for the Site (the "Former Site"), or a portion thereof, and/or the Facility (the "Former Facility"), or a portion thereof, provided that the City shall satisfy all of the following requirements (to the extent applicable) which are hereby declared to be conditions precedent to such substitution:

(i) If a substitution of the Site, the City shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(ii) If a substitution of the Site, the City shall file with the Corporation and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(iii) If a substitution of the Facility, the City shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(iv) If a substitution of the Facility, the City shall file with the Corporation and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(v) The City shall certify in writing to the Corporation and the Trustee that such Substitute Site and/or Substitute Facility serve the purposes of the City, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the City is permitted to lease under the laws of the State;

(vi) The City delivers to the Corporation and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property following such substitution is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee that the indemnification provided pursuant to the Trust Agreement applies with respect to the Substitute Site and/or Substitute Facility;

(vii) The Substitute Site and/or Substitute Facility shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer's certificate delivered to the Trustee;

(viii) The City shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site;

(ix) The City shall provide notice of the substitution to any rating agency then rating the Certificates which rating was provided at the request of the City or the Corporation; and

(x) The City shall furnish the Corporation and the Trustee with a written opinion of Bond Counsel, which shall be an Independent Counsel, stating that such substitution does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Release of Site. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

(i) The City shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which describes the Site, as revised by such release;

(ii) The City shall file with the Corporation and the Trustee an amendment to the Lease Agreement which describes the Site, as revised by such release;

(iii) The City delivers to the Corporation and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Corporation that the indemnification provided pursuant to the Trust Agreement applies with respect to the Site, as revised by such release;

(iv) Such release shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer's certificate delivered to the Trustee; and

(vi) The City shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the City or the Corporation.

Release of Facility. The City shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Facility, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

(i) The City shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which describes the Facility, as revised by such release;

(ii) The City shall file with the Corporation and the Trustee an amendment to the Lease Agreement which describes the Facility, as revised by such release;

(iii) The City delivers to the Corporation and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Corporation that the indemnification provided pursuant to the Trust Agreement applies with respect to the Facility, as revised by such release;

(iv) Such release shall not cause the City to violate any of its covenants, representations and warranties made herein and in the Trust Agreement, as evidenced by an officer's certificate delivered to the Trustee; and

(v) The City shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the City or the Corporation.

Amendment of Lease Agreement

The Corporation and the City may, at any time, amend or modify any of the provisions of the Lease Agreement, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Certificates, or (b) without the consent of any of the Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved in the Lease Agreement to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Corporation and the City may deem necessary or desirable, provided that, in the opinion of Special Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners; or

(iii) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest with respect to the Certificates under the Code, in the opinion of Special Counsel.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the delivery of the Certificates, AGM will issue the Municipal Bond Insurance Policy. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal and interest with respect to the Certificates when due as set forth in the form of the Municipal Bond Insurance Policy included as APPENDIX H to this Official Statement.

The Municipal Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). In February 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At December 31, 2014, AGM's policyholders' surplus and contingency reserve were approximately $3,763 million and its net unearned premium reserve was approximately $1,769 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of

AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "MUNICIPAL BOND INSURANCE—Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Certificates offered under this Official Statement and such purchases may constitute a significant proportion of the Certificates offered. AGM or such affiliate may hold such Certificates for investment or may sell or otherwise dispose of such Certificates at any time or from time to time.

AGM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE."

THE CITY

The City, incorporated on May 7, 1902, is located midway between San Francisco and Los Angeles, an hour from Fresno and Bakersfield. It is situated in the southeastern portion of California's San Joaquin Valley, the most diverse agricultural area in the world. The City currently occupies a land area of 16 square miles and serves a population of approximately 55,000. Porterville is empowered to levy property taxes within its boundaries in accordance with Article XIIIA of the California Constitution (Proposition 13). It is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1927. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and four other members. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three members elected during one election and two during the next. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both Porterville's manager and attorney. The city manager is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the city, and for appointing the heads of the various departments.

See APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for a more complete description of the City as well as certain demographic and statistical information.

CITY FINANCIAL INFORMATION

Financial Statements

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Audited Financial Statements. The City retained the firm of Gallina LLP, Roseville, California (the "City's Auditor"), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2014. The audited financial statements for fiscal year ended June 30, 2014, are included in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE

YEAR ENDED JUNE 30, 2014. *The City has not requested, and the City's Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.*

Budgetary Process

The City Council adopts an annual budget with appropriations for all City funds prior to the beginning of the fiscal year, which begins on July 1 of each year. The City Council adopted its fiscal year 2014-15 Budget on August 5, 2014.The City Council has the legal authority to amend the budget at any time during the fiscal year. A comprehensive mid-year budget review is done to update revenue and expenditure projections. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City's operating budget is the program area within each fund, and for the capital improvement budget it is each individual capital improvement project within each fund. For the operating budget, the City Manager has the authority to move appropriations between accounts (without dollar limitation) within a budget program and within the same fund as long as the transfers are within the same program area. For the capital improvement program, the City Manager has the authority to transfer appropriations (with no dollar limitation) between capital projects within the same fund. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. On-going weak economic conditions have resulted in significant revenue shortfalls to the State. See "STATE BUDGET INFORMATION."

There can be no assurances that, as a result of the current State financial stress, it will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. No prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. The City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the City's finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

On November 6, 2012, the voters of the State approved Proposition 30, a sales and income tax increase initiative supported by Governor Jerry Brown, primarily to prevent significant cuts to funding for schools. Proposition 30 raises California's sales tax to 7.50% from 7.25%, and creates four new income tax brackets for taxpayers with taxable incomes exceeding $250,000, $300,000, $500,000 and $1,000,000. This increased tax will be in effect for seven years. The State Legislative Analyst's Office estimates that Proposition 30 will raise an average of $6 billion annually between 2012-13 and 2016-17, and smaller amounts in 2011-12, 2017-18 and 2018-19, as the taxes are phased in and out.

The following table shows the City's final budget and actual results for general fund revenues and expenditures for fiscal years 2012-13 and 2013-14 and the adopted budget for fiscal year 2014-15.

CITY OF PORTERVILLE
General Fund Budget Summary
Fiscal Years 2012-13 through 2014-15

	FY 2012-13 Final Budget	FY 2012-13 Actual	FY 2013-14 Final Budget	FY 2013-14 Actual	FY 2014-15 Final Budget
Revenues					
Property taxes	$ 6,766,568	$ 7,346,813	$ 7,058,762	$ 7,406,413	$ 7,100,442
Sales taxes	3,901,619	4,233,168	4,182,651	4,218,380	4,431,959
Utility users tax	3,950,000	3,969,652	4,000,000	3,955,357	4,000,000
Franchise tax	1,471,134	1,473,957	1,471,134	1,551,762	1,476,134
Transient occupancy tax	310,000	335,319	315,000	370,999	350,000
Business licenses	390,000	402,444	395,000	417,856	410,000
Building permits	176,715	196,186	160,000	206,815	175,000
Plumbing permits	111,262	108,624	100,000	175,405	100,000
Electrical permits	51,528	56,077	50,000	62,942	50,000
Other licenses and permits	16,200	16,237	17,000	18,514	17,000
Vehicle license fees	—	28,249	29,379	23,542	23,000
Federal grants	143,100	2,375	391,823	208,850	—
State grants/reimbursements	45,272	484,295	1,743,005	1,299,803	42,000
Planning and zoning	25,000	54,844	35,00	22,085	35,000
Engineering and inspection	50,000	96,998	61,100	73,738	60,000
Police services	316,000	386,719	374,000	407,366	380,000
Fire services	55,000	48,183	28,000	60,172	33,000
Library services	40,000	36,980	40,000	42,251	40,000
Recreational activities	1,671,741	1,602,549	1,751,922	1,600,988	1,830,147
Other service charge	1,200	2,150	2,900	6,240	5,000
Interdepartmental service charge	1,716,470	1,730,514	1,600,000	1,748,299	1,600,000
Special assessments and fees	5,818	5,802	5,848	5,833	5,636
Parking fines	10,000	14,746	12,000	13,579	12,000
Vehicle code fines	3,000	3,707	3,000	3,688	3,000
Other fines	40,000	58,226	50,000	56,884	50,000
Impact fees	4,523	22,408	—	—	-
Interest	200,000	104,710	183,000	291,275	100,000
Rent	100,078	87,699	102,277	107,980	114,401
Contributions	3,300	4,975	4,150	4,570	4,000
Other revenues	67,000	121,731	63,000	80,810	60,500
Total Revenues	21,642,528	23,036,337	24,229,951	24,442,396	22,508,219
Expenditures					
Community Development	888,742	716,917	806,231	725,461	810,527
General government	2,741,043	2,611,900	2,719,595	2,538,855	2,913,457
Parks and recreation	4,681,709	4,264,757	4,640,293	4,225,116	4,879,807
Public safety – Fire	3,510,968	3,260,573	3,492,822	3,120,349	3,773,801
Public safety – Police	8,244,813	7,345,848	8,387,421	7,970,708	8,856,918
Public works	2,259,189	2,078,905	2,265,810	2,048,747	2,403,733
Debt Service	1,582	675	—	234	-
Capital outlay	298,000	593,196	870,482	909,946	1,397,400
Total Expenditures	22,626,046	20,872,771	23,182,654	21,539,416	25,035,643
Excess/(deficiency) of Revenues over/(under) Expenditures	(983,518)	2,163,566	1,047,297	2,902,980	(2,527,424)
Other Financing Sources/(Uses)					
Sale of assets	—	15,988	—	7,957	—
Transfers in	1,202,282	1,553,983	1,309,199	5,894,668	1,319,490
Transfers (out)	(79,000)	(2,405,911)	(79,000)	(7,927,063)	(1,311,505)
Total Other Financing Sources/(Uses)	1,123,282	(835,940)	1,230,199	(2,024,438)	7,985
Net Change in Fund Balances	139,764	1,327,626	2,277,496	878,542	(2,519,439)
Fund balance – beginning of year	16,107,306	16,107,306	17,434,932	17,434,932	18,313,474
Fund balance – end of year	16,247,070	17,434,932	19,712,428	18,313,474	15,794,035

Source: City of Porterville 2013 and 2014 CAFRs and City of Porterville Finance Department.

City Financial Management Policies

The City Council has adopted a comprehensive set of financial management policies including: [(1) a general finance and budget policy; (2) a fund balance policy, establishing targeted general fund reserves; (2) an investment policy to ensure the prudent investment of City funds; (3) use of a long term debt policy; (4) investment policies; and (5) a post-issuance compliance policy]. The City's fiscal policies are reviewed at least annually.

Reserves Policy. The City will increase the committed fund balance in any fiscal year in which recurring revenue sources exceed recurring expenditure uses with the intent to attain and maintain a minimum committed balance of 15%, of regular general fund operating expenditures.

Investment Policy. The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved on April 18, 2006 (the "Investment Policy"), prepared by the Finance Director as authorized by section 53601 of the Government Code of California. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

Reliance on State Budget

Approximately 47.5% of the City's general fund revenues for fiscal year 2013-14 consisted of payments collected by the State and passed-through to local governments or collected by the County and allocated to local governments by State law. Approximately 50% of the City's general fund revenues for fiscal year 2014-15 are expected to come from such sources. There can be no assurance that current or future State budget difficulties will not adversely affect the City's revenues or its ability to make payments under the Lease Agreement. See "STATE BUDGET INFORMATION."

Principal Sources of General Fund Revenues

Summary of Tax Revenues. Sales and use taxes represented approximately 17% of general fund revenues in fiscal year 2013-14. Property taxes represented approximately 30% of general fund revenues in fiscal year 2013-14. Utility Users taxes represented approximately 16% of general fund revenues in fiscal year 2013-14. These sources represented an aggregate of approximately 63% of the general fund revenues for fiscal year 2013-14. For a discussion of potential State Budget impacts on general fund revenues, see "—Reliance on State Budget."

The following table shows the City's tax revenues by source for the most recent five fiscal years:

CITY OF PORTERVILLE
General Fund Tax Revenues by Source

	2009-10	2010-11	2011-12	2012-13	2013-14
Property Tax	$ 6,674,609	$ 6,830,654	$ 6,713,256	$ 7,346,813	$ 7,406,413
Franchise Tax	1,469,489	1,485,182	1,482,657	1,473,957	1,551,762
Utility Users Tax	4,045,732	4,048,106	3,908,443	3,969,652	3,955,357
Transient Occupancy Tax	276,338	301,029	309,577	335,319	370,999
Sales Tax	3,376,898	3,494,454	3,697,274	4,233,168	4,218,380
Motor Vehicle In-Lieu Tax	382,477	242,142	27,107	28,249	23,542
Total Tax Revenues	$16,225,543	$16,401,567	$16,138,314	$17,387,158	$17,526,453

Source: City of Porterville Finance Department.

Sales Taxes. A sales tax is imposed on the privilege of consuming personal property in California. California does not tax services. The tax rate is established by the State Legislature and is presently 7.50% (after the passage of Proposition 30). In addition, many of California's cities, counties, towns and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. These district taxes can vary up to 1%, and more than one district tax may be in effect for a particular location. The City's share of sales tax is approximately 1.000% of the total 8.500%. More than half of the City's share of sales tax is credited to the general fund.

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

On March 2, 2004, voters approved a statewide bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the "Triple Flip." The State issued $11.3 billion of Economic Recovery Bonds prior to June 30, 2004, and the remainder of the authority in 2008. Under the "Triple Flip," one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur during the State's 2016-17 fiscal year. See "STATE BUDGET INFORMATION."

The following table shows the City's sales and use tax revenues for fiscal years 2009-10 through 2013-14.

CITY OF PORTERVILLE
General Fund Sales and Use Tax Revenues

Fiscal Year	Total Revenue
2009-10	$3,376,898
2010-11	$3,484,454
2011-12	$3,697,274
2012-13	$4,233,168
2013-14	$4,218,380

Source: City of Porterville Finance Department.

Property Taxes. Property taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County, including the City. The County levies, bills and collects property taxes for the City. Property taxes paid to the City by the County within 90 days after the end of the fiscal year are "available" and are, therefore, recognized as revenue.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State/assessed public utilities property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and March 1. Collection dates are December 10 and April 10 which are also the delinquent dates. At that time, delinquent accounts are assessed a penalty of 10%. Accounts that remain unpaid on June 30 are charged an additional 1.5% per month. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Treasurer.

Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each County to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

Assessment Appeals. Property tax values determined by the County Assessor may be subject to appeal by property owners. Assessment appeals are annually filed with the Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner.

Each assessment appeal could result in a reduction of the taxable value of the real property, personal property or possessory interest of the property which is the subject of the appeal. Alternatively, an appeal may be withdrawn by the applicant or the Assessment Appeals Board may deny or modify the appeal at a hearing or by stipulation.

Effect of Delinquencies and Foreclosures on Property Tax Collections. As described above, once an installment of property tax becomes delinquent, penalties are assessed commencing on the applicable delinquency date until the delinquent installment(s) and all assessed penalties are paid. In the event of foreclosure and sale of property by a mortgage holder, all past due property taxes, penalties and interest are required to be paid before the property can be transferred to a new owner.

The level of default and foreclosure activity has affected certain homeowners nationwide. Within the State, the greatest impacts to date are in regions of the Central Valley, the Inland Empire, and other areas in the State where the large numbers of new mortgages were originated in more affordable areas. The increased level of default and foreclosure activity has resulted in downward pressure on home prices in the affected areas.

Set forth in the table below are assessed valuations for secured and unsecured property within the City for the five most recent fiscal years.

CITY OF PORTERVILLE
Assessed Valuations
(Amounts in Thousands)

Fiscal Year	Local Secured	Utility	Unsecured	Total
2010-11	$2,195,432,693	$1,983,635	$80,704,920	$2,278,121,248
2011-12	$2,114,645,510	$1,983,897	$88,389,602	$2,205,019,009
2012-13	$2,071,556,648	$1,965,732	$84,250,490	$2,157,772,870
2013-14	$2,140,222,628	$2,191,850	$83,079,925	$2,225,494,403
2014-15	$2,236,302,143	$2,191,850	$91,732,070	$2,330,226,063

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table shows the land use of parcels in the City, according to assessed valuation. As shown, the majority of land in the City is used for residential purposes.

CITY OF PORTERVILLE
Assessed Valuation and Parcels by Land Use
Fiscal Year 2014-15

Non-Residential:	2014-15 Assessed Valuation(1)	% of Total	No. of Parcels	% of Total
Commercial/Office	$ 4,359,098	0.19%	51	0.34%
Vacant Commercial	455,839,774	20.38	682	4.57
Industrial	34,800,139	1.56	219	1.47
Vacant Industrial	81,349,922	3.64	29	0.19
Recreational/Casinos	4,739,354	0.21	51	0.34
Government/Social/Institutional	10,245,296	0.46	36	0.24
Miscellaneous	13,526,926	0.60	142	0.95
Subtotal Non-Residential	$604,860,509	27.05%	1,210	8.10%
Residential:				
Single Family Residence	$1,378,210,592	61.63%	11,607	77.70%
Condominium/Townhouse	27,562,653	1.23	320	2.14
Mobile Home	18,448,212	0.82	119	0.8
Mobile Home Park	15,304,457	0.68	631	4.22
	28,708,721	1.28	17	0.11
2-4 Residential Units	74,981,643	3.35	517	3.46
5+ Residential Units/Apartments	61,651,450	2.76	115	0.77
Vacant Residential	26,573,906	1.19	402	2.69
Subtotal Residential	$1,631,441,634	72.95%	13,728	91.90%
Total	$2,236,302,143	100.00%	14,938	100.00%

Source: California Municipal Statistics, Inc.
(1) Local Secured Assessed Valuation; excluding tax-exempt property.

Assessed Valuation of Single Family Residential Parcels. The following table shows a breakdown of the assessed valuations of Single Family Residential parcels in the City, according to assessed valuation.

CITY OF PORTERVILLE
Per Parcel 2014-15 Assessed Valuation
of Single Family Homes

	No. of Parcels	2014-15 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	11,607	$1,378,210,592	$118,740	$113,000

2014-15 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	223	1.92%	1.92%	$ 3,894,700	0.280%	0.280%
$25,000 - $49,999	972	8.374	10.296	38,630,892	2.803	3.086
$50,000 - $74,999	1,290	11.114	21.409	80,576,221	5.846	8.932
$75,000 - $99,999	1,832	15.784	37.193	160,955,281	11.679	20.611
$100,000 - $124,999	2,661	22.926	60.119	297,247,070	21.568	42.178
$125,000 - $149,999	1,902	16.387	76.506	260,059,630	18.869	61.048
$150,000 - $174,999	1,233	10.623	87.128	198,232,909	14.383	75.431
$175,000 - $199,999	622	5.359	92.487	116,055,359	8.421	83.852
$200,000 - $224,999	322	2.774	95.261	68,117,172	4.942	88.794
$225,000 - $249,999	211	1.818	97.079	49,933,373	3.623	92.417
$250,000 - $274,999	107	0.922	98.001	27,948,278	2.028	94.445
$275,000 - $299,999	82	0.706	98.708	23,447,031	1.701	96.146
$300,000 - $324,999	63	0.543	99.25	19,554,174	1.419	97.565
$325,000 - $349,999	39	0.336	99.586	13,172,955	0.956	98.521
$350,000 - $374,999	14	0.121	99.707	5,035,150	0.365	98.886
$375,000 - $399,999	12	0.103	99.81	4,651,955	0.338	99.224
$400,000 - $424,999	6	0.052	99.862	2,447,498	0.178	99.401
$425,000 - $449,999	8	0.069	99.931	3,535,654	0.257	99.658
$450,000 - $474,999	3	0.026	99.957	1,360,234	0.099	99.757
$475,000 - $499,999	0	0.000	99.957	0	0.000	99.757
$500,000 and greater	5	0.043	100.000	3,355,056	0.243	100.000
Total	11,607	100.00%		$1,378,210,592	100.00%	

Source: California Municipal Statistics, Inc.
(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

The County only provides secured tax charge and delinquency information for general obligation bond debt service levies. Since the City does not have any general obligation bonds outstanding, there is no information to report. The County does not participate in the Teeter Plan.

In 1978, the voters of the State passed Proposition 8, a constitutional amendment to Article XIIIA that allows a temporary reduction in assessed value when real property suffers a decline in value. A decline in value occurs when the current market value of real property is less than the current assessed (taxable) factored base year value as of the lien date, January 1. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Article XIIIA of the California Constitution."

Principal Taxpayers. The following table sets forth the principal secured property taxpayers in the City as of fiscal year 2014-15, the most current information available.

CITY OF PORTERVILLE
Largest Local Secured Property Tax Payers
Fiscal Year 2014-15

	Property Owner	Primary Land Use	Assessed Valuation	% of Total[1]
1.	Wal-Mart Stores East LP	Industrial	$ 83,044,956	3.71%
2.	Del Mesa Farms	Industrial	39,953,846	1.79%
3.	Target Corporation	Commercial	18,374,029	0.82%
4.	Lowes HIW Inc.	Commercial	14,027,260	0.63%
5.	Royalty Carpet Mills Inc.	Industrial	11,668,462	0.52%
6.	Beckman Coulter Inc.	Industrial	11,532,447	0.52%
7.	Keith Cherry Trust	Mobile Home Park	11,316,349	0.51%
8.	Ennis Commercial Properties	Professional Buildings	11,135,608	0.50%
9.	Daryl C. & Victoria M. Nicholson	Residential Properties	10,040,564	0.45%
10.	Porterville Investments 2005 LP	Commercial	9,902,000	0.44%
11.	Henderson-Prospect Partners LP	Commercial	9,614,140	0.43%
12.	Porterville Retirement Res LLC	Apartments	8,275,150	0.37%
13.	HD Development Of Maryland Inc.	Commercial	7,855,600	0.35%
14.	Citizens Business Bank	Commercial	7,627,106	0.34%
15.	Melmike LP	Professional Buildings	7,095,000	0.32%
16.	David Stapleton	Commercial	6,738,987	0.30%
17.	Randall L. Carroll Trust	Residential Properties	6,683,603	0.30%
18.	Miramar GP LP	Hotel/Motel	6,411,275	0.29%
19.	International Settlement Holdings Corp.	Commercial	6,143,918	0.27%
20.	Vallarta Properties LLC	Commercial	5,685,998	0.25%
			$293,126,298	13.11%

Source: California Municipal Statistics, Inc.
(1) 2014-15 Local Secured Assessed Valuation: $2,236,302,143.

Motor Vehicle In-Lieu Tax. Vehicle license fees are assessed in the amount of 2% of a vehicle's depreciation market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the vehicle license fees ("VLF") paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25% of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5% of 2% (resulting in the current effective rate of 0.65%). This level of offset was estimated to provide tax relief of $3.95 billion in the fiscal year 2003-04.

In connection with the offset of the VLF, the Legislature authorized appropriations from the State general fund to "backfill" the offset so that the local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient general fund moneys to fully backfill the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged. In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient general fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners were restored to the 1998 level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and offset payments to local governments resumed. Local governments received backfill payments totaling $3.80 billion in fiscal year 2002-03. Backfill payments totaling $2.65 billion were expected to be paid to local governments in fiscal year 2003-04. The State-local agreement also provided for the repayment in August 2006 of approximately $1.2 billion in backfill that was not received by local governments during the time period between the suspension of the offsets and the implementation of higher fees. This repayment obligation was codified by Proposition 1A, which was approved by voters in the November 2004 general election and was repaid early by the State in August 2005. For a description of Proposition 1A, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS—Proposition 1A."

Beginning in fiscal year 2004-05, the State-local agreement permanently reduced the VLF rate to 0.65% and replaced the backfill with a like amount of property taxes. Subsequent to fiscal year 2004-05, each city's "property tax in-lieu of VLF" increased proportionally to increases in such city's assessed valuation. However, in fiscal years 2004-05 and 2005-06, the State "shifted" $700 million in city and county taxes to the State's General Fund.

The following table sets forth the Motor Vehicle License Fees and Property Tax In-Lieu of VLF received by the City for the last five fiscal years.

CITY OF PORTERVILLE
General Fund Property Tax In-Lieu of VLF

Fiscal Year	Total Revenue
2009-10	$3,411,314
2010-11	$3,400,234
2011-12	$3,281,167
2012-13	$3,205,140
2013-14	$3,305,391

Source: City of Porterville Finance Department.

Senate Bill 89 was signed into law as part of the State's fiscal year 2011-12 Budget Act. SB 89 increases motor vehicle license fees ("VLF") by $12. As a result of SB 89, $300 million is transferred to a new Local Law Enforcement Services Account ("LLESA") to fund law enforcement grants. In addition, beginning July 1, 2011, SB 89 transfers the remaining VLF revenue previously allocated to cities to the LLESA. Instead of cities receiving $130 million in VLF revenues, under SB 89 they would receive only $75 million in earmarked grants. This has the effect of reducing the City's revenues by $10,000 in FY 11-12. The City considers this revenue loss to be permanent.

In addition, the City receives the following local taxes:

Utility User's Tax. The City collects a 6% utility users tax on the use of telephone, electrical, gas, water, and cable television services.

The following table sets forth the Utility Users Tax received by the City for the last five fiscal years.

CITY OF PORTERVILLE
Utility Users Tax

Fiscal Year	Total Revenue
2009-10	$4,045,732
2010-11	$4,048,106
2011-12	$3,908,443
2012-13	$3,969,652
2013-14	$9,955,357

Source: City of Porterville 2014 CAFR.

Transient Occupancy Tax. The City levies an 8% transient occupancy tax on hotel and motel bills.

The following table sets forth the Transient Occupancy Tax received by the City for the last five fiscal years.

CITY OF PORTERVILLE
Transient Occupancy Tax

Fiscal Year	Total Revenue
2009-10	$276,338
2010-11	$301,029
2011-12	$309,577
2012-13	$335,319
2013-14	$370,999

Source: City of Porterville 2014 CAFR.

In addition to the taxes described above the City receives the following general fund revenues:

Licenses and Permits. These revenues primarily consist of business licenses and building construction permits.

Intergovernmental. These revenues consist of federal and state operating and capital grants awarded to the City for specific programs and projects.

Fines, Forfeitures and Penalties. These revenues include parking citations and other fines for municipal code violations.

Charges for Services. The City charges fees for plan checking, building inspection and a variety of other municipal services.

The following table illustrates other revenue sources:

CITY OF PORTERVILLE
Other Revenue Sources

	2009-10	2010-11	2011-12	2012-13	2013-14
Licenses and permits	$ 836,180	$ 824,499	$ 749,377	$ 779,568	$ 881,532
Intergovernmental	1,543,434	655,225	404,075	486,670	1,508,653
Charges for services	3,568,334	3,645,764	3,946,926	3,981,345	3,961,139
Special assessments and fees	-	8,428	5,848	5,802	5,833
Fines and forfeitures	82,717	54,926	72,009	76,679	74,151
Investment earnings	476,798	404,988	383,487	192,409	399,255
Miscellaneous	93,606	84,790	74,034	126,706	93,337
Total Other Revenue Sources	$6,601,069	$5,678,650	$5,635,756	$5,649,179	$6,923,900

Source: City of Porterville 2010-2014 CAFRs.

General Fund Balance Sheet, Revenues and Expenditures

The following two tables summarize the General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the City's general fund for the fiscal years 2009-10 through 2013-14.

CITY OF PORTERVILLE
General Fund Balance Sheet
Fiscal Years 2001-10 through 2013-14

	Fiscal Year Ended June 30,				
	2010	2011	2012	2013	2014
Assets					
Cash and cash equivalents	$ 218,736	$ 142,264	$ 269,784	$ 42,103	$ 2,575
Investments	14,918,397	13,841,475	10,708,342	12,221,926	12,292,505
Receivables - Interest	118,724	118,314	85,230	63,235	98,525
Receivables - Taxes	1,003,451	870,697	800,517	879,567	957,413
Receivables – Other	215,735	207,809	287,478	340,406	534,811
Receivables – Intergovernmental	77,971	42,177	1,174,254	1,145,115	2,041,486
Prepaid items	14,705	15,440	20,649	21,681	23,015
Advances receivable	1,320,215	4,057,876	61,426	—	—
Notes receivable	2,720,592	4,326,667	4,437,275	4,269,297	4,096,241
Total Assets	20,608,526	23,622,719	17,844,955	18,983,330	20,046,571
Liabilities					
Accounts and other payable	283,848	285,308	270,827	215,884	335,594
Payroll payable	545,175	571,120	584,241	584,297	582,988
Interfund payable	31,430	30,482	29,752	17,497	15,779
Intergovernmental payables	104,130	—	—	—	182,211
Advances payable	938,044	894,753	852,829	641,182	616,525
Total Liabilities	1,902,627	1,781,663	1,737,649	1,458,860	1,733,097
Fund Balances					
Nonspendable		8,399,983	5,551,025	5,322,652	5,244,721
Restricted		517,869	439,194	418,245	61,821
Committed		2,644,395	2,090,757	4,372,705	4,894,487
Assigned		5,360,982	5,653,905	6,250,701	6,573,514
Unassigned		4,917,827	2,372,425	1,070,629	1,538,931
Total Fund Balances	18,705,899	21,841,056	16,107,306	17,434,932	18,313,474
Total Liabilities and Fund Balances	20,608,526	23,622,719	17,844,955	18,983,330	20,046,571

Source: City of Porterville 2010-2014 CAFRs

CITY OF PORTERVILLE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2009-10 through 2013-14

	Fiscal Year Ended June 30,				
	2010	2011	2012	2013	2014
Revenues					
Property taxes	$ 6,674,609	$ 6,830,654	$ 6,713,256	$ 7,346,813	$ 7,406,413
Sales taxes	3,376,898	3,494,454	3,697,274	4,233,168	4,218,380
Utility users tax	4,045,732	4,048,106	3,908,443	3,969,652	3,955,357
Franchise tax	1,469,489	1,485,182	1,482,657	1,473,957	1,551,762
Transient occupancy tax	276,338	301,029	309,577	335,319	370,999
Licenses and permits	836,180	824,499	749,377	779,568	881,532
Vehicle license fees	382,477	242,142	27,107	28,249	23,542
Intergovernmental	1,543,434	655,225	404,075	486,670	1,508,653
Charges for services	3,568,334	3,645,764	3,946,926	3,981,345	3,961,139
Special assessments and fees	-	8,428	5,848	5,802	5,833
Fines and forfeitures	82,717	54,926	72,009	76,679	74,151
Investment earnings	476,798	404,988	383,487	192,409	399,255
Miscellaneous	93,606	84,790	74,034	126,706	93,337
Total Revenues	22,826,612	22,080,187	21,774,070	23,036,337	24,450,353
Expenditures					
Community and economic development	836,239	707,782	673,444	716,917	725,461
General government	2,585,191	2,795,383	2,662,273	2,611,900	2,538,499
Parks and recreation	4,404,077	4,318,958	4,519,554	4,264,757	4,225,116
Public safety - Fire	3,226,212	3,358,174	3,297,355	3,260,573	3,037,881
Public safety - Police	7,361,336	7,460,910	7,931,550	7,345,848	7,831,424
Public works	2,039,749	2,091,503	2,126,302	2,078,905	2,048,747
Debt service – Principal	-	-	-	-	-
Debt service - Interest	6,696	2,278	1,729	675	234
Capital outlay	726,026	606,154	608,141	593,196	909,946
Total Expenditures	21,185,526	21,341,142	21,820,348	20,872,771	21,317,308
Excess/(deficiency) of Revenues over/(under) Expenditures	1,641,086	739,045	(46,278)	2,163,566	3,133,045
Other Financing Sources/(Uses)					
Other sources	2,029,820	197,649	15,339	15,988	-
Transfers in	1,571,354	1,483,522	1,286,334	1,553,983	5,894,668
Transfers (out)	(5,311,143)	(3,203,436)	(2,731,595)	(2,405,911)	(8,149,171)
Total Other Financing Sources/(Uses)	(1,709,969)	(1,522,265)	(1,429,922)	(835,940)	(2,254,503)
Net Change in Fund Balances	(68,883)	(783,220)	(1,476,200)	1,327,626	878,542
Fund balances – Beginning of year	18,774,782	18,705,899	21,841,056	16,107,306	17,434,932
Fund balances – End of year	18,705,899	21,841,056(1)	16,107,306(2)	17,434,932	18,313,474

Source: City of Porterville 2010-2014 CAFRs.
(1) Includes a prior period adjustment of $3,918,377.
(2) Includes a prior period adjustment of $(4,257,550).

OTHER FINANCIAL INFORMATION

Labor Relations

Currently 256 permanent City employees are covered by negotiated agreements. The City Manager has an individual employment agreement with the City. Negotiated agreements have the following expiration dates:

CITY OF PORTERVILLE
Negotiated Employee Agreements

Bargaining Unit	Contract Expiration Date	Number of Employees
Porterville City Employees Association (PCEA)	6/30/2015	99
Public Safety Support Unit (PSSU)	6/30/2015	24
Management/Confidential Series (MCS)	6/30/2015	46
Fire Officer Series (FOS)	6/30/2015	8
Porterville Peace Officers Association (PPOA)	7/1/2014 (in negotiations)	55
Porterville City Firefighters Association (PCFA)	7/1/2014 (in negotiations	24

Source: City of Porterville

The City has never had an employee work stoppage.

Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective January 1979, the City Council approved a program of self-insurance for workers' compensation, medical and dental, unemployment and, effective July 1985, general liability. The self-insurance program was established as an Internal Service Fund and is supported by charges to various City departments that are reported as interfund services provided and used. There have neither been significant reductions in insurance coverage from the prior year nor any settlements exceeding insurance coverage for each of the past three years.

The City contracts with a third-party administrator to administer all claims under the medical and dental program. Charges per employee are based on total outstanding claims and past history. The City will pay all medical claims up to $110,000 per claim. The City then purchases stop loss coverage that covers claim costs above $110,000 up to $2,000,000. The maximum payment for dental claims is $2,000 per employee per year.

The unemployment liability program is administered through the State of California wherein the City is charged for the actual cost of claims paid by the State.

At June 30, 2014, $1,174,482 has been accrued for claims representing estimates of amounts to be paid for actual claims and incurred but not reported claims based on past actuarial experience. Non-incremental claims adjustment expenses have been included as part of the liability for claims and judgments.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2013—Notes to Basic Financial Statements—NOTE 5B.

Employee Retirement Plans

PERS Plan Description. The City has two defined benefit pension plans, a Miscellaneous Plan and a Safety Plan, each providing retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Both plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees Retirement Law establish a menu of benefit provisions, as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. The new Public Employees Pension Reform Act (PEPRA) implemented new benefit formulas and final compensation, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member as per PEPRA. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

Funding Policy. The City as well as the active plan members are required to contribute a percentage of the annual covered salary to the Plan. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employer contribution rate is established and may be amended by CalPERS and the contribution requirements of the active plan members are established by State statute.

Annual Pension Cost. Under GASB 27, an employer reports an annual pension cost equal to the annual required contribution plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. For the fiscal year 2013-2014, the City's annual pension cost of $3,238,877 for all plans was equal to the City's required and actual contributions.

CITY OF PORTERVILLE
Annual Pension Costs

	Miscellaneous Plan		Safety Plan		Combined
Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation/(Asset)
FY12	$ 2,099,697	100.0%	$ 1,803,336	100.0%	$ 0
FY13	1,774,926	100.0	1,635,608	100.0	0
FY14	1,825,014	100.0	1,413,863	244.1	(3,451,250)

Source: City of Porterville 2014 CAFR.

For more information, including schedules of funding progress for the City's various pension plans, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2013—Notes to Basic Financial Statements—NOTE 5F.

Other Post-Employment Benefits

Plan Description. The City provides other postemployment benefits (OPEB) for its employees with a single-employer retiree health program. Retired employees are eligible to purchase the City's Medical, Dental, and/or Vision Plan benefits for themselves and their spouse, provided the spouse was covered under each of the Benefit Plans proposed to be purchased for not less than 30 days immediately prior to the employee's retirement date. Employees who retire on or after January 1, 2005 will pay 70 percent of the nominal monthly contribution rate established for medical coverage for themselves and for their eligible spouse; and the City will contribute 30 percent of said costs, for so long as timely and continuous monthly premium payments are made by or on behalf of the eligible retiree and/or by their eligible spouse. Medical plan benefit coverage for retirees and eligible spouses will be effective until they reach the age of 65.

Funding Policy. At this time, the City manages its own other postemployment benefit plan. The City's funding policy is to finance benefit payments as they come due, on a pay-as-you-go basis.

As required by GASB 45, an actuary will determine the City's annual required contribution (ARC) at least once every two years. The ARC is calculated in accordance with certain parameters, and includes the normal cost for one year and a component of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years. This is the basis of the annual OPEB cost and the net OPEB obligation. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan, and the City's net OPEB obligation at June 30, 2014:

CITY OF PORTERVILLE
Net OPEB Obligation

Annual required contribution	$ 898,319
Interest on net OPEB obligation	103,928
Adjustment to ARC	(71,030)
Annual OPEB cost (expense)	931,217
Contributions made	(713,995)
Increase in net OPEB obligation	217,222
Net OPEB obligation – beginning of year	2,078,558
Net OPEB obligation – end of year	2,295,780

Source: City of Porterville 2014 CAFR.

The City's annual OPEB Cost, the percentage of annual OPEB Cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years, are as follows:

CITY OF PORTERVILLE
Percentage of OPEB Contributed

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
FY12	$ 701,991	$ 275,785	39.3%	$ 1,587,786
FY13	906,678	415,906	45.9	2,078,558
FY14	931,217	713,995	76.7	2,295,780

Source: City of Porterville 2014 CAFR.

For more information see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2013—Notes to Basic Financial Statements—NOTE 5F.

Short-Term Obligations

The City currently has no outstanding short-term obligations.

Long-Term General Fund Obligations

Other than the 2002 Certificates to be defeased and the 2013 Lease to be prepaid from the proceeds of the Certificates, the City's only general fund debt is its 2013 Taxable Pension Obligation Refunding Bonds, currently outstanding in the principal amount of $3,765,000 (the "Pension Bonds").

The following table shows the City's payment obligations with respect to the Pension Bonds.

Fiscal Year Ending June 30	Principal	Interest	Total
2015	$ 490,000	$105,600	$ 595,600
2016	505,000	90,675	595,675
2017	520,000	75,300	595,300
2018	540,000	59,400	599,400
2019	555,000	42,975	597,975
2020	570,000	26,100	596,100
2021	585,000	8,775	593,775
TOTAL	$3,765,000	$408,825	$4,173,825

Source: City of Porterville 2014 CAFR.

General Obligation Debt

The City currently has no outstanding general obligation debt.

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective April 1, 2015. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

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

Direct and Overlapping Bonded Debt as of April 1, 2015

CITY OF PORTERVILLE

2014-15 Assessed Valuation: $2,330,226,063

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/15
Kern Community College District Safety, Repair and Improvement District	2.740%	$ 4,047,277
Porterville Unified School District	0.061	1,552
Porterville Unified School District School Facilities Improvement District	78.073	14,659,565
Burton School District	92.559	1,562,749
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$20,271,143
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Tulare County Certificates of Participation	8.004%	$ 3,435,317
Tulare County Board of Education Certificates of Participation	8.004	3,007,103
Kern Community College District Certificates of Participation	2.484	972,486
Kern Community College District Benefit Obligations	2.484	2,023,466
Porterville Unified School District Certificates of Participation	44.904	13,028,896
Burton School District Certificates of Participation	92.559	3,290,472
City of Porterville General Fund Obligations	100.000	22,940,000(1)
City of Porterville Pension Obligation Bonds	100.000	3,275,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$51,972,740
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	100.000%	$7,645,000
COMBINED TOTAL DEBT		$79,888,883(2)

Ratios to 2014-15 Assessed Valuation:
Overlapping Tax and Assessment Debt................................0.87%
Total Direct Debt ($26,215,000) 1.12%
Combined Total Debt...3.43%

Ratios to Redevelopment Successor Agency Incremental Valuation ($104,643,704):
Total Overlapping Tax Increment Debt 7.31%

Source: California Municipal Statistics, Inc.
(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

STATE BUDGET INFORMATION

Information regarding the State Budget is regularly available at various State-maintained websites. The Proposed fiscal year 2014-15 State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Funding by the State of California

General. California counties administer numerous health and social service programs as the administrative agent of the State of California (the "State") and pursuant to State law. Many of these programs have been either wholly or partially funded with State revenues which have been subject each year to the State budget and appropriation process. Over the last several years, State and federally mandated expenditures in justice, health and welfare have grown at a greater rate than the County's discretionary general purpose revenues.

The State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. Pursuant to the State Constitution, the Governor of the State is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year. The Governor's Budget is then revised in May and a final budget must be adopted by each house of the State Legislature by no later than June 15. The budget becomes law upon the signature of the Governor.

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Budget Act must be approved by each house of the State Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the State Legislature. Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by each house of the State Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse.

Fiscal Year 2014-15 Proposed State Budget. On January 9, 2014, Governor Edmund G. Brown released the fiscal year 2014-15 Proposed State Budget (the "Fiscal Year 2014-15 Proposed State Budget"), which projects fiscal year 2013-14 general fund revenues and transfers of $100.15 billion, total expenditures of $98.5 billion and a year-end surplus of $4.21 billion, of which $955 million would be reserved for liquidation of encumbrances and $3.26 billion would be deposited in a reserve for economic uncertainties. The Fiscal Year 2014-15 Proposed State Budget projects fiscal year 2014-15 general fund revenues and transfers of $104.5 billion, total expenditures of $106.79 billion and a year-end surplus of $1.92 billion, of which $955 million would be reserved for liquidation of encumbrances and $967 million would be deposited in a reserve for economic uncertainties. The Fiscal Year 2014-15 Proposed State Budget also proposes a deposit of $1.59 billion into the State's Rainy Day Fund. The Fiscal Year 2014-15 Proposed State Budget proposes a constitutional amendment to strengthen the Rainy Day Fund, scheduled to appear on the ballot in November 2014. Under the proposal, revenues would be deposited into the Rainy Day Fund when capital gains revenues rise to more than 6.5% of general fund tax revenues. The Rainy Day Fund would also allow supplemental payments to long-term liabilities of the State and would smooth spikes in funding to schools under Proposition 98. Amounts that could be withdrawn from the districts and complying with State audit findings. Further, if the new IFD overlaps with a dissolved redevelopment agency, the amount of funding available for the IFD would depend on the extent to which the redevelopment agency's existing payment obligations have been met.

May Revision to the Fiscal Year 2014-15 Proposed State Budget. On May 13, 2014, the Governor released his May Revision to the 2014-15 Proposed State Budget (the "May Revision"), which projects Fiscal Year 2013-14 revenues and transfers of $102.19 billion, total expenditures of $100.71 billion and a year-end surplus of $3.90 billion (inclusive of the $2.43 billion fund balance from Fiscal Year 2012-13), of which $955 million would be reserved for the liquidation of encumbrances and $2.95 billion would be deposited in a reserve for economic uncertainties. The May Revision projects Fiscal Year 2014-15 revenues and transfers of $105.35 billion, total expenditures of $107.77 billion and a year-end surplus of $1.48 billion (inclusive of the projected $3.90 billion State General Fund balance as of June 30, 2014 which would be available for Fiscal Year 2014-15), of which $955 million would be reserved for the liquidation of encumbrances and $528 million would be deposited in a reserve for economic uncertainties. In addition, in Fiscal Year 2014-15, $1.604 billion would be deposited into the State's Budget Stabilization Account/Rainy Day Fund. The May Revision states that State revenues are forecasted to increase by $2.4 billion, which amounts will be offset in part by unanticipated increases in Medi-Cal costs associated with the expansion under the Affordable Care Act, increased costs of drought management and additional costs associated with State pension obligations. The May Revision states that a number of major risks continue to threaten the State's fiscal stability, including the overhang of fiscal debts, growing long-term liabilities and continuing uncertainties regarding the costs of the federal Affordable Care Act. The May Revision also states that the agreement between the Governor and legislative leaders to create a Rainy Day Fund through an amendment to the State Constitution, if approved by voters in November 2014, will help the State minimize the volatility of future budgetary surplus and deficit cycles.

Future State Budgets. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities and counties in the State. The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future Fiscal Year, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of current or future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets are being and will be affected by national and State economic conditions and other factors, including the current economic conditions, over which the City has no control.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIIIA of the California Constitution

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

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

The voters of the State subsequently approved various measures which further amended Article XIIIA. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIIIA. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIIIA to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIIIA has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property.

Section 4 of Article XIIIA also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIB of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIIIB to the California Constitution. In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Article XIIIB of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIIIB include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIIIB do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

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

Proposition 62

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

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

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

Proposition 218

Proposition 218. On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIIIA of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIIIA the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIIID. Proposition 218 added voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions has been to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

Proposition 218 provides that, effective July 1, 1997, fees that are charged "as an incident of property ownership" may not "exceed the funds required to provide the property related services" and may only be charged for services that are "immediately available to the owner of the property."

The City does not expect the application of Proposition 218 will have a material adverse impact on its ability to pay Lease Payments.

Proposition 1A of 2004

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the vehicle license fee (the "VLF"). The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "State-local agreement") in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004 the voters of the State approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and VLF revenues as of November 3, 2004. Pursuant to Proposition 1A of 2004, the State is able to borrow up to 8% of local property tax revenues but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. Any amounts borrowed are required to be repaid within three years. Proposition 1A of 2004 also permits the State to borrow from local property tax revenues for no more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Pursuant to statutory changes made in conjunction with amendments to the fiscal year 2008-09 State Budget Act, the fiscal year 2009-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2012 (collectively, the "February 2012 Budget Package"), the VLF rate increased from 0.65% to 1.15% effective May 19, 2012. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund.

Proposition 22

Proposition 22 ("Proposition 22"), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See "– Proposition 1A" herein. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The City does not believe that the adoption of Proposition 22 will have a significant impact on its revenues and expenditures during fiscal year 2012-13.

Proposition 26

Proposition 26 ("Proposition 26"), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of "taxes." Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. See "—Proposition 218."

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the City's fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

Future Initiatives

Article XIIIA, Article XIIIB, Proposition 218 and Proposition 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Certificates. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Certificates, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Certificates are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Lease Payments Are Not Debt

The obligation of the City to make the Lease Payments under the Lease Agreement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make Lease Payments does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that, for so long as the

Property is available for its use, it will make the necessary annual appropriations within its budget for the Lease Payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments, or which the City, in its discretion, may determine to pay prior to the Lease Payments.

The City has the capacity to enter into other obligations payable from the City's general fund, without the consent of or prior notice to the Owners of the Certificates. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitations on appropriations under Article XIIIB of the California Constitution. For information on the City's current limitations on appropriations, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS–Article XIIIB of the California Constitution."

Valid and Binding Covenant to Budget and Appropriate

Pursuant to the Lease Agreement, the City covenants to take such action as may be necessary to include Lease Payments due in its annual budgets and to make necessary appropriations for all such payments. Such covenants are deemed to be duties imposed by law, and it is the duty of the public officials of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. Upon delivery of the Certificates, Special Counsel will render its opinion (substantially in the form of APPENDIX D–FORM OF OPINION OF SPECIAL COUNSEL) to the effect that, subject to the limitations and qualifications described therein, the Lease Agreement constitutes a valid and binding obligation of the City.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Property caused by material damage, title defect, destruction to or condemnation of the Property, Lease Payments will be subject to abatement. In the event that such component of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Property or redemption of the Certificates, there could be insufficient funds to make payments to Owners in full. Reduction in Lease Payments due to abatement as provided in the Lease Agreement does not constitute a default thereunder.

It is not possible to predict the circumstances under which such an abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement and the Trustee is not empowered to sell a fee simple interest in the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Risk of Uninsured Loss

The City covenants under the Lease Agreement to maintain certain insurance policies on the Property. See "SOURCE OF PAYMENT FOR THE CERTIFICATES—Insurance." These insurance policies do not cover all types of risk, and the City need not obtain insurance except as available on the open market from reputable insurers. For instance, the City does not covenant to maintain earthquake insurance. The Property could be damaged or destroyed due to earthquake or other casualty for which the Property is uninsured. Additionally, the Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Property will be sufficient to redeem the Certificates.

Under the Lease Agreement the City may obtain casualty insurance which provides for a deductible up to $250,000. Should the City be required to meet such deductible expenses, the availability of general fund revenues to make Lease Payments may be correspondingly affected.

The City is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property. Depending on its severity, an earthquake could result in abatement of Lease Payments under the Lease Agreement. See "—Abatement."

Eminent Domain

If the Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Property is taken permanently, or if the Property or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Lease Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property. The City covenants in the Lease Agreement to contest any eminent domain award which is insufficient to either: (i) prepay the Lease Payments in whole, if all the Property is condemned; or (ii) prepay a pro rata share of Lease Payments, in the event that less than all of the Property is condemned.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Property. In general, the owners and lessees of the Property may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Property may be limited in the future resulting from the current existence on the Property of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Property of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Property.

The City is unaware of the existence of hazardous substances on the Property site which would materially interfere with the beneficial use thereof.

Earthquakes

The City is not legally obligated under the Lease Agreement to maintain, or cause to be maintained, earthquake insurance on the Property and no assurance is made that any earthquake insurance will be maintained. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Property, which could result in Lease Payments being subject to abatement. Additionally, severe seismic activity in the City could impact the City's general fund expenditures. See "CERTAIN RISK FACTORS—Abatement" above.

Bankruptcy

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease Agreement, the Trustee, on behalf of the Owners of the Certificates, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Certificates. Moreover, such rejection would terminate the Lease Agreement and the City's obligations to make payments thereunder.

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liabilities, including, without limitation, inflationary factors, changes in statutory provisions of PERS retirement system laws, changes in the level of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods (including but not limited to the assumed rate of return), and differences between actual and anticipated investment experience of PERS. Any of these factors could give rise to additional liability of the City to its pension plans as a result of which the City would be obligated to make additional payments to its pension plans in order to fully fund the City's obligations to its pension plans.

Early Redemption Risk

Early redemption of the Certificates may occur in whole or in part without premium, on any date if the Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance, or on any Interest Payment Date, without a premium (see "THE CERTIFICATES - Redemption"), if the City exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease Agreement and the Trust Agreement.

Limitations on Remedies

The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. Although the Lease Agreement provides that if the City defaults the Trustee may reenter the Property and re-let the Property, portions of the Property may not be easily recoverable, and even if recovered, could be of little value to others because of the Property's specialized nature. Additionally, the Trustee may have limited ability to re-let the Property to provide a source of rental payments sufficient to pay the principal of and interest on the Bonds so as to preserve the tax-exempt nature of interest with respect to the Certificates. Furthermore, due to the governmental nature of the Property, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto.

Alternatively, the Trustee may terminate the Lease Agreement and proceed against the City to recover damages pursuant to the Lease Agreement. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The rights of the Owners of the Certificates are subject to certain limitations on legal remedies against cities, redevelopment agencies and other governmental entities in the State, including but not limited to a limitation on enforcement against funds that are otherwise needed to serve the public welfare and interest. Additionally, the rights of the Owners of the Certificates may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws limiting or otherwise affecting the enforcement of creditors' rights generally (as such laws are now or hereafter may be in effect), (ii) equity principles (including but not limited to concepts of materiality, reasonableness, good faith and fair dealing) and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or law, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Corporation could be prohibited or severely restricted from taking any steps to enforce their rights under the Lease Agreement and from taking any steps to collect amounts due from the City under the Lease Agreement.

Special Counsel has limited its opinion as to the enforceability of the Lease Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Certificates are not subject to acceleration in the event of the breach of any covenant or duty under the Lease Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Risk of Tax Audit

In December 1999, as a part of a larger reorganization, the Internal Revenue Service (the "Service"), commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by Service officials indicate that the number of tax-exempt bond examinations (which would include securities such as the Certificates) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an examination of the Certificates was undertaken that it would not adversely affect the market value of the Certificates. See "TAX MATTERS." The City has not been contacted by the Service regarding the examination of any of its bond transactions.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," in order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the City has covenanted in the Lease Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest with respect to the Certificates under section 103 of the Code. Interest with respect to the Certificates could become includable in gross income for purposes of Federal income taxation retroactive to the date the Certificates were delivered, as a result of acts or omissions of the City in violation of the Code. Should such an event of taxability occur, the Certificates are not subject to early redemption and will remain outstanding to maturity or until prepaid under the optional redemption or mandatory sinking fund redemption provisions of the Trust Agreement.

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Certificates, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

Changes in Law

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State resulting in a reduction of the general fund revenues of the City and consequently, having an adverse effect on the security for the Certificates.

Taxability Risk

As discussed under the caption "TAX MATTERS," interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were delivered, as a result of future acts or omissions of the City in violation of its covenants in the Lease Agreement. There is no provision in the Certificates or the Trust Agreement for special redemption or acceleration or for the payment of additional interest should such an event of taxability occur, and the Certificates will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Trust Agreement.

In addition, as discussed under the caption "TAX MATTERS," Congress is or may be considering in the future legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Certificates are outstanding or that any such changes will not adversely affect the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes. If the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Certificates would be adversely impacted.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Certificates, the City will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency, public board, or body pending or threatened against the City or the Corporation affecting their existence or the titles of their respective officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Certificates, or the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, any agreement entered into between the City and any purchaser of the Certificates, the Lease Agreement, the

Trust Agreement, the Assignment Agreement, the Site and Facility Lease or any other applicable agreements or any action of the City or the Corporation contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Corporation or their authority with respect to the Certificates or any action of the City or the Corporation contemplated by any of said documents, nor, to the knowledge of the City or the Corporation, is there any basis therefor.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the City has entered into an agreement with U.S. Bank National Association, as Trustee and Dissemination Agent (the "Dissemination Agent"), for the benefit of holders of the Certificates to provide certain financial information and operating data relating to the City and the balances of funds relating to the Certificates, by not later than April 1 of each fiscal year commencing with the report for the 2012-13 fiscal year (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Information and notices of material events will be filed by the City or the Dissemination Agent, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX G—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

The City previously entered into disclosure undertakings under the Rule in connection with its outstanding obligations. During the last five years, the City has, in some instances, failed to comply fully with such undertakings. In particular, the City failed to provide the financial and operating data required to be filed with respect to its 2002 water COPS, its 2002 sewer COPs and its 2011 sewer revenue bonds. Remedial filings for all issues have now been made. The City plans to establish procedures to ensure compliance with future continuing disclosure obligations and undertakings.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify, from the information provided to it, the mathematical accuracy as of the date of the delivery of the Certificates of computations relating to the adequacy of the proceeds of the Certificates to be deposited in the Escrow Fund for the defeasance of the 2002 Certificates. The Verification Agent will also verify the yield of the Lease Agreement and on the Escrow Securities to be deposited in the Escrow Fund upon the delivery of the Certificates. The Verification Agent will restrict its procedures to examining the arithmetical accuracy of certain computations and will not make a study or evaluation of the information and assumptions on which such computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

LEGAL MATTERS

All legal matters in connection with the execution and delivery of the Certificates are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Special Counsel. Special Counsel's opinion with respect to the Certificates will be substantially in the form set forth in APPENDIX D—FORM OF

OPINION OF SPECIAL COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the City by McCormick, Kabot, Jenner & Lew, the City Attorney. The fees and expenses of Special Counsel and Disclosure Counsel are contingent upon the execution and delivery of the Certificates.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Certificates, 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 with respect to the Certificates to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to become includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

Subject to the City's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Special Counsel, interest with respect to the Certificates is excludable from the 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 interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Special Counsel will rely upon certifications of the City with respect to certain material facts within its knowledge. Special 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 Internal Revenue Code of 1986, as amended (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 with respect to the Certificates.

Ownership of the Certificates 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 Certificates should consult their tax advisors as to applicability of any such collateral consequences.

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

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

If a Certificate is purchased at any time for a price that is less than the Certificate's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Certificate 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 Certificate 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 Certificate 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 Certificate. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Certificates.

An investor may purchase a Certificate 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 Certificate 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 Certificate. Investors who purchase a Certificate at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Certificate's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Certificate.

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 Certificates. 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 Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. Special Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Service has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, 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 Service will commence an audit of the Certificates. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of the ultimate outcome.

Payments of interest with respect to, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Certificates, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Certificate 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 Certificate owner who is notified by the Service 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 Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes.

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

The complete text of the final opinion that Special Counsel expects to deliver upon the delivery of the Certificates is set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL.

UNDERWRITING

The Certificates are being purchased by Wulff, Hansen & Co. and Gates Capital Corporation (the "Underwriters") at a price of $________ (consisting of $________ aggregate principal amount of the Certificates, less $________ of Underwriters' discount, plus $___________ of original issue premium).

The Underwriters intend to offer the Certificates to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriters may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriters.

RATINGS

S&P is expected to assign the rating of "AA" (stable outlook) to the Certificates based on the issuance of the Municipal Bond Insurance Policy by AGM at the time of delivery of the Certificates. See "MUNICIPAL BOND INSURANCE." In addition, S&P has assigned the underlying rating of "A+" to the Certificates without regard to the issuance of the Municipal Bond Insurance Policy. These ratings reflect only the views of S&P and an explanation of the significance of such rating may be obtained from S&P. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of the S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates .

FINANCIAL STATEMENTS

The City's Audited Financial Statements for fiscal year ended June 30, 2014, and the City's Auditor's Report regarding such financial statements, are set forth in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED

JUNE 30, 2014. The City's Auditor was not requested to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. No opinion is expressed by the City's Auditor with respect to any event subsequent to its report.

ADDITIONAL INFORMATION

All of the preceding summaries of the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

The City will furnish a certificate dated the date of delivery of the Certificates, from an appropriate officer of the City, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the City has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Certificates.

The execution and delivery of the Official Statement by the City have been duly authorized by the City Council on behalf of the City.

CITY OF PORTERVILLE

By ______________________________

City Manager

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APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

The City

The City of Porterville (the "City"), incorporated on May 7, 1902, is located midway between San Francisco and Los Angeles, an hour from Fresno and Bakersfield. It is situated in the southeastern portion of California's San Joaquin Valley, the most diverse agricultural area in the world. The City currently occupies a land area of 16 square miles and serves a population of approximately 55,000. Porterville is empowered to levy property taxes within its boundaries in accordance with Article XIIIA of the California Constitution (Proposition 13). It is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1927. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and four other members. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three members elected during one election and two during the next. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both Porterville's manager and attorney. The city manager is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the city, and for appointing the heads of the various departments.

The City of Porterville provides a full range of services, including general administration, human resources, treasury, finance and accounting; risk management; police and fire protection; public works (engineering, building inspection, streets, roads and other infrastructure construction and maintenance); planning, zoning, and economic and community development; and parks and trailways maintenance, community services (including a sports complex, a skate park, an off-highway vehicle park, and a youth center), library, and senior, adult and youth recreational activities. It also administers low-income housing programs and manages landscape maintenance districts. Transit, water, sewer, and solid waste disposal services are provided through enterprise funds, as are airport, golf course, and the Pearl Zalud Estate museum operations.

The City of Porterville's economy is a thriving mixture of agri-business, light industry and commercial enterprise. Local businesses produce a variety of products such as electronic medical instruments, printed forms and specialty documents, food products, carpet yarn, machine products, aircraft parts, and lumber. Several public facilities are also located here including the Porterville Developmental Center, Sequoia National Forest Headquarters, the Army Corps of Engineers Lake Success Facility, and the Porterville College campus of the Kern Community College District.

Retail recruitment remains a high priority for the City. Several projects are currently under development including Me-N-Ed's Pizzeria, Panera, as well as Phase 1 of the Village at Henderson with 168 new market-rate apartments. More development projects are anticipated in the coming year including Applebee's, Phase 2 of the Village at Henderson with a new anchor tenant, and a new commercial center. Meanwhile, the construction of the Walmart Supercenter, a 43,000 square foot retail store is further delayed due to the Court of Appeals ruling against the City and Walmart. The project is expected to greatly impact downtown revitalization with approximately 300 new jobs plus increased sales tax revenues for the City.

The County

Tulare County (the "County") is a county in the U.S. state of California. Its county seat is Visalia. The County is named for Tulare Lake, once the largest freshwater lake west of the Great Lakes. Drained for agricultural development, the site is now in Kings County, which was created in 1893 from the western portion of the formerly larger Tulare County.

Tulare County comprises the Visalia-Porterville, CA Metropolitan Statistical Area. The County is located south of Fresno, spanning from the San Joaquin Valley east to the Sierra Nevada. According to the U.S. Census Bureau, the county has a total area of 4,839 square miles (12,530 km^2), of which 4,824 square miles (12,490 km^2) is land and 14 square miles (36 km^2) (0.3%) is water.

Sequoia National Park is located in the county, as are part of Kings Canyon National Park, in its northeast corner (shared with Fresno County), and part of Mount Whitney, on its eastern border (shared with Inyo County).

Population

The table below summarizes population of the City and the County.

POPULATION
Porterville and Tulare County

Year	City of Porterville	Tulare County
2010	54,165	442,179
2011	54,676	445,183
2012	55,173	451,529
2013	55,526	456,037
2014	55,697	459,446

Source: California Department of Finance, Demographic Research Unit.

Employment

The following table summarizes the historical numbers of workers by industry in the Visalia-Porterville MSA for the last five years:

VISALIA-PORTERVILLE MSA
(TULARE COUNTY)
Labor Force and Industry Employment
Annual Averages by Industry

	2010	2011	2012	2013	2014(1)
Total, All Industries	144,800	144,300	143,800	148,200	149,300
Total Farm	37,700	36,400	33,700	35,100	34,700
Total Nonfarm	107,100	107,900	110,100	113,100	114,600
Total Private	76,100	77,300	79,500	83,100	85,200
Goods Producing	15,000	15,100	15,400	15,800	16,500
Mining, Logging, and Construction	3,900	3,900	4,000	4,200	4,500
Manufacturing	11,100	11,200	11,300	11,600	12,000
Service Providing	92,100	92,900	94,700	97,300	98,100
Private Service Providing	61,100	62,200	64,200	67,300	68,700
Trade, Transportation & Utilities	23,600	24,200	25,500	26,700	27,200
Information	1,100	1,000	900	900	900
Financial Activities	3,800	3,800	3,800	3,800	3,800
Professional & Business Services	8,700	9,400	9,600	10,000	9,300
Educational & Health Services	12,000	11,900	11,800	12,700	13,600
Leisure & Hospitality	8,900	8,900	9,500	10,000	10,500
Other Services	3,000	3,100	3,100	3,200	3,400
Government	31,000	30,600	30,600	30,000	29,400

Source: California Employment Development Department based on March 2014 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 Tulare County, the State of California and the United States for the past five years:

TULARE COUNTY, CALIFORNIA, AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate (1)
2009	Tulare County	203,500	172,700	30,800	15.2%
	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	Tulare County	208,100	172,800	35,300	17.0%
	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	Tulare County	208,000	173,100	34,900	16.8%
	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	Tulare County	206,000	173,300	32,700	15.9%
	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	Tulare County	205,300	176,600	28,700	14.0%
	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.

TULARE COUNTY
2015 Major Employers

Company	Location	Industry
College of the Sequoias	Visalia	Schools-Universities & Colleges Academic
Eagle Mountain Casino	Porterville	Casinos
Enns Packing Co	Dinuba	Fruits & Vegetables-Growers & Shippers
Fruit Patch Inc	Dinuba	Fruits & Vegetables-Growers & Shippers
Jostens	Visalia	Trophies Awards & Medals
Kd Medical Ctr	Visalia	Hospitals
Kings Canyon National Park	Kings Canyon National Pk	Parks
Land O'Lakes Indl Cheese	Tulare	Cheese Processors (Mfrs)
Monrovia Nursery Co	Woodlake	Nurseries-Plants Trees & Etc-Wholesale
Porterville Developmental Ctr	Porterville	Mental Health Services
Ruiz Food Products Inc	Dinuba	Mexican Food Products-Manufacturers
Sierra View District Hospital	Porterville	Hospitals
Sun Pacific	Exeter	Fruits & Vegetables-Growers & Shippers
Tulare County Child Care Prgm	Visalia	Child Care Service
Tulare County Parks & Rec Dept	Visalia	Parks
Tulare County Resource Mgmt	Visalia	Government Offices-County
Tulare County Sheriff's Office	Visalia	Sheriff
Tulare District Health Care	Tulare	Health Services
Tulare Regional Medical Ctr	Tulare	Hospitals
US Cotton Classing Office	Visalia	Government Offices-Us
Visalia Public Works Admin	Visalia	Parking Area/Lots Maintenance & Marking
Walmart	Porterville	Department Stores
Walmart Distribution Ctr	Porterville	Distribution Centers (Whls)
Walmart Supercenter	Dinuba	Department Stores
Wawona Packing Co	Cutler	Fruits & Vegetables-Growers & Shippers

Source: California Employment Development Department. Data retrieved March 12, 2015.

Construction Activity

The following tables reflects the five-year history of building permit valuation for the City and County:

CITY OF PORTERVILLE
Building Permits and Valuation
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation:					
New Single-family	23,267	11,170	9,864	6,850	8,275
New Multi-family	315	7,600	-	-	-
Res. Alterations/Additions	3,059	1,377	2,413	1,246	904
Total Residential	27,026	20,147	12,277	8,097	9,180
Total Nonresidential	8,281	9,584	7,215	3,304	41,325
Total All Building	33,638	27,442	19,492	11,402	50,505
New Dwelling Units:					
Single Family	118	57	50	31	39
Multiple Family	5	70	-	-	-
Total	123	127	50	31	39

TULARE COUNTY
Building Permits and Valuation
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation:					
New Single-family	172,385	160,609	124,334	88,018	171,844
New Multi-family	11,155	32,423	10,636	6,755	6,959
Res. Alterations/Additions	15,996	23,152	36,917	13,736	11,590
Total Residential	199,537	216,186	171,887	108,531	190,394
Total Nonresidential	85,544	104,349	131,281	107,928	403,981
Total All Building	285,081	320,535	303,168	216,459	594,375
New Dwelling Units:					
Single Family	985	977	721	530	843
Multiple Family	120	282	138	111	60
Total	1,105	1259	919	641	903

Source: 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 prior years.

TAXABLE SALES, 2008-2012
CITY OF PORTERVILLE
(dollars in thousands)

	2008
Retail Stores	
Apparel Stores	8,283
General Merchandise Stores	114,098
Food Stores	38,156
Eating and Drinking Places	50,211
Home Furnishings and Appliances	8,281
Building Material Group	43,498
Motor Vehicles and Parts	59,750
Service Stations	45,412
All Other Retail Stores	24,464
Retail Stores Totals	392,154
All Other Outlets	63,598
Total All Outlets(2)	455,752

	2009 (1)	2010 (1)	2011 (1)	2012 (1)(3)
Retail and Food Services				
Motor Vehicles and Parts Dealers	43,402	45,844	54,680	64,140
Home Furnishings and Appliance Stores	10,265	10,832	11,411	11,172
Bldg. Mtrl. and Garden Equip. and Supplies	39,847	39,623	41,194	42,958
Food and Beverage Stores	25,601	27,109	29,023	31,216
Gasoline Stations	45,822	51,481	61,311	65,809
Clothing and Clothing Accessories Stores	10,410	11,135	9,252	16,066
General Merchandise Stores	99,350	102,892	106,910	105,010
Food Services and Drinking Places	49,190	49,878	51,584	55,483
Other Retail Group	23,923	23,401	26,148	28,182
Total Retail and Food Services	347,809	362,196	391,541	420,035
All Other Outlets	49,073	56,232	53,828	62,379
Totals All Outlets(2)	396,882	418,428	445,369	482,414

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.

TAXABLE SALES, 2008-2012
TULARE COUNTY
(dollars in thousands)

	2008
Retail Stores	
Apparel Stores	147,266
General Merchandise	668,226
Food Stores	284,241
Eating and Drinking	252,003
Household Group	97,819
Building Material Group	249,924
Automotive Group	470,992
Service Stations	433,385
All Other Retail Stores	453,338
Retail Stores Totals	3,157,194
Business & Personal Services	140,184
All Other Outlets	1,458,027
Total All Outlets(2)	4,755,406

	2009 (1)	2010 (1)	2011 (1)	2012 (1)(3)
Retail and Food Services				
Motor Vehicles and Parts Dealers	367,378	391,317	456,949	530,101
Furniture and Home Furnishings Stores	45,699	46,956	50,305	51,322
Electronics and Appliance Stores	144,819	265,250	307,473	272,085
Bldg Mtrl. and Garden Equip. and Supplies	268,055	265,155	296,559	298,763
Food and Beverage Stores	214,578	219,786	231,844	231,678
Health and Personal Care Stores	60,692	66,236	82,390	92,727
Gasoline Stations	397,623	495,585	627,941	666,872
Clothing and Clothing Accessories Stores	165,546	176,797	187,042	219,619
Sporting Goods, Hobby, Book and Music Stores	77,799	76,156	86,683	86,492
General Merchandise Stores	589,794	603,133	615,773	634,261
Miscellaneous Store Retailers	108,661	95,700	106,121	114,277
Nonstore Retailers	17,018	16,879	18,789	23,893
Food Services and Drinking Places	344,394	353,310	372,764	400,104
Total Retail and Food Services	2,802,055	3,072,261	3,440,636	3,622,196
All Other Outlets	1,343,447	1,424,619	1,613,087	1,877,165
Totals All Outlets(2)	4,145,502	4,496,880	5,053,721	5,499,361

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 years 2010 through 2014.

CITY OF PORTERVILLE, TULARE COUNTY, CALIFORNIA AND UNITED STATES
Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2010	City of Porterville	502,765	31,295
	Tulare County	5,826,395	34,764
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Porterville	533,538	31,336
	Tulare County	6,045,045	34,581
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Porterville	672,733	33,714
	Tulare County	6,386,965	37,110
	California	664,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Porterville	689,643	33,566
	Tulare County	6,358,653	36,537
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Porterville	711,560	36,079
	Tulare County	6,301,258	36,706
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: Nielsen, Inc.

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APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2014

The Auditor was not requested to consent to the inclusion of its report in this Appendix B and it has not undertaken to update financial statements included in this Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

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CITY OF PORTERVILLE

INCORPORATED MAY 7, 1902

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF PORTERVILLE, CALIFORNIA

PREPARED BY THE DEPARTMENT OF FINANCE

MARIA C. BEMIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF PORTERVILLE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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STATISTICAL SECTION

Introductory Section

Maria Bemis
Finance Director
(559) 782-7435

291 North Main Street
Porterville, CA 93257

December 31, 2014

Honorable Mayor and City Council
John Lollis, City Manager
City of Porterville, California

The comprehensive annual financial report of the City of Porterville for the year ended June 30, 2014, is hereby submitted in accordance with Sections 24 and 59 of the City Charter. These ordinances require that the City issue annually a report on its financial position and activity, and that an independent firm of certified public accountants audit this report.

Management assumes full responsibility for the completeness and reliability of the information presented in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Gallina LLP, a firm of licensed certified public accountants, have issued an unqualified ("clean") opinion on the City of Porterville's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Porterville, incorporated on May 7, 1902, is located midway between San Francisco and Los Angeles, an hour from Fresno and Bakersfield. It is situated in the southeastern portion of California's San Joaquin Valley, the most diverse agricultural area in the world. The City currently occupies a land area of 16 square miles and serves a population of 55,490. Porterville is empowered to levy property taxes within its boundaries in accordance with Article XIIIA of the California Constitution (Proposition 13). It is also empowered to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Porterville has operated under the council-manager form of government since 1927. Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and four other members. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three members elected during one election and two during the next. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both Porterville's manager and attorney. The city manager is responsible for carrying out the policies and ordinances of the Council, overseeing the day-to-day operations of the city, and for appointing the heads of the various departments.

The City of Porterville provides a full range of services, including general administration, human resources, treasury, finance and accounting; risk management; police and fire protection; public works (engineering, building inspection, streets, roads and other infrastructure construction and maintenance); planning, zoning, and economic and community development; and parks and trailways maintenance, community services (including a sports complex, a skate park, an off-highway vehicle park, and a youth center), library, and senior, adult and youth recreational activities. It also administers low-income housing programs and manages landscape maintenance districts. Transit, water, sewer, and solid waste disposal services are provided through enterprise funds, as are airport, golf course, and the Pearl Zalud Estate museum operations.

The annual budget serves as the foundation for the City of Porterville's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager who uses these requests as the starting point for developing a proposed budget. The City Manager presents this proposed budget to the council for review prior to June 1. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, by department (e.g., public works) and by function (e.g., streets maintenance). Each department head is responsible for monitoring departmental expenditures. Department heads may make transfers of appropriations within a department. The City Manager is authorized to transfer budgeted amounts between departments.

Local economy

The City of Porterville's economy is a thriving mixture of agri-business, light industry and commercial enterprise. Local businesses produce a variety of products such as electronic medical instruments, printed forms and specialty documents, food products, carpet yarn, machine products, aircraft parts, and lumber. Several public facilities are also located here including the Porterville Developmental Center, Sequoia National Forest Headquarters, the Army Corps of Engineers Lake Success Facility, and the Porterville College campus of the Kern Community College District.

The local economy has shown slight improvements for the past few years. For the current year, both sales tax and utility users tax collections had stayed flat but the City experienced a 10.2 percent increase in property tax revenues during the year, primarily from the growth in assessed property values. Another factor was the increase in the amount of "triple-flip" sales tax for property tax swap received from the County Auditor with the "true-up" adjustment made during the year to account for the improved actual sales and use tax collections in the prior year. The City's unemployment rate remains high at 12.4 percent, although this is an improvement from a high of 14.4 percent four years ago. With the recent development activities within the City, it is anticipated that retail sales will show improvement in the next year while the unemployment rate continue to decline.

Retail recruitment remains a high priority for the City. Several projects are currently under development including Me-N-Ed's Pizzeria, Panera, as well as Phase 1 of the Village at Henderson with 168 new market-rate apartments. More development projects are anticipated in the coming year include Applebee's, Phase 2 of the Village at Henderson with a new anchor tenant, and a new commercial center. Meanwhile, the construction of the Walmart Supercenter, a 43,000 square foot retail store is further delayed due to the Court of Appeals ruling against the City and Walmart. The project is expected to greatly impact downtown revitalization with approximately 300 new jobs plus increased sales tax revenues for the City.

Long-term financial planning and major initiatives

Unrestricted fund balance (the total of committed, assigned and unassigned components of fund balance) in the general fund at year end was $13,006,932. In accordance with general fund policy, $3,459,711 or 15 percent of appropriation is in the budget stabilization reserve. Another $500,000 is set aside for catastrophic and emergency reserve.

In the next fiscal year, the City will be looking into refinancing its $21,060,000 variable rate lease agreement pertaining to the refunded 2005 Infrastructure Financing Project Certificates of Participation, in order to lock-in lower interest rates before they start to rise. Additionally, the City will consider financing its unfunded liability obligations to the California Public Employees' Retirement System (CalPERS). At June 30, 2013, the City's unfunded liability for its miscellaneous and safety plans are $26,698,782 and $12,558,540, respectively.

Recent changes to the CalPERS amortization and smoothing policies are expected to increase employer contribution rates in the near term but result in lower contribution rates in the long term. The employer contribution rates for the City's miscellaneous plan and safety plan are projected to increase up to 6 percent and 10 percent respectively from fiscal year 2015-2016 through fiscal year 2019-2020.

A major concern for the City is the sustainability of its self-funded health plan. In the past five fiscal years, total net claims paid averaged $2.4 million a year. This is an increase of almost 60 percent compared to the prior five fiscal years average paid net claims of $1.5 million a year. Contributions to the plan have increased through the years but not commensurate to the rise in claims. Beginning with the next fiscal year, the City will implement cost-saving amendments to the healthcare benefits as well as increased contributions by employees and dependents, and retirees. In addition, the City will increase its contributions to the healthcare plan's assets. The City will continue to monitor the plan and take the necessary steps to keep it funded for the benefit of its employees.

In August of 2014, the City purchased the Centennial Plaza building for $2.4 million, to be utilized as an extension of the Main Library and a space for other community programs and services. In September 2014, the City Council approve a resolution for the City acquisition of the recently abandoned railroad right-of-way, to preserve the railroad property within and near the City for the purpose of meeting future transportation needs. The City received $3 million from the Tulare County Association of Governments for the acquisition cost.

As part of the budgeting process, the City annually reviews its 10-year capital improvement strategies. Several major projects are currently in different stages of development. The Plano Street Bridge widening project which involves the widening of the existing bridge from two to four lanes, construction of sidewalks and addition of specialized treatments and lighting began construction in August of 2013 and will soon be completed. This project will provide access from Highway 190 to Olive Avenue and to the new courthouse.

The construction of a new park named "Fallen Heroes Park" has been completed and officially opened to the public in November 2014. It includes a walking trail, a multi-purpose playing field, playgrounds, and picnic pavilions. A $2.15 million grant was awarded by the California State Parks to the City under the Sustainable Communities and Climate Change Reduction Account of Proposition 84 to fund this project. The opening of the new park will improve the quality of life in an under-served section of the community.

Construction of a new Public Safety Station to be located on Jaye Street, south of Highway 190 has begun and is expected to be completed and operational in the fall of 2015. The single-story structure will include living quarters for fire personnel, a police evidence room and shared and separate office spaces for police and fire personnel. The station will provide for quicker response time for residents and industrial developments in the southern portion of the community.

The widening of the Jaye Street Bridge is currently under design and depending on environmental regulations and approval could begin construction in the summer of 2015. The project consists of rehabilitating or replacing the existing Jaye Street Bridge to widen it from two lanes to four lanes over the Tule River and the reconstruction of the street approaches. The existing two-lane bridge has been deemed structurally deficient and is not adequate to handle existing and projected traffic volumes on Jaye Street.

Caltrans has completed the State Route 190 project initiation document and is currently preparing the project approval and environmental document which is a necessary step in securing State and/or Measure R Regional funds for the 4 near-term improvement projects along SR 190 that need immediate attention and planning. These projects are: (1) construction of improvements that may entail a widened intersection controlled by a traffic signal or a roundabout at the Westwood and SR 190 intersection to improve access; (2) extension of the existing westbound auxiliary lane from Jaye Street to SR

65; (3) construction of 4 lanes on Plano Street and SR 190 intersection, with dual left turn and dedicated right turn lanes on all approaches with new traffic signals; and (4) widening the off-ramp at Main Street and SR 190 intersection to accommodate a designated right-turn lane onto northbound Main Street. SR 190 is the major east-west transportation corridor in Porterville and is of great importance to the economic future and growth of the City. Improvements to the corridor will provide employment opportunities associated with agricultural exports, ease the access to other elements of the state highway system and generate significant tax revenues for the City. The total project is estimated to cost around $17.4 million.

Construction of new sewer system facilities and improvements on some of the annexed areas of the City began in 2013. The project was divided into 5 areas. Construction on two of these areas has been completed and another one is close to completion. It is estimated that the rest of the areas will be completed by June of 2015. This $7 million project funded by the issuance of the 2011 Sewer Revenue bonds would extend sewer services to various scattered areas in the City lacking in sewer facilities and serve over 5,000 residents with 1,500 connections.

After several years of budgetary and political challenges and delays, the City of Porterville Successor Agency completed the acquisition of the former Porterville Hotel property in August of 2014 for $1.65 million. Bond proceeds from the refinancing of tax allocation bonds in 2008 was the funding source this acquisition. The site will be prepared and then marketed for private development.

Construction of new pedestrian walkways on Garden Avenue and Oak Avenue, between the new courthouse and Main Street, is projected to begin in the spring of 2015. The project includes widened, stamped-concrete sidewalks, nostalgic streetlights, installation of benches, planting of trees and shrubs, and the painting of murals. The City was awarded approximately $850,000 of Transportation Enhancement funds from the US Department of Transportation to partially fund this project.

Several downtown parking lots are also slated to be rehabilitated in the next year. The project will refurbish blighted and deteriorated parking lots in the downtown area which will provide benefits to the businesses in the commercial district. The project consists of reconstructing portion of the existing parking lots by removing portions of asphalt, concrete and trees, and installing new concrete, asphalt, landscaping and irrigation.

In 2012, the City of Porterville was chosen to be the site of the new South County Detention Facility. The County of Tulare was awarded a $60 million grant from the California Corrections Standard Authority to build a 500-bed detention facility with 14 specialty health beds. The new county jail project is expected to provide a host of jobs during construction and after its opening with approximately 70 deputies and other correctional staff. Construction of the new facility is scheduled to start in 2016 and finish in 2018.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Porterville for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the twenty-fourth consecutive year that the city has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. I would also like to express my appreciation to all the departments for their assistance in providing the necessary data to complete this report. Credit also must be given to the Mayor and the City Council, as well as the City Manager for their interest and support for maintaining the highest standards of professionalism in the management of the City of Porterville finances.

Respectfully submitted,

Maria Bemis

Maria Bemis
Finance Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Porterville

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

CITY OF PORTERVILLE

291 N. Main Street
Porterville, CA 93257
(as of June 30, 2014)

- Citizens
  - Mayor and City Council
    Successor Agency to the
    Redevelopment Agency
    - Library & Literacy Commission
    - City Attorney
    - Parks & Leisure Services Commission
    - Arts Commission
    - City Manager
      Deputy City Manager
      - Secretary

Administrative Services

City Clerk
Employee Relations
Benefits
Human Resources
Risk Management
Records Management
Elections
Compliance

Finance

Accounting
Financial Planning
Business Licensing
Meter Reading
Purchasing
Treasury Mgmt
Utility Billing
Information Tech
Airport

Fire

Code Enforce.
Inspection
Investigation
Prevention
Suppression
Training
Volunteers

Parks & Leisure Services

Golf Course
Leisure Services
Library
Off-Highway Vehicle Park
Parks & Building Maintenance
Swimming Pool
Tree Maintenance
Zalud House

Police

Admin. Srvcs
Communications
Crime Prevention
Investigations
Narcotics / Vice
Patrol
Reserves
Traffic
Animal Control

Public Works

Building Inspection
Engineering
Equipment
Maintenance
Graffiti abatement
Laboratory
Refuse Collection
Recycling
Street Maintenance
Traffic
Utilities Maintenance
Wastewater Treatment
Transit

Community Development

Advance Planning
Annexations
CDBG
Current Planning
Economic Development
& Program Administration
Grant Programs
Housing Programs
Successor Agency/Redevelopment
Zoning Enforcement

CITY OF PORTERVILLE
CITY OFFICIALS - COMMISSIONS, BOARDS, AND COMMITTEES
As of June 30, 2014

City Council and Successor Agency to the Redevelopment Agency Board		**Term Expires**
Cameron Hamilton	Mayor and Chairperson	June 2016
Vacant	Vice Mayor and Vice-Chairperson	June 2014
Brian Ward	Council Member and Agency Member	June 2016
Greg Shelton	Council Member and Agency Member	June 2014
Virginia Gurrola	Council Member and Agency Member	June 2016
Milt Stowe	Council Member – Elect	June 2018

City Manager and Department Directors

John D. Lollis	City Manager/City Clerk
Jenni Byers	Interim Community Development Director
Glenn Irish	Interim Fire Chief
Charles McMillan	Police Chief
Donnie Moore	Parks and Leisure Services Director
Baldo Rodriguez	Public Works Director
Maria Bemis	Finance Director
Patrice Hildreth	Administrative Services Director

Library & Literacy Commission

Esther Figueroa, Chairperson
Allan Bailey, Vice-Chairperson
Jennifer Biagio, Member
Catherine May, Member
Edith LaVonne, Member
Tamara Bishop-Mitchell, Member
Carol Wilkins, Member

Parks and Leisure Services Commission

Rick Vafeades, Chairperson
Richard Rankin, Vice Chairperson
Monte Moore, Member
Carroll Land, Member
Leticia Lupio, Member
Rocco Calantone, Member
Shannon Bennett, Member
Eric Mendoza, Member

Arts Commission

Deanna Worthington, Chairperson
Joan Claire Givan, Vice-Chairperson
Mel Gosage, Member
Judy Holloway, Member

Financial Section

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Porterville
Porterville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Porterville, California, (the City), as of and for the year ended June 30, 2014, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity'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 entity'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, as of June 30, 2014, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for pension and OPEB, and budgetary comparison information, as listed in the table of contents, 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 Porterville's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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's internal control over financial reporting and compliance.

Gallina LLP

Roseville, California
December 31, 2014

Management's Discussion and Analysis

As management of the City of Porterville, we offer readers of the City of Porterville's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 6 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Porterville exceeded its liabilities at the close of the most recent fiscal year by $473,647,937 *(net position)*. Of this amount, $54,614,105 represents unrestricted net position, which may be used to meet Porterville's ongoing obligations to citizens and creditors.

- The City's total net position increased by $16,192,572 from a combination of increase of $12,866,887 in the governmental activities and an increase of $3,325,685 in the business-type activities. This increase is primarily from some major capital asset additions.

- At June 30, 2014, the City of Porterville's governmental funds reported combined fund balances of $36,698,983, an increase of $538,669 in comparison with the prior year. Approximately 5 percent of this amount ($1,538,931) is available for spending at the government's discretion (*unassigned fund balance*).

- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed, assigned* and *unassigned* components of *fund balance*) for the general fund was $13,006,932, or approximately 61 percent of total general fund expenditures.

- On November 25, 2013, the City issued its 2013 Taxable Pension Obligation Bond at an aggregate principal amount of $3,765,000 to refinance the obligation of the City owing to the California Public Employees Retirement System in connection with the City's side fund obligation related to its public safety employees.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Porterville's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Porterville's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Porterville is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Porterville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety – police and fire, community and economic development, public works, and parks and recreation. The business-type activities of the City include the Zalud Estate, Public Transit, Sewer, Solid Waste, Airport, Golf, and Water operations.

The government-wide financial statements can be found on pages 28 - 29 of this report.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Porterville maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General

Fund, Public Safety Sales Tax Fund, Community Development Block Grant Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic governmental fund financial statements can be found on pages 30 - 33 of this report.

Proprietary funds. The City of Porterville maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the Zalud Estate, Public Transit, Sewer, Solid Waste, Airport, Golf and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for equipment maintenance and risk management. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer, Water, Solid Waste, and Transit operations, all of which are considered to be major funds of the City. The remaining enterprise funds are combined into a single, aggregated presentation in the proprietary fund financial statements, as well as both internal service funds. Individual fund data for each of these nonmajor enterprise funds and the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 34 – 36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Porterville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Porterville maintains two different types of fiduciary funds. The *Private-purpose trust fund* is used to report resources held and administered by the City acting as the Successor Agency to the former redevelopment agency. The *Agency fund* reports resources held by the City in a custodial capacity for individuals, private organizations and other governments.

The basic fiduciary fund financial statements can be found on pages 37 - 38 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40 - 74 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Porterville's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees.

The City adopts an annual appropriated budget for all governmental funds. Budgetary comparison schedules for the General Fund and the major special revenue funds have been provided to demonstrate compliance with these budgets.

Required supplementary information can be found on pages 76 - 80 of this report.

The combining and individual statements referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds, internal service funds, and fiduciary fund are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 82 - 109 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Porterville, assets and deferred outflows or resources exceeded liabilities by $473,647,937 at June 30, 2014.

City of Porterville's Net Position

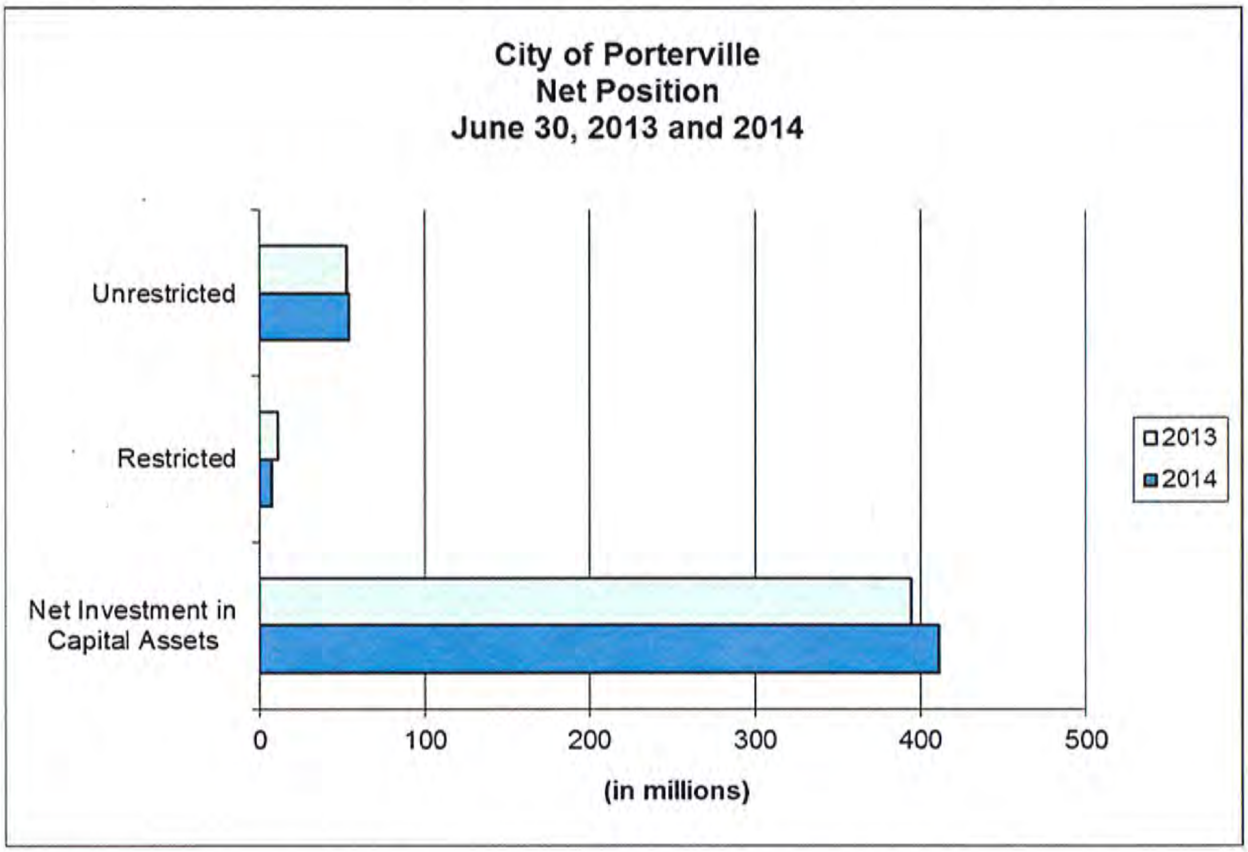
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 59,153,132	$ 56,760,535	$ 36,076,595	$ 38,334,265	$ 95,229,727	$ 95,094,800
Capital assets	387,197,205	373,962,109	76,857,357	73,278,572	464,054,562	447,240,681
Total assets	446,350,337	430,722,644	112,933,952	111,612,837	559,284,289	542,335,481
Deferred outflow of resources	2,319,199	--	1,249,959	--	3,569,158	--
Long-term liabilities outstanding	34,270,878	28,191,054	37,000,627	36,882,777	71,271,505	65,073,831
Other liabilities	15,229,140	15,642,122	2,704,865	3,026,177	17,934,005	18,668,299
Total liabilities	49,500,018	43,833,176	39,705,492	39,908,954	89,205,510	83,742,130
Net position:						
Net investment in capital assets	362,674,602	350,078,264	48,934,301	44,211,363	411,608,903	394,289,627
Restricted	4,152,302	8,266,566	3,272,627	3,238,642	7,424,929	11,505,208
Unrestricted	32,342,614	28,544,638	22,271,491	24,256,878	54,614,105	52,798,516
Total net position	$ 399,169,518	$ 386,889,468	$ 74,478,419	$ 71,703,883	$ 473,647,937	$ 458,593,351

By far, the largest portion of the City's net position, $411,608,903 (86.9 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide a variety of services to its citizens.

Consequently, these assets are not available for future spending. Although the City of Porterville's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Porterville's net position, $7,424,929 (1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $54,614,105 (11.5 percent) may be used to meet the City's ongoing obligations to its citizens and creditors.

At June 30, 2014, the City of Porterville 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 separate governmental and business-type activities. The same situation held true for the prior fiscal year.



The City's total net position increased by $16,192,572 compared to the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

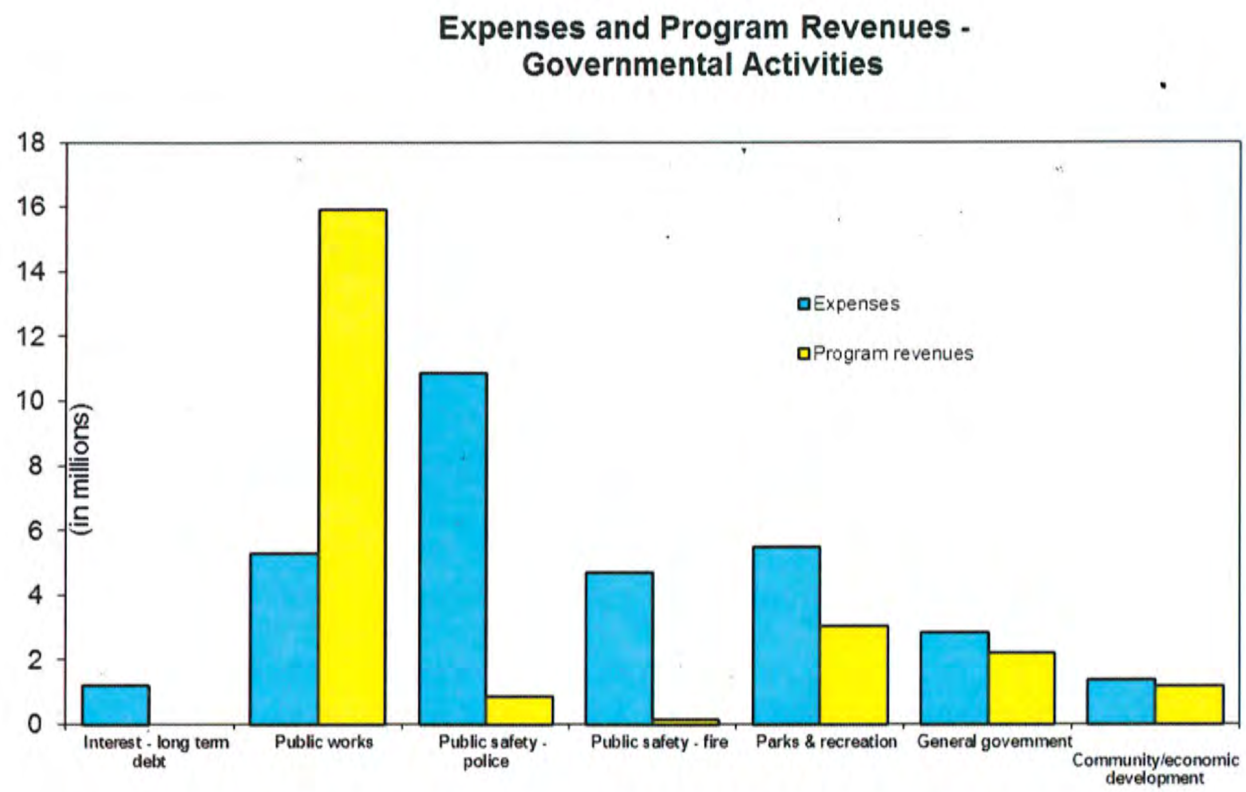
Governmental activities. During the current fiscal year, the City of Porterville's net position in governmental activities increased by $12,866,887 from the prior fiscal year for an ending balance of $399,169,518.

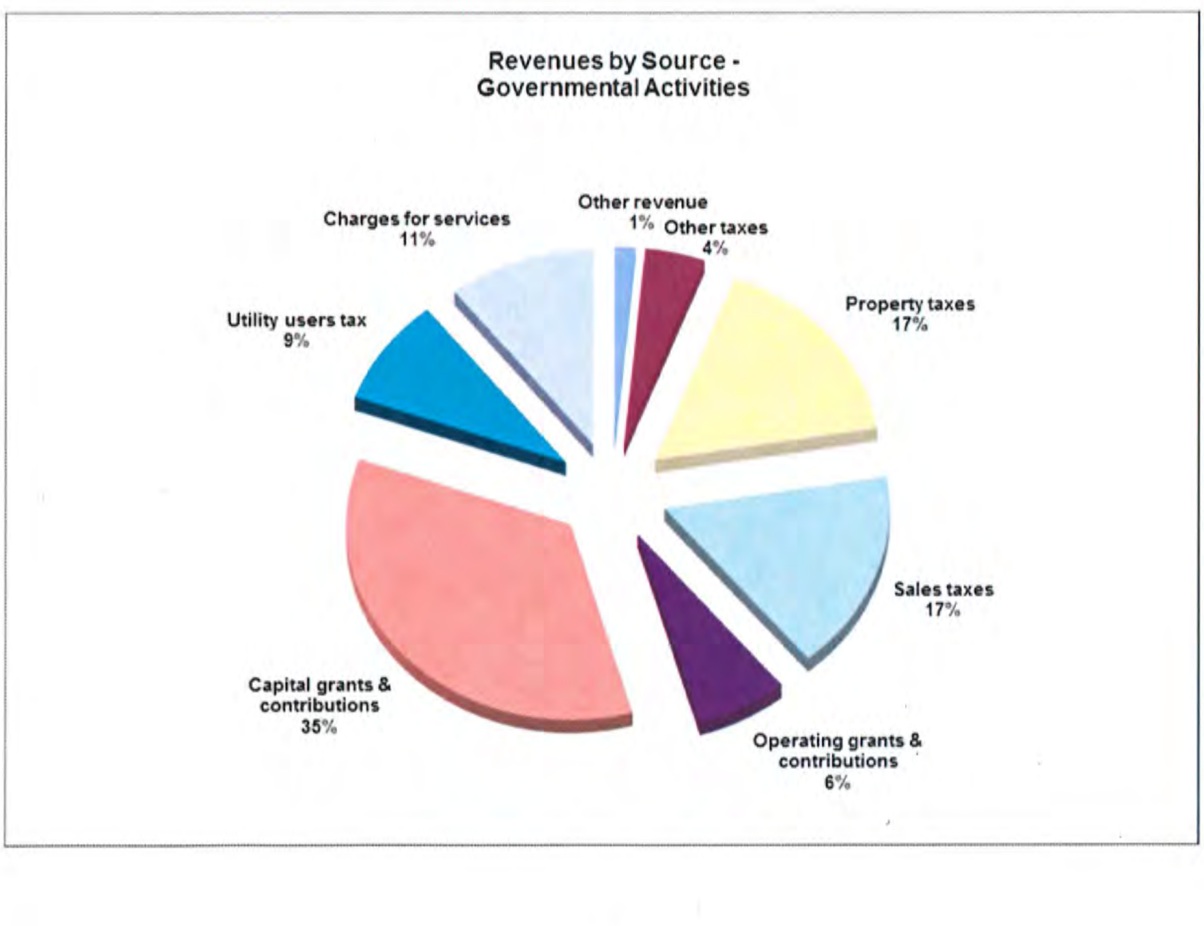
Total governmental revenues for the year of $44,626,185 were 31 percent higher than the prior year revenues of $34,008,090. A major portion of the increase, over $8.2 million, was derived from a grant award from the Department of Transportation's Highway Bridge Program for the Plano Bridge widening project. Taxes, which include property, sales, utility users, franchise, and transient occupancy taxes, amounting to $20,685,718, is just slightly higher, 1.81 percent, compared to the prior fiscal year taxes. Although it is a minor increase, it shows the continued improvement and recovery of the local economy. In addition, the City also experienced an increase in public works permits from $360,887 in the last fiscal year to $445,162 in the current year, an increase of 23.3 percent.

Total expenses in governmental activities for the year were $31,674,226, a decrease of $108,555 from the prior fiscal year. The largest component of total expenses was for the police department, amounting to $10,863,234 representing 34.3 percent. Parks and recreation expenses were $5,490,345, which is 17.3 percent. Expenses in public works amounted to 16.6 percent of total expenses for the year and 14.8 percent was spent in the fire department. Interest in long-term debt was $1,204,935.

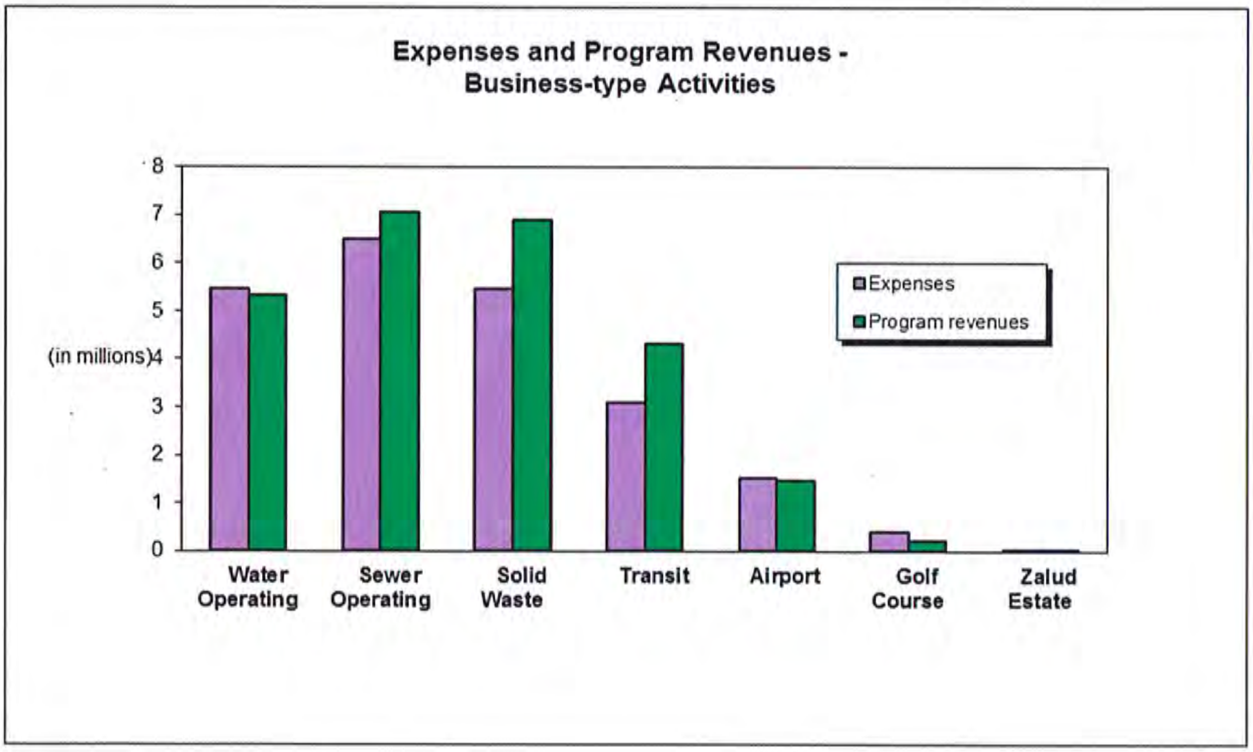
City of Porterville's Changes in Net Position

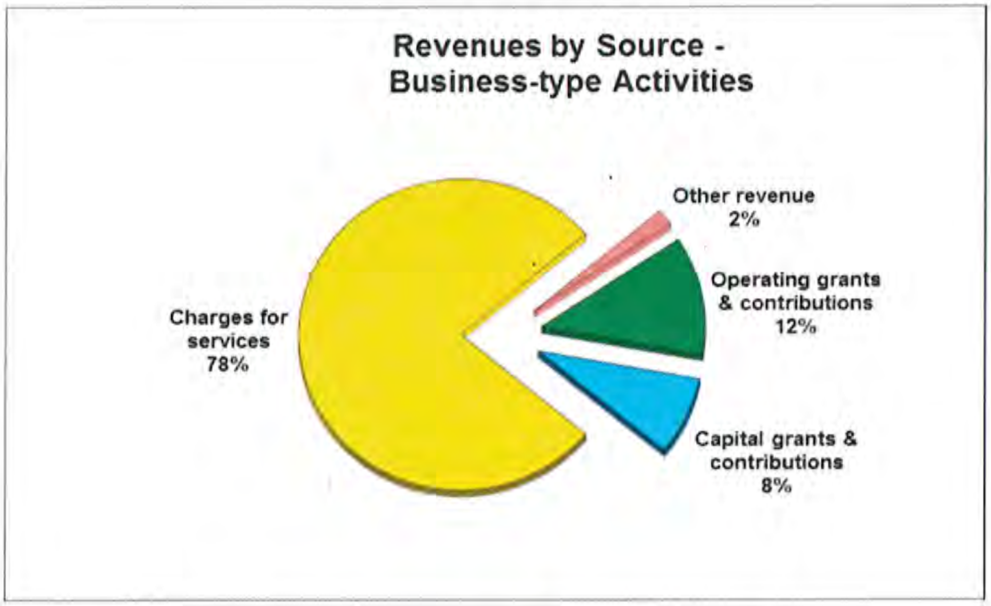
	Governmental Activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 4,774,982	$ 4,863,791	$ 20,016,495	$ 19,617,542	$ 24,791,477	$ 24,481,333
Operating grants and contributions	2,907,590	3,132,027	3,158,711	1,812,510	6,066,301	4,944,537
Capital grants and contributions	15,589,339	5,416,765	2,090,845	1,132,498	17,680,184	6,549,263
General revenues:						
Property taxes	7,406,413	7,346,813	--	--	7,406,413	7,346,813
Other taxes	13,279,305	12,970,356	--	--	13,279,305	12,970,356
Other	660,077	278,338	407,668	632,416	1,067,745	910,754
Total revenues	44,617,706	34,008,090	25,673,719	23,194,966	70,291,425	57,203,056
Expenses:						
Community/economic development	1,350,335	1,450,027	--	--	1,350,335	1,450,027
General government	2,815,570	2,922,898	--	--	2,815,570	2,922,898
Parks and recreation	5,490,345	5,349,678	--	--	5,490,345	5,349,678
Public safety - fire	4,692,111	4,498,053	--	--	4,692,111	4,498,053
Public safety - police	10,855,276	9,788,016	--	--	10,855,276	9,788,016
Public works	5,257,175	6,694,076	--	--	5,257,175	6,694,076
Interest on long-term debt	1,204,935	1,080,033	2,066,603	2,146,196	3,271,538	3,226,229
Airport	--	--	1,533,043	1,332,226	1,533,043	1,332,226
Golf course	--	--	402,877	382,891	402,877	382,891
Sewer	--	--	4,934,807	4,637,978	4,934,807	4,637,978
Solid waste	--	--	5,445,185	5,233,331	5,445,185	5,233,331
Transit	--	--	3,082,630	2,303,052	3,082,630	2,303,052
Water	--	--	4,942,338	4,282,707	4,942,338	4,282,707
Zalud estate	--	--	25,623	26,929	25,623	26,929
Total expenses	31,665,747	31,782,781	22,433,106	20,345,310	54,098,853	52,128,091
Increase (decrease) in net position before transfers	12,951,959	2,225,309	3,240,613	2,849,656	16,192,572	5,074,965
Transfers	(85,072)	109,136	85,072	(109,136)	--	--
Increase (decrease) in net position	12,866,887	2,334,445	3,325,685	2,740,520	16,192,572	5,074,965
Net position - July 1	386,889,468	384,555,023	71,703,883	68,963,363	458,593,351	453,518,386
Prior period adjustments	(586,837)	--	(551,149)	--	(1,137,986)	
Net position - June 30	$ 399,169,518	$ 386,889,468	$ 74,478,419	$ 71,703,883	$ 473,647,937	$ 458,593,351


Expenses and Program Revenues -
Governmental Activities
18
16
14
12
10
8
6
4
2
0
(in millions)
Expenses
Program revenues
Interest - long term debt
Public works
Public safety - police
Public safety - fire
Parks & recreation
General government
Community/economic development


Revenues by Source -
Governmental Activities
Other revenue
1%
Other taxes
4%
Charges for services
11%
Property taxes
17%
Utility users tax
9%
Sales taxes
17%
Capital grants & contributions
35%
Operating grants & contributions
6%

Business-type activities. Business-type activities increased the City of Porterville's net position by $3,325,685 ending the year with net position of $74,478,419. This is a 4.6 percent increase from the prior fiscal year. Total revenues in the business-type activities of the City increased by $2,514,749 with an increase of $2,304,548 in grants and contributions and $398,953 in charges for services. Total expenses for the year amounted to $22,469,102, an increase of $2,123,792 or 10.4 percent from prior year. The cost of transit operations in the current year increased $780,808, which is 33.9 percent higher than the previous year, mainly due to the cost of the addition of a new route and extended hours and Sunday services. Expenses in the water department also show an increase of $643,026 or 13.3 percent. During the 2013-2014 fiscal year, the City experienced an increase in the cost of pumping for 2 reasons: one is the increase in electric utility rate and the other is the lower pumping levels brought on by the drought. Several major well repairs were completed during the year and in addition, the EPA required UCMR 3 monitoring of the City's water system was implemented in the current fiscal year.





Financial Analysis of the Government's Fund

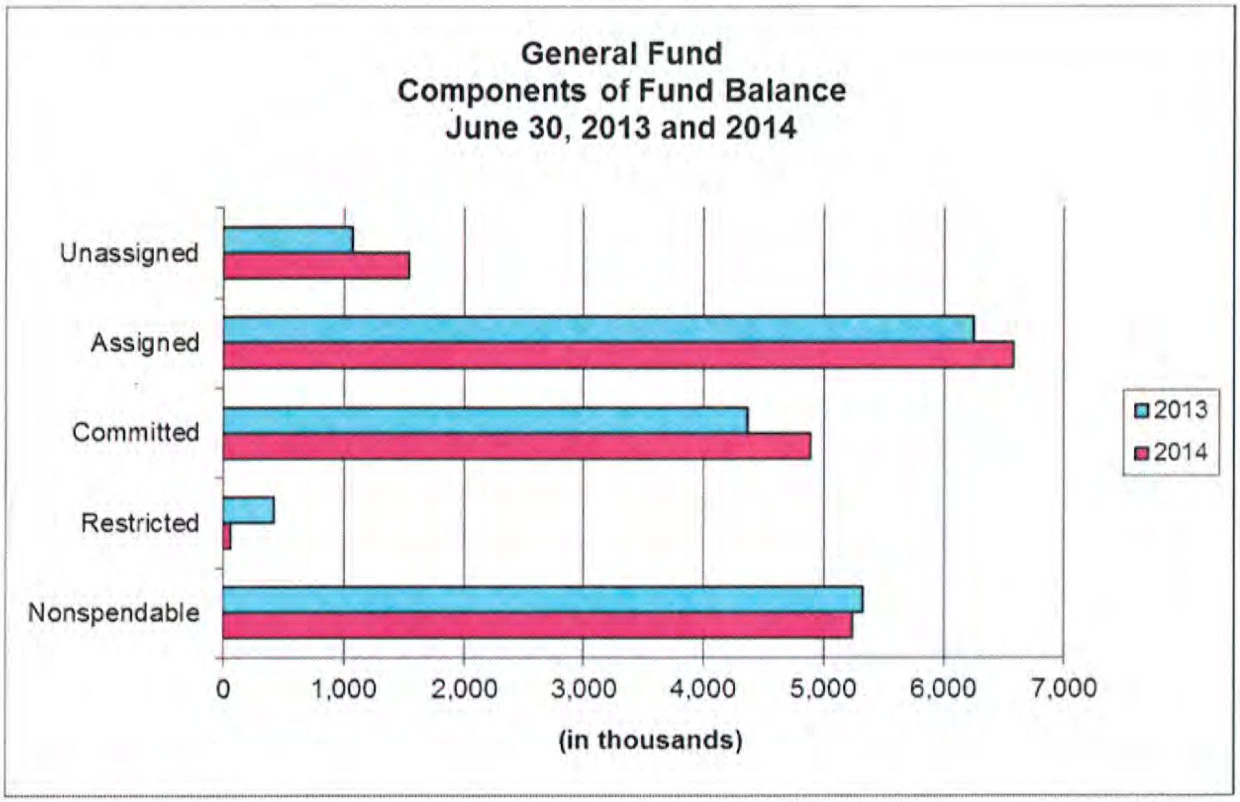
As noted earlier, the City of Porterville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Porterville's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At June 30, 2014, the City of Porterville's governmental funds reported combined ending fund balances of $36,698,983, an increase of $538,669. Of this total amount, $1,538,931 (4.2 percent) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. *Assigned fund balance* and *committed fund balance* which represent those amounts that are constrained by the City's intended use amounts to $6,573,514 and $4,894,487, respectively. Fund balance of $5,244,721 is classified as *nonspendable* and not available for spending in the current period. This includes the long-term portion of loans receivable. The remainder of fund balance, $18,447,330 is *restricted* for particular purposes.

The general fund is the chief operating fund of the City of Porterville. At the end of June 30, 2014, unassigned fund balance of the general fund was $1,538,931, while total fund balance reached $18,313,474. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 7.2 percent of total general fund expenditures, while total fund balance represents 85.9 percent of that same amount.

The fund balance of the City of Porterville's general fund increased $878,542 during the current fiscal year. Total revenues of $24,450,353 were higher than prior year revenues by $1,414,016 and total expenditures increased to $21,317,308, a rise of $444,537. The increase in revenues was mainly due to the increase in intergovernmental revenues, particularly the receipt of $1.2 million of CA Prop 84 grant funds for the construction of a new park. The City also observed growth in property taxes during the year, but none in both sales and utility users taxes. The increase in expenditures was mainly due to the purchase of several equipment including a new motor grader and CNG dump truck for the streets department.



At June 30, 2014, the public safety sales tax fund which is restricted for police and fire protection and related capital projects and for literacy programs had a total fund balance of $4,338,723, an increase of $303,150 from prior year. District sales tax revenues increased by 8.6 percent during the year and ended up at $3,182,807. Total expenditures were only slightly higher than prior year at $2,599,364 compared to $2,556,400. Capital outlay of $346,043 was spent towards the design and construction of a new public safety station.

The community development block grant fund has a total fund balance of $745,650 at the end of the fiscal year, all of which is reserved for housing projects for low and moderate income families, for the business assistance program and the neighborhood and park improvement programs. This was an increase of $271,872. Fewer loans were issued during the year.

The capital projects fund has a total fund balance of $1,332,735 that is all reserved to finance various capital improvement projects. This balance represents the funds available from the issue of the 2005 Infrastructure Financing Project Certificates of Participation.

Proprietary funds. The City of Porterville's proprietary funds provide the same type of information fund in the government-wide financial statements, but in more detail.

Total net position of the Sewer Operations fund at June 30, 2014, amounted to $29,443,993 an increase of $924,727 from prior year. Of the total net position, $12,144,300 or 41.2 percent is unrestricted, $14,732,832, 50 percent is invested in capital assets and $2,566,861 is restricted for debt service.

The Water Operations fund total net position at the end of the current fiscal year was $22,314,682 with 24 percent of it or $5,346,904 unrestricted. Net position invested in capital assets amounted to $16,262,012 or 72.9 percent and $705,766 is restricted for debt service.

At June 30, 2014, the Solid Waste fund had total net position of $7,298,605, an increase of $1,621,478 or 28.6 percent from the previous year. Total amount invested in capital assets amounted to $2,685,905 or 36.8 percent and the rest is unrestricted.

For fiscal year 2013-2014, the Transit Operations Fund is reported as a major fund. Operating and capital contributions from federal and state grants amounted to $2,080,361 during the year. Total net position at June 30, 2014 was $7,992,879, an increase of $1,196,468 or 17.6 percent from prior year. Of the total net position, $8,220,076 is invested in capital assets which leaves the fund with a deficit unrestricted net position of $227,197.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. Adjustments were made to grant revenues and library and parks and recreation expenditures to reflect the receipt of additional grant funds. Appropriations were increased during the year for some capital projects to reflect additional costs.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

Revenue Source	Estimated Revenues	Actual Revenues	Difference
Property taxes	$7,058,762	$7,406,413	$347,651
Intergovernmental	2,134,828	1,508,653	(626,175)
Recreational activities	1,751,922	1,600,988	(150,934)
Investment earnings	183,000	291,275	108,275

Due to the economic recession in the past few years, the City has conservatively estimated General Fund revenues. The County's reassessment of property values had improved property tax revenues for the City for the fiscal year. Intergovernmental is the classification used to report grant revenues. The State of California has awarded the City grant funds for the construction of a new park. The City had anticipated that the construction of the park would have been completed by the end of the fiscal year, and therefore had budgeted grant revenues as such. But the new park was not finished until after the year-end which accounts for the variance in intergovernmental revenues. During the budgeting process, the City expected to provide additional services for the afterschool recreational activities program for the fiscal year but this did not materialize. Investment earnings show a positive variance for the year. Higher market values at the end of June helped increase interest earnings for the year.

Variances between the final amended budget and actual expenditures are mainly due to a number of vacant positions in several departments in addition to measures taken by the departments to lower spending per the direction given by City Council.

Capital Assets and Debt Administration

Capital assets. The City of Porterville's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to $464,054,562 (net of accumulated depreciation). This investment in capital assets includes land, distribution and collection systems, buildings, improvements, machinery and equipment, works of art and historical collections, park facilities, roads, highways and bridges. The total increase in Porterville's investment in capital assets for the current fiscal year was $16,813,881.

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

- The Plano Bridge widening project began construction in July of 2013 and at the end of the fiscal year was almost 80% completed. Expenditures for the year were $9,355,732 with 88.5% of the construction cost funded by a grant from the Department of Transportation's Highway Bridge Program.

- The construction of the Jaye Street and Montgomery Avenue Roundabout was nearly complete by the end of the fiscal year. Cost of $1,384,210 was spent on the project during the year. Congestion Mitigation and Air Quality (CMAQ) grant funds were awarded to the City which constitutes a major portion of the funding for this project.

- Several other street projects were completed during the year including the Olive Ave rehabilitation project for $607,451, the North Grand reconstruction project from Prospect St to Highway 65 for $549,522, and the Matthew Street and Indiana Street shoulder stabilization projects for $586,015.

- Installation of new sewer mains and sewer laterals in two of the five annexed areas in the City was completed during the year. The total cost of the improvements on both areas was $3,371,979.

- Three new immersible influent pumps with variable frequency drives were installed with the waste water treatment facility influent pump station replacement project. The total cost of the project was $928,900.

- Work on a new well (#32) commenced during the year. Cost of $519,256 was incurred during the year.

- The City acquired 2 Class H, 32' CNG buses at a total cost of $920,578.

- Installation of a new passenger information system (Intelligent Transportation System) on the transit fleet was completed during the year at a total cost of $652,576.

- Construction on the new public safety station began late in the fiscal year. Total expenditures for the year was $311,258.

- During the year, the City purchased 4 CNG refuse loaders for a total cost of $1,097,004, a CNG powered street sweeper for $282,547, and a CNG dump truck for $180,183. A major portion of the cost of these CNG equipment was funded by CMAQ grant funds. The City also acquired a new motor grader for the streets department with a value of $301,282. In addition, the City purchased 9 vehicles for the police department for $317,894, a backhoe loader for the water department for $104,038 and several other vehicle and equipment.

- The construction and development of the new park, Fallen Heroes Park, is nearing completion. In the current fiscal year, $1,351,938 was spent towards the project.

- The installation of perimeter field lighting for the sports complex softball and sports fields was completed during the year at a total cost of $359,739.

- In December 2013, the City accepted a grant deed in fee from the City of Lindsay for a 5.31 acre improved property which includes an animal shelter for $251,948, paid through in-kind services.

City of Porterville's Capital Assets
(net of depreciation)

	Governmental activities 2014	Governmental activities 2013	Business-type activities 2014	Business-type activities 2013	Total 2014	Total 2013
Land	$ 269,161,736	$ 269,023,213	$ 4,938,508	$ 4,938,508	$ 274,100,244	$ 273,961,721
Works of art and collections	183,938	183,938	--	--	183,938	183,938
Buildings	8,649,026	8,741,520	3,331,178	3,436,843	11,980,204	12,178,363
Improvements other than buildings	5,351,654	5,136,873	6,032,244	6,146,063	11,383,898	11,282,936
Machinery and equipment	5,536,292	5,262,823	7,728,709	6,050,494	13,265,001	11,313,317
Infrastructure	82,608,422	83,100,409	798,407	--	83,406,829	83,100,409
Distribution and collection systems	--	--	52,072,398	49,447,595	52,072,398	49,447,595
Construction in progress	15,706,137	2,513,333	1,955,913	3,259,069	17,662,050	5,772,402
Total	$ 387,197,205	$ 373,962,109	$ 76,857,357	$ 73,278,572	$ 464,054,562	$ 447,240,681

Additional information on the City's capital assets can be found in Note 1-E-4 on page 44 and Note 4-D on pages 56 – 57 of this report.

Long-term debt. At the end of the current fiscal year, the City of Porterville had total debt outstanding of $67,284,529. This amount was comprised of $19,555,000 in revenue bonds, $3,765,000 in pension obligation bonds, $29,385,000 in certificates of participation, and $14,579,529 in notes payable.

City of Porterville's Outstanding Debt

	Governmental activities 2014	Governmental activities 2013	Business-type Activities 2014	Business-type Activities 2013	Total 2014	Total 2013
Revenue bonds	$ --	$ --	$ 19,555,000	$ 19,555,000	$ 19,555,000	$ 19,555,000
Pension obligation bonds	3,765,000	--	--	--	3,765,000	--
Certificates of participation	23,345,000	23,725,000	6,040,000	7,040,000	29,385,000	30,765,000
Notes payable	2,556,000	2,747,000	12,023,529	12,371,524	14,579,529	15,118,524
Total	$ 29,666,000	$ 26,472,000	$ 37,618,529	$ 38,966,524	$ 67,284,529	$ 65,438,524

The City's total debt increased $1,846,005 during the current fiscal year. On November 25, 2013, the City issued its 2013 taxable pension obligation bond at an amount of $3,765,000, with an interest rate of 3 percent maturing on October 1, 2020. The issuance of the bond was undertaken to refund the City's public safety employee side fund obligation to the California Public Employees' Retirement System and take advantage of the lower interest rate. The one term bond was purchased in whole by Rabobank, N.A.

Standard & Poor's Ratings Services ("S&P") has assigned the rating of AA to the 2011 sewer revenue bonds.

Additional information on the City's long-term debt can be found in Note 4-F on pages 58 - 62 of this report.

Economic Factors and Next Year's Budget and Rates

- A slight improvement in General Fund operating revenues is anticipated in the coming year. As the state and local economies stabilize, a 5 percent growth in sales taxes are projected for the next fiscal year. Permits for new construction are anticipated to improve yet remain sluggish. A number of retail and commercial developments are anticipated to begin construction in the coming year.

- For fiscal year 2014-2015, operating expenditures in the General Fund are estimated to be approximately 7.7 percent higher than the 2013-2014 estimates which would result in a budget shortfall of $1.1 million. As has been employed in the past couple of years, it is again proposed that all departments curtail spending by 5 percent in the coming year.

- The construction of the new Fallen Heroes Park is well under way. The construction is fully funded by a grant from the State of California's Proposition 84 park improvement bonds. It is anticipated to open to the public in the fall of 2014 and with a total cost of over $2 million.

- The City's risk management fund, particularly the health and life component of the fund, continues to deteriorate. The cost of health care has steadily increased over time while revenues have remained constant. To address this continuing shortfall, the City will work with its employee associations to modify the health plan for cost-savings and to increase both employer and employee contributions to the fund. The City is also looking to increase the retired employee contributions.

- The construction of a new Public Safety Station is anticipated to be completed by the end of the next fiscal year. The total cost of the project is estimated to be close to $5 million with funding from the Measure H Public Safety Sales Tax Fund. The City expects to hire 3 additional fire department personnel when the facility becomes operational in the 2015-2016 fiscal year.

- The completion of the Plano Street Bridge widening project remains the primary project in the upcoming fiscal year. Construction costs are estimated to top $13.3 million. Federal grants have been awarded to the City to fund a major portion of this project.

- Several street projects are anticipated to progress in the coming fiscal year including the design of Jaye Street Bridge, the Garden Avenue and Oak Avenue pedestrian walkways at downtown, the West North Grand Avenue reconstruction project, the Lime Street reconstruction project, the Gibbons Avenue reconstruction project, and several street shoulder stabilization projects around the City.

- The construction and development of well #32 is expected to be completed in the coming fiscal year with funds from the remainder of the loan from the California Infrastructure and Economic Development Fund.

- As part of the Akin Water Company services agreement, the development of another well, well #33, will begin in the 2014-2015 fiscal year, with approximately $1.5 million in funding to be provided by the Department of Water Resources.

- For the next fiscal year, the City is considering a comprehensive review of its water operations, development and replacement programs. Although the City's existing water supply is expected to meet the needs of its residents, given the current drought conditions, the City can anticipate that an increasing number of private wells in the community (both inside and outside City limits) will become dry, and parties will be seeking approval to connect to the City's water system.

- As construction of sewer system improvements on two island annexation project areas were completed in the 2013-2014 fiscal year, construction on the third project area will commence in the next fiscal year with the other 2 areas next. This is part of the $7 million project funded by the issuance of the Sewer Revenue Bonds, Series A in 2011.

Requests for Information

This financial report is designed to provide a general overview of the City of Porterville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Porterville, 291 North Main Street, Porterville, CA 93257-3737.

Basic
Financial Statements

City of Porterville
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,575	$ 710	$ 3,285
Investments	27,195,979	24,502,481	51,698,460
Receivables - utility (net of allowance for uncollectibles)	-	2,256,466	2,256,466
Receivables - misc (net of allowance for uncollectibles)	2,303,388	573,039	2,876,427
Receivables - housing (net of allowance for uncollectibles)	10,925,006	-	10,925,006
Inventories	-	190,440	190,440
Prepaids	23,015	-	23,015
Internal balances	749,462	(749,462)	-
Restricted assets - intergovernmental	7,464,436	531,792	7,996,228
Restricted assets - cash and cash equivalents	-	2	2
Restricted assets - investments	2,941,780	8,771,127	11,712,907
Notes receivable	4,096,241	-	4,096,241
Net pension asset	3,451,250	-	3,451,250
Capital assets not being depreciated:			
Land	269,161,736	4,938,508	274,100,244
Construction in progress	15,706,137	1,955,913	17,662,050
Works of art and collection	183,938	-	183,938
Capital assets, net of accumulated depreciation:			
Buildings	8,649,026	3,331,178	11,980,204
Improvements other than buildings	5,351,654	6,032,244	11,383,898
Machinery and equipment	5,536,292	7,728,709	13,265,001
Infrastructure	82,608,422	798,407	83,406,829
Distribution and collection systems	-	52,072,398	52,072,398
Total Assets	446,350,337	112,933,952	559,284,289
DEFERRED OUTLFOWS OF RESOURCES			
Deferred charge on refunding	2,319,199	1,249,959	3,569,158
Total Deferred Outflows of Resources	2,319,199	1,249,959	3,569,158
LIABILITIES			
Accounts payable and other current liabilities	3,823,392	836,005	4,659,397
Accrued interest payable	298,531	511,772	810,303
Intergovernmental payable	182,211	-	182,211
Unearned revenue	10,925,006	1,357,088	12,282,094
Non-current liabilities - due in 1 year	2,524,660	1,534,051	4,058,711
Non-current liabilities - due in more than 1 year	31,746,218	35,466,576	67,212,794
Total Liabilities	49,500,018	39,705,492	89,205,510
NET POSITION			
Net investment in capital assets	362,674,602	48,934,301	411,608,903
Restricted for capital projects	1,541,821	-	1,541,821
Restricted for debt service	1,814,270	3,272,627	5,086,897
Restricted for self-insurance	565,168	-	565,168
Restricted for grant programs	231,043	-	231,043
Unrestricted	32,342,614	22,271,491	54,614,105
Total Net Position	$ 399,169,518	$ 74,478,419	$ 473,647,937

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Activities
For the Fiscal Year Ended June 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Community and economic development	$ 1,350,335	$ 372,859	$ 796,308	$ -	$ (181,168)	$ -	$ (181,168)
General government	2,815,570	1,746,007	449,125	-	(620,438)	-	(620,438)
Parks and recreation	5,490,345	1,694,453	33,442	1,282,689	(2,479,761)	-	(2,479,761)
Public safety - fire	4,692,111	86,332	75,983	-	(4,529,796)	-	(4,529,796)
Public safety - police	10,855,276	485,344	246,533	107,904	(10,015,495)	-	(10,015,495)
Public works	5,257,175	389,987	1,306,199	14,198,746	10,637,757	-	10,637,757
Interest on long-term debt	1,204,935	-	-	-	(1,204,935)	-	(1,204,935)
Total governmental activities	31,665,747	4,774,982	2,907,590	15,589,339	(8,393,836)	-	(8,393,836)
Business-type Activities:							
Airport	1,534,403	1,415,428	10,000	34,957	-	(74,018)	(74,018)
Golf course	402,877	213,949	-	-	-	(188,928)	(188,928)
Sewer operating	6,495,876	7,011,240	-	34,097	-	549,461	549,461
Solid waste	5,445,185	5,675,503	8,215	1,221,313	-	1,459,846	1,459,846
Transit	3,082,630	623,608	3,140,496	550,714	-	1,232,188	1,232,188
Water operating	5,446,512	5,073,329	-	249,764	-	(123,419)	(123,419)
Zalud estate	25,623	3,438	-	-	-	(22,185)	(22,185)
	22,433,106	20,016,495	3,158,711	2,090,845	-	2,832,945	2,832,945
Total primary government	$ 54,098,853	$ 24,791,477	$ 6,066,301	$ 17,680,184	(8,393,836)	2,832,945	(5,560,891)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Property taxes	7,406,413	-	7,406,413
Sales tax	7,401,187	-	7,401,187
Utility users tax	3,955,357	-	3,955,357
Franchise tax	1,551,762	-	1,551,762
Transient occupancy tax	370,999	-	370,999
Unrestricted investment earnings	602,417	407,668	1,010,085
Miscellaneous	57,660	-	57,660
Transfers	(85,072)	85,072	-
Total general revenues and transfers	21,260,723	492,740	21,753,463
Change in net position	12,866,887	3,325,685	16,192,572
Net position - beginning	386,889,468	71,703,883	458,593,351
Prior period adjustments	(586,837)	(551,149)	(1,137,986)
Net position - ending	$ 399,169,518	$ 74,478,419	$ 473,647,937

The notes to the financial statements are an integral part of this statement.

City of Porterville
Balance Sheet
Governmental Funds
June 30, 2014

	General	Public Safety Sales Tax	Community Development Block Grant	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 2,575	$ -	$ -	$ -	$ -	$ 2,575
Investments	12,292,505	4,234,215	581,700	180,533	7,981,258	25,270,211
Receivables - misc (net):						
Interest	98,525	-	-	-	2,273	100,798
Taxes	957,413	228,600	-	-	339,449	1,525,462
Other	534,811	-	-	-	85,047	619,858
Receivables - housing (net)	-	-	10,925,006	-	-	10,925,006
Intergovernmental receivables	2,041,486	-	209,476	2,033,063	2,497,243	6,781,268
Interfund receivables	-	-	-	-	629,849	629,849
Prepaid items	23,015	-	-	-	-	23,015
Restricted - cash/fiscal agent	-	-	-	1,378,397	1,563,383	2,941,780
Notes receivable	4,096,241	-	-	-	-	4,096,241
Total assets	$ 20,046,571	$ 4,462,815	$ 11,716,182	$ 3,591,993	$ 13,098,502	$ 52,916,063
LIABILITIES						
Accounts and other payables	$ 335,594	$ 35,477	$ 80	$ 2,224,288	$ 147,875	$ 2,743,314
Payroll payable	582,988	88,615	5,313	34,970	10,317	722,203
Interfund payable	15,779	-	-	-	-	15,779
Intergovernmental payables	182,211	-	-	-	-	182,211
Advances payable	616,525	-	-	-	-	616,525
Total liabilities	1,733,097	124,092	5,393	2,259,258	158,192	4,280,032
DEFERRED INFLOWS OF RESOURCES						
Deferred housing loan principal	-	-	10,925,006	-	-	10,925,006
Unavailable revenue - intergovernmental	-	-	40,133	-	971,909	1,012,042
Total deferred inflows of resources	-	-	10,965,139	-	971,909	11,937,048
FUND BALANCES						
Nonspendable	5,244,721	-	-	-	-	5,244,721
Restricted	61,821	4,338,723	745,650	1,332,735	11,968,401	18,447,330
Committed	4,894,487	-	-	-	-	4,894,487
Assigned	6,573,514	-	-	-	-	6,573,514
Unassigned	1,538,931	-	-	-	-	1,538,931
Total fund balances	18,313,474	4,338,723	745,650	1,332,735	11,968,401	36,698,983
Total liabilities, deferred inflows of resources and fund balances	$ 20,046,571	$ 4,462,815	$ 11,716,182	$ 3,591,993	$ 13,098,502	$ 52,916,063

The notes to the financial statements are an integral part of this statement

City of Porterville
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Fund balances of governmental funds	$	36,698,983
Amounts reported for *governmental activities* in the statement of net position are different because:		
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(31,044,070)
Internal service funds are used by management to charge the costs of risk management and equipment management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		2,081,388
Other long-term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenue in the funds.		1,012,042
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		386,969,925
The net pension asset is not an available resource and, therefore, is not reported in the funds.		3,451,250
Net position of governmental activities	$	399,169,518

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Public Safety Sales Tax	Community Development Block Grant	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$ 7,406,413	$ -	$ -	$ -	$ -	$ 7,406,413
Sales taxes	4,218,380	3,182,807	-	-	-	7,401,187
Utility users tax	3,955,357	-	-	-	-	3,955,357
Franchise tax	1,551,762	-	-	-	-	1,551,762
Transient occupancy tax	370,999	-	-	-	-	370,999
Licenses and permits	881,532	-	-	-	-	881,532
Vehicle license fees	23,542	-	-	-	-	23,542
Intergovernmental	1,508,653	-	756,175	8,244,481	5,574,435	16,083,744
Charges for services	3,961,139	427	350,774	-	-	4,312,340
Special assessments and fees	5,833	-	-	-	407,181	413,014
Fines and forfeitures	74,151	-	-	-	205,800	279,951
Investment earnings	399,255	65,323	28,217	22,994	152,417	668,206
Miscellaneous	93,337	-	-	-	2,145	95,482
Total revenues	24,450,353	3,248,557	1,135,166	8,267,475	6,341,978	43,443,529
EXPENDITURES						
Current:						
Community and economic development	725,461	-	375,197	53,677	-	1,154,335
General government	2,538,499	-	-	23,052	-	2,561,551
Parks and recreation	4,225,116	405,976	-	367	171,792	4,803,251
Public safety - fire	3,037,881	878,610	-	236	32,971	3,949,698
Public safety - police	7,831,424	1,314,778	-	50,932	209,123	9,406,257
Public works	2,048,747	-	-	594,733	-	2,643,480
Debt service:						
Principal	-	-	191,000	-	380,000	571,000
Interest and administrative charges	234	-	150,195	-	863,955	1,014,384
Pension obligation bond issuance costs	-	-	-	-	190,273	190,273
Capital outlay	909,946	-	-	15,802,885	18,066	16,730,897
Total expenditures	21,317,308	2,599,364	716,392	16,525,882	1,866,180	43,025,126
Excess (deficiency) of revenues over expenditures	3,133,045	649,193	418,774	(8,258,407)	4,475,798	418,403
OTHER FINANCING SOURCES (USES)						
Transfers in	5,894,668	-	-	7,058,980	5,950,796	18,904,444
Transfers out	(8,149,171)	(346,043)	(146,902)	-	(10,347,400)	(18,989,516)
Pension obligation bonds issued	-	-	-	-	3,765,000	3,765,000
Payment to CalPERS	-	-	-	-	(3,559,662)	(3,559,662)
Total other financing sources and uses	(2,254,503)	(346,043)	(146,902)	7,058,980	(4,191,266)	120,266
Net change in fund balances	878,542	303,150	271,872	(1,199,427)	284,532	538,669
Fund balances - beginning	17,434,932	4,035,573	473,778	2,532,162	11,702,420	36,178,865
Prior period adjustment	-	-	-	-	(18,551)	(18,551)
Fund balances - ending	$ 18,313,474	$ 4,338,723	$ 745,650	$ 1,332,735	$ 11,968,401	$ 36,698,983

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2014

Net change in fund balances --total governmental funds	$	538,669
Amounts reported for *governmental activities* in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		13,221,895
The net effect of various miscellaneous transactions involving capital assets is to increase net position.		83,509
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		365,662
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(878,067)
Internal service funds are used by management to charge the costs of risk management and equipment management to individual funds. The net revenue of the internal service funds is reported with governmental activities.		(1,476,824)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,012,042
Change in net position of governmental activities	$	12,866,887

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities						Governmental Activities
	Sewer Operations	Water Operations	Solid Waste	Transit Operations	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS							
Current assets:							
Cash and cash equivalents	$ 20	$ -	$ -	$ -	690	$ 710	$ -
Investments	13,639,221	4,839,509	3,992,244	534,653	1,496,854	24,502,481	1,925,768
Receivables-utility (net of allowance for uncollectibles)	831,104	690,145	735,217	-	-	2,256,466	-
Receivables-misc (net of allowance for uncollectibles)	166,413	15,196	116,319	210,505	64,606	573,039	57,270
Intergovernmental receivables	-	-	14,768	517,017	7	531,792	683,168
Interfund receivable	-	-	-	-	-	-	15,779
Inventories	-	-	-	-	190,440	190,440	-
Temporarily restricted assets - cash	1	1	-	-	-	2	-
Total current assets:	14,636,759	5,544,851	4,858,548	1,262,175	1,752,597	28,054,930	2,681,985
Noncurrent assets:							
Advances receivable	286,212	266,851	-	-	-	553,063	63,462
Capital assets:							
Land	3,142,404	318,092	-	352,599	1,125,413	4,938,508	-
Construction in progress	840,017	562,494	-	444,251	109,151	1,955,913	-
Distribution and collection systems	48,104,031	39,467,533	-	-	-	87,571,564	-
Buildings and equipment	4,358,716	2,238,855	7,345,211	9,073,738	1,615,887	24,632,407	726,874
Improvements other than buildings	-	-	-	910,925	9,253,455	10,164,380	6,639
Infrastructure	-	-	-	825,876	-	825,876	-
Less accumulated depreciation	(22,684,687)	(17,481,466)	(4,659,306)	(3,387,313)	(5,018,519)	(53,231,291)	(506,233)
Restricted assets - investments	6,386,572	2,384,555	-	-	-	8,771,127	-
Total noncurrent assets:	40,433,265	27,756,914	2,685,905	8,220,076	7,085,387	86,181,547	290,742
Total assets	55,070,024	33,301,765	7,544,453	9,482,251	8,837,984	114,236,477	2,972,727
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	1,092,918	157,041	-	-	-	1,249,959	-
Total deferred outflows of resources	1,092,918	157,041	-	-	-	1,249,959	-
LIABILITIES							
Current liabilities:							
Accounts and other payables	177,717	216,946	120,793	125,973	31,886	673,315	333,189
Payroll payable	43,573	44,900	54,161	1,120	13,745	157,499	24,686
Interfund payable	-	-	-	-	629,849	629,849	-
Retainage payable	-	-	-	5,191	-	5,191	-
Accrued claims	-	-	-	-	-	-	764,877
Compensated absences payable	24,911	30,089	47,628	-	6,172	108,800	21,582
Accrued interest payable	348,809	161,185	-	-	1,778	511,772	-
Loans and bonds payable	708,268	705,034	-	-	11,949	1,425,251	-
Unearned revenue	-	-	-	1,357,088	-	1,357,088	-
Total current liabilities:	1,303,278	1,158,154	222,582	1,489,372	695,379	4,868,765	1,144,334
Noncurrent liabilities:							
Accrued claims	-	-	-	-	-	-	409,605
Compensated absences payable	2,956	11,678	23,266	-	1,707	39,607	10,076
Loans and bonds payable	26,215,804	9,937,512	-	-	39,962	36,193,278	-
Unamortized premium on bonds	39,385	36,780	-	-	-	76,165	-
Unamortized discount on bonds	(842,474)	-	-	-	-	(842,474)	-
Total noncurrent liabilities:	25,415,671	9,985,970	23,266	-	41,669	35,466,576	419,681
Total liabilities	26,718,949	11,144,124	245,848	1,489,372	737,048	40,335,341	1,564,015
NET POSITION							
Net investment in capital assets	14,732,832	16,262,012	2,685,905	8,220,076	7,033,476	48,934,301	227,280
Restricted for debt service	2,566,861	705,766	-	-	-	3,272,627	-
Restricted for self-insurance	-	-	-	-	-	-	565,168
Unrestricted	12,144,300	5,346,904	4,612,700	(227,197)	1,067,460	22,944,167	616,264
Total net position	$ 29,443,993	$ 22,314,682	$ 7,298,605	$ 7,992,879	$ 8,100,936	75,151,095	$ 1,408,712
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(672,676)	
Net position of business-type activities						$ 74,478,419	

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Business-type Activities						Governmental Activities
	Sewer Operations	Water Operations	Solid Waste	Transit Operations	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues:							
Charges for services	$ 6,550,700	$ 4,781,505	$ 5,591,453	$ 620,098	$ 1,468,383	$ 19,012,139	$ 7,283,354
Connection fees	272,981	32,333	-	-	-	305,314	-
Other revenues	187,559	234,491	84,050	3,510	164,432	674,042	84,035
Total operating revenues	7,011,240	5,048,329	5,675,503	623,608	1,632,815	19,991,495	7,367,389
Operating expenses:							
Cost of sales and services	2,437,855	2,051,803	4,270,409	2,205,934	1,427,098	12,393,099	8,939,804
General and administrative	1,249,696	1,815,682	663,948	317,072	196,199	4,242,597	216,575
Depreciation	1,138,806	996,912	409,639	601,162	310,081	3,456,600	40,983
Total operating expenses	4,826,357	4,864,397	5,343,996	3,124,168	1,933,378	20,092,296	9,197,362
Operating income (loss)	2,184,883	183,932	331,507	(2,500,560)	(300,563)	(100,801)	(1,829,973)
Nonoperating revenues (expenses):							
Intergovernmental revenues	-	-	-	1,610,849	10,000	1,620,849	-
Federal grants	-	-	-	1,467,376	-	1,467,376	-
State grants and reimbursements	-	-	8,215	62,271	-	70,486	-
Investment earnings	237,030	86,230	55,416	4,588	24,404	407,668	42,425
Interest expense	(1,561,069)	(504,174)	-	-	(1,360)	(2,066,603)	-
Sale of capital assets	29,156	25,583	5,027	1,230	-	60,996	521
Total nonoperating revenue (expenses)	(1,294,883)	(392,361)	68,658	3,146,314	33,044	1,560,772	42,946
Income before contributions and transfers	890,000	(208,429)	400,165	645,754	(267,519)	1,459,971	(1,787,027)
Capital contributions and transfers:							
Capital contributions, developer fees	34,097	249,764	-	-	-	283,861	-
Capital contributions, federal and state grants	-	-	1,221,313	550,714	34,957	1,806,984	-
Transfers in	630	587	-	-	84,192	85,409	-
Transfers out	-	(337)	-	-	-	(337)	-
Total capital contributions and transfers	34,727	250,014	1,221,313	550,714	119,149	2,175,917	-
Change in net position	924,727	41,585	1,621,478	1,196,468	(148,370)	3,635,888	(1,787,027)
Net position - beginning	29,070,415	22,273,097	5,677,127	6,796,411	8,249,306		3,195,739
Prior period adjustment	(551,149)	-	-	-	-		-
Net position - ending	$ 29,443,993	$ 22,314,682	$ 7,298,605	$ 7,992,879	$ 8,100,936		$ 1,408,712
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(310,203)	
Change in net position of business-type activities						$ 3,325,685	

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Business-type Activities						Governmental Activities
	Sewer Operations	Water Operations	Solid Waste	Transit Operations	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash receipts from customers	$ 7,069,448	$ 5,184,889	$ 5,706,994	$ 504,063	$ 1,676,340	$ 20,141,734	$ 7,371,559
Payments to employees	(1,169,392)	(1,101,372)	(1,473,548)	(37,480)	(294,634)	(4,076,426)	(691,215)
Payments to suppliers and others	(2,395,396)	(2,696,713)	(3,462,601)	(2,470,523)	(1,343,881)	(12,369,114)	(8,458,913)
Net cash provided (used) by operating activities	3,504,660	1,386,804	770,845	(2,003,940)	37,825	3,696,194	(1,778,569)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Cash from interfund	-	-	-	-	73,289	73,289	26,375
Intergovernmental - operating assistance	-	-	-	1,184,160	10,000	1,194,160	25,277
Subsidy from federal and state grants	-	-	8,463	1,369,263	-	1,377,726	-
Transfers in from other funds	630	587	-	-	84,192	85,409	-
Transfers out to other funds	-	(337)	-	-	-	(337)	-
Net cash provided (used) by noncapital financing	630	250	8,463	2,553,423	167,481	2,730,247	51,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Construction and other capital projects	(2,773,890)	(754,004)	-	(836,371)	(38,914)	(4,403,179)	-
Contributed capital, developer's fees	34,097	249,764	-	-	-	283,861	-
Interest paid on long-term debt and advances	(1,394,958)	(491,657)	-	-	(1,741)	(1,888,356)	-
Principal payments on long-term debt	(668,688)	(668,179)	-	-	(11,129)	(1,347,996)	-
Proceeds from sale of capital assets	4,156	583	5,027	1,230	-	10,996	521
Purchase of capital assets	(114,806)	(143,407)	(1,424,694)	(961,259)	-	(2,644,166)	(37,661)
Subsidy from federal and state grants	-	-	1,221,313	550,714	34,957	1,806,984	-
Net cash provided (used) by capital and related financing activities	(4,914,089)	(1,806,900)	(198,354)	(1,245,686)	(16,827)	(8,181,856)	(37,140)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	237,030	86,230	55,416	4,588	24,405	407,669	42,425
Net cash provided by investing activities	237,030	86,230	55,416	4,588	24,405	407,669	42,425
Net Increase (decrease) in cash and cash equivalents	(1,171,769)	(333,616)	636,370	(691,615)	212,884	(1,347,746)	(1,721,632)
Balances - beginning of year	21,197,583	7,557,681	3,355,874	1,226,268	1,284,660	34,622,066	3,647,400
Balances - end of the year	$ 20,025,814	$ 7,224,065	$ 3,992,244	$ 534,653	$ 1,497,544	$ 33,274,320	$ 1,925,768
As shown on the proprietary statement of net position:							
Cash and cash equivalents	$ 20	$ -	$ -	$ -	$ 690	$ 710	$ -
Investments	13,639,221	4,839,509	3,992,244	534,653	1,496,854	24,502,481	1,925,768
Temporarily restricted cash with fiscal agent	1	1	-	-	-	2	-
Restricted assets, cash with fiscal agent	6,386,572	2,384,555	-	-	-	8,771,127	-
Balances - end of year	$ 20,025,814	$ 7,224,065	$ 3,992,244	$ 534,653	$ 1,497,544	$ 33,274,320	$ 1,925,768
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	$ 2,184,883	$ 183,932	$ 331,507	$ (2,500,560)	$ (300,563)	$ (100,801)	$ (1,829,973)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation	1,138,806	996,912	409,639	601,162	310,081	3,456,600	40,983
Changes in assets and liabilities:							
Accounts payable	117,075	49,389	(5,902)	15,829	2,836	179,227	(98,538)
Accrued claims payable	-	-	-	-	-	-	50,417
Compensated absences	4,968	11,262	2,642	-	(6,827)	12,045	(468)
Customer receivables	58,208	136,560	31,491	(119,545)	43,525	150,239	4,170
Inventory	-	-	-	-	(14,820)	(14,820)	-
Prepaid expenses	-	-	-	-	-	-	56,921
Salaries and benefits payable	720	8,749	1,468	(826)	3,593	13,704	(2,081)
Net cash provided by operating activities	$ 3,504,660	$ 1,386,804	$ 770,845	$ (2,003,940)	$ 37,825	$ 3,696,194	$ (1,778,569)

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Private- purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	$ (11,663)	$ -
Investments at fair value	328,335	1,434,316
Interest receivable	1,271	-
Receivables - housing (net)	263,405	-
Capital assets:		
Land	615,669	-
Construction in progress	19,449	-
Improvements other than buildings	814,652	-
Less accumulated depreciation	(149,032)	-
Notes receivable	930,000	
Restricted cash - bond proceeds	2,632,917	-
Total assets	5,445,003	1,434,316
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	429,030	
Total deferred outflows of resources	429,030	
LIABILITIES		
Accounts and other payables	-	24,332
Payroll payable	542	-
Accrued interest payable	41,354	-
Refundable deposits, utilities	-	354,853
Refundable deposits, miscellaneous	-	581,629
Other deposits, safety	-	473,502
Intergovernmental payable	1,808,165	-
Notes payable	66,650	-
Bonds payable	7,645,000	-
Unamortized discount on bonds	(107,460)	-
Unearned revenue	1,193,405	
Total liabilities	10,647,656	$ 1,434,316
NET POSITION		
Net position held in trust	$ (4,773,623)	

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

		Private-purpose Trust Fund
ADDITIONS		
Contributions - Redevelopment Property Tax Trust Fund	$	680,625
Housing loan repayments		16,764
Interest and investment revenue		31,979
Other revenue		5
Total additions		729,373
DEDUCTIONS		
Administrative expenses		37,674
Direct property expenses		5,820
Depreciation expense		16,293
Debt redemption, interest		560,729
Total deductions		620,516
Change in net position		108,857
Net position held in trust - beginning		(4,595,888)
Prior-period adjustment		(286,592)
Net position held in trust - ending	$	(4,773,623)

The notes to the financial statements are an integral part of this statement.

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Notes To

Financial Statements

NOTE 1 - Summary of significant accounting policies

A. Reporting entity

The City of Porterville is a municipal corporation governed by a five-member council, one of which is appointed mayor. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations. As such, blended component units are appropriately presented as funds of the primary government.

Blended component units. The Porterville Redevelopment Agency was established in March of 1981 pursuant to the California Community Redevelopment Laws contained in Section 33000 Et. Seq. of Division 24 of the Health and Safety Code. The primary purpose of the Agency is to revitalize targeted areas of blight and deterioration within the city limits so as to eliminate or mitigate existing and potential physical, social, and economic liabilities in the interest of the health, safety, and welfare of all its citizens. Under Assembly Bill 1X 26, the Porterville Redevelopment Agency was dissolved and all of its assets, liabilities and obligations were transferred to the Successor Agency on February 1, 2012.

The City of Porterville elected to serve as the Successor Agency to the former Porterville Redevelopment Agency. It is responsible for winding down the affairs of the redevelopment agency including disposing of its assets. The Successor Agency operates under the control of a seven-member Oversight Board comprised of representatives of the local agencies that serve the redevelopment project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former redevelopment agency.

The Porterville Housing Authority was formed and designated as Housing Successor Agency. On February 1, 2012, it assumed all housing assets and functions previously performed by the redevelopment agency, including all rights, powers, assets, liabilities, duties and obligations associated with the housing activities of the former redevelopment agency. The California State Controller's Office reviewed the asset transfers made by the Porterville Redevelopment Agency (RDA) after January 1, 2011. The review concluded that the RDA had made unallowable transfers to the Housing Authority and therefore ordered that those transfers be reversed and the assets turned over to the City of Porterville Successor Agency.

The Porterville Public Improvement Corporation is a nonprofit public benefit company incorporated on September 1, 1988, and is organized under the Nonprofit Public Benefit Corporation Law for the purpose of financing certain public building, sewer and water capital projects. The Corporation's board is comprised of the City's council members.

Additional detailed information for each of the individual component units may be obtained from the City of Porterville Finance Department, 291 North Main Street, Porterville, CA 93257-3737.

B. Basis of presentation

Government-wide financial statements

The government-wide financial statements consist of the statement of net position and the statement of activities and report information on all of the non-fiduciary activities of the primary government and its component units. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this general rule are the fleet management and the risk management charges to the enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities presents a comparison between program expenses and program revenues for each segment of business-type activities of the City and for each function of the City's governmental activities. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include:

1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and

2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *public safety sales tax fund* was established as a result of the voters approval of a one-half cent increase in sales tax on the November 8, 2005 Special Consolidated Election ballot. This fund is used to account for revenues received from this district tax, which are restricted for police and fire services and for literacy programs.

The *community development block grant fund* accounts for all financial transactions having to do with the Community Development Block Grant Program and First-time Homebuyers Program of the Federal Department of Housing and Urban Development for low-interest housing rehabilitation and mortgage assistance loans.

The *general government capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital projects not being financed by proprietary funds.

The City reports the following major enterprise funds:

The *sewer operations fund* accounts for the activities of the sewage pumping stations, treatment plant, and laboratory.

The *water operations fund* accounts for the activities of the water distribution system.

The *solid waste fund* accounts for the activities of the refuse collection, recycling, and graffiti abatement programs.

The *transit operations fund* accounts for the activities of the City-operated local transit system including public transportation buses and facilities.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management services provided to other departments of the City, or to other governments, on a cost reimbursement basis, and risk management services related to self-insurance (including claims for workers' compensation, unemployment, employee health, general liability, and property damage).

The *private-purpose trust fund* reports the assets, liabilities and activities of the Successor Agency to the former Porterville Redevelopment Agency.

The *agency fund* is used to account for refundable deposits collected for public works projects, utilities, asset forfeiture, and school impact fees.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from / to other funds and advances to / from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in / out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

C. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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 collectible 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. 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 asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when the City receives cash.

The proprietary and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

D. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects fund which adopts project-length budgets.

On or before June 1 of each year, the City Manager submits a proposed budget to the city council for review. The council holds public hearings, and the final budget is adopted by resolution prior to July 1.

The appropriated budget is prepared by fund, function, and department. The department heads may make transfers of appropriations within their respective departments. Transfers of appropriations between departments require the approval of the city manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in the Community Development Block Grant Fund by $217,254. These expenditures are funded by federal and state grants and available fund balance.

E. Assets, liabilities, deferred outflows / inflows of resources, and net position / fund balance

1. Cash and investments

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

Investments for the City are reported at fair value (generally based on quoted market prices). Under the provisions of the City's investment policy and California Government Code Section 53601, the City Treasurer is authorized to invest in negotiable certificates of deposit, securities of the U.S. Government, time deposits, banker's acceptance notes, commercial paper, guaranteed investment contracts (GIC), medium term notes, the California Local Agency Investment Fund (LAIF), the Central San Joaquin Valley Risk Management Authority (CSJVRMA) Investment pool, and the County of Tulare Investment pool.

2. Inventories and prepaid items

Inventories are stated at cost using the first-in/first-out (FIFO) method, and consist of expendable materials and supplies. The cost of such inventories is recorded as expenditures / expenses when consumed rather than when purchased.

Any payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures / expenses when consumed rather than when purchased.

3. Restricted assets

Certain proceeds of debt issued are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited by applicable bond covenants.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at their estimated fair value at the date of donation.

Land, works of art and collections, and construction in progress are not depreciated. Other property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 to 50
Improvements other than buildings	20 to 50
Infrastructure	30 to 50
Machinery and equipment	5 to 20

5. *Long-term debt*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

6. *Deferred outflows / inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from federal and state grants, and from the housing loan principal. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. *Net position flow assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. *Fund balance flow assumptions*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first. When the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. *Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> *Nonspendable fund balance* – This includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.
>
> *Restricted fund balance* – This includes amounts with constraints placed on their use by those external to the City, including creditors, grantors, contributors, or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.
>
> *Committed fund balance* – This includes amounts that can only be used for specific purposes determined by action of the City Council which is the highest level of decision-making authority for the City. The City Council, by a simple majority vote can commit fund balance which remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur not later than the close of the reporting period.
>
> *Assigned fund balance* – This includes amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has authorized the city manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.
>
> *Unassigned fund balance* – This is the residual classification that included amounts not contained in the other classifications in the general fund. Negative fund balances in other governmental funds are reported as unassigned fund balance.

F. Revenues and expenditures / expenses

1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenue rather than as program revenues.

2. *Property taxes*

The City is permitted to levy property taxes in accordance with Article XIIIA of the California Constitution (Proposition 13), which limits ad valorem taxes on real property to 1.0 percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed 2.0 percent, for each year thereafter. Property may also be reassessed to full fair value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of 66.67 percent of the qualified electors.

Tulare County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. The property tax calendar for the City is as follows:

Lien date	January 1
Levy dates	July 1 through June 30
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31.

3. *Utility Users Tax*

The City is permitted by Chapter 22, Article V, of the Porterville Municipal Code to collect a utility users tax on certain types of utility services. The tax imposed is set by City Council resolution and was established at a 6.0 percent tax rate beginning July 1, 1970.

4. *Transactions and Use Tax for Public Safety, Police and Fire Protection (Measure H)*

On December 6, 2005, the City adopted Ordinance No. 1684 adding Article IIA to Chapter 22 of the Porterville Municipal Code to provide for an additional one-half of one percent transactions and use tax to fund public safety, police and fire protection services and related capital projects. The ordinance was approved by a two-thirds majority of eligible voters at the November 8, 2005 election and became effective on April 1, 2006.

5. *Compensated absences*

It is the City of Porterville's policy to permit employees to accumulate earned, but unused, vacation benefits, which are eligible for payment upon separation from City service. The liability is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. Accumulated sick leave lapses when employees leave the employ of the City and upon separation from service. No liability for unpaid accumulated sick leave is reported.

6. *Proprietary funds operating and non-operating revenues and expenses*

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. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2 - Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $31,044,070 difference are as follows:

Bonds payable	$	27,110,000
Less: Deferred charge on refunding (to be amortized as interest expense		(2,319,199)
Plus: Issuance premium (to be amortized over life of debt)		28,914
Notes payable		2,556,000
Accrued interest payable		298,531
Net other postemployment benefits obligation		2,295,780
Compensated absences		1,074,044
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$	31,044,070

Another element of that reconciliation explains that "Internal service funds are used by management to charge the costs of risk management and equipment management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position." The details of this $2,081,388 difference are as follows:

Net position of the internal service funds	$	1,408,712
Add: Internal receivable representing costs in excess of charges to business-type activities – prior years		362,473
Add: Internal receivable representing costs in excess of charges to business-type activities – current year		310,203
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$	2,081,388

The final element of that reconciliation explains that "Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds." The details of this $386,969,925 difference are as follows:

Land	$	269,161,736
Construction in progress		15,706,137
Works of art and collection		183,938
Buildings		14,241,986
Less: Accumulated depreciation – buildings		(5,592,960)
Improvements other than buildings		7,726,497
Less: Accumulated depreciation – improvements other than buildings		(2,374,843)
Machinery and equipment		11,508,106
Less: Accumulated depreciation – machinery and equipment		(6,199,094)
Infrastructure		108,961,159
Less: Accumulated depreciation - infrastructure		(26,352,737)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$	386,969,925

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period." The details of this $13,221,895 difference are as follows:

Capital outlay	$	16,730,897
Depreciation expense		(3,509,002)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$	13,221,895

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets is to increase net position." The details of this $83,509 difference are as follows:

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	$	127,904
The statement of activities reports losses arising from disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposal of capital assets.		(44,395)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$	83,509

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this $365,662 difference are as follows:

Debt issued or incurred:		
Pension obligations bonds issued	$	(3,765,000)
Principal repayments:		
Certificates of participation		380,000
Notes payable		191,000
Payment to CalPERS		3,559,662
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$	365,662

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $878,067 difference are as follows:

Other postemployment benefits	$	(217,222)
Compensated absences		(156,310)
Accrued interest		(47,642)
Amortization of deferred charge on refunding		(149,943)
Amortization of bond premiums		6,800
Amortization of pension asset		(313,750)
Net adjustment to decrease *net changes in fund balances – total govemmental funds* to arrive at *changes in net position of govemmental activities*	$	(878,067)

Another element of that reconciliation states that "Internal service funds are used by management to charge the costs of risk management and equipment management to individual funds. The net revenue of the internal service funds is reported with governmental activities." The details of this $1,476,824 difference are as follows:

Change in net position of the internal service funds	$	(1,787,027)
Loss from charges to business-type activities		310,203
Net adjustment to decrease *net changes in fund balances – total govemmental funds* to arrive at *changes in net position of govemmental activities*	$	(1,476,824)

C. Explanation of certain differences between the proprietary fund statement of net position and the government-wide statement of net position

The proprietary fund statement of net position includes a reconciliation between *net position – total enterprise funds* and *net position of business-type activities* as reported in the government-wide statement of net position. The description of the sole element of that reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this $672,676 difference are as follows:

Internal payable representing costs in excess of charges to business-type activities – prior years	$	(362,473)
Internal payable representing costs in excess of charges to business-type activities – current year		(310,203)
Net adjustment to decrease *net position total enterprise funds* to arrive at *net position – business-type activities*	$	(672,676)

NOTE 3 - Stewardship, compliance, and accountability

A. Violations of legal or contractual provisions

Note 1-D-2 on the *Excess of expenditures over appropriations*, describes a budgetary violation that occurred for the year ended June 30, 2014.

B. Deficit fund equity

At June 30, 2014, the Golf Course Fund, a nonmajor enterprise fund has a deficit fund balance of $302,209. For the past several years, expenses have exceeded revenues. There is presently no arrangement on how to eliminate the deficit in future years.

NOTE 4 - Detailed notes on all activities and funds

A. Cash and investments

The City of Porterville follows the practice of pooling cash and investments of all funds except for those required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated monthly to the various funds based on monthly cash balances. At year-end, the City's cash bank balance was $0 and cash on hand was $3,285.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	$	51,701,745
Cash and investments - restricted		11,712,909
Fiduciary funds:		
Cash and investments		1,750,988
Cash and investments – restricted		2,632,917
Total cash and investments	$	67,798,559

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	$	3,285
Investments		67,795,274
Total cash and investments	$	67,798,559

Investments authorized by the California Government Code and the City of Porterville's Investment Policy

The table below identifies the investment types that are authorized for the City of Porterville by the California Government Code and/or the City's investment policy (where more restrictive). The table also identifies certain provisions of the California Government Code and/or the City'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 trustee that are governed by the provisions of debt agreements of the Entity, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio[1]	Maximum investment in one issuer
Local Agency Bonds	5 years	None	None
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[2]	N/A	None	None
Reverse Repurchase Agreements[2]	N/A	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA or other Investment Pools	N/A	None	None

[1] Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.
[2] The City's investment policy does not permit investments in repurchase or reverse repurchase agreements.

Investments authorized by debt agreements

Investment of debt proceeds held by bond trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City of Porterville's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreement 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. Government Agencies Securities	None	None	None
Certificates of Deposit	360 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value will to changes in market interest rates. One of the ways that Porterville manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Porterville's investment policy states that investment decisions are made with the intention of retaining the investment until maturity, thereby negating the ill effects of market interest rate fluctuations.

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

		Remaining maturity (in months)			
Investment type		12 months or less	13-24 months	25–60 months	More than 60 months
Federal agency securities	$ 11,455,440	$ 1,006,170	$ --	$ 10,449,270	$ --
Certificates of Deposit	10,887,224	598,887	1,646,752	8,641,585	--
Corporate bonds	7,013,900	1,004,400	1,012,740	4,996,760	--
Capital stock	107,800	107,800	--	--	--
Money market funds	8,574	8,574	--	--	--
Local Agency Investment Fund	12,275,310	12,275,310	--	--	--
Tulare County Investment Pool	8,509,465	8,509,465	--	--	--
CSJVRMA JPA Investment Pool	6,528,384	6,528,384	--	--	--
Held by bond trustees:					
Money market funds	5,834,722	5,834,722	--	--	--
Federal agency securities	4,518,808	1,511,225	--	3,007,583	--
Certificates of Deposit	655,647	275,647	--	380,000	--
Total	$ 67,795,274	$ 37,660,584	$ 2,659,492	$ 27,475,198	$ --

Investments with fair values highly sensitive to interest rate fluctuations

Porterville's investment policy does not permit investments in instruments that are highly sensitive to interest rate fluctuations such as variable rate securities; therefore, the portfolio does not contain any such investments.

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 the California Government Code, Porterville's investment policy, or debt agreements, and the actual rating as of June 30, 2013, for each investment type:

Investment type		Minimum legal rating	Exempt from disclosure	AA+	A	Not rated
Federal agency securities	$ 11,455,440	N/A	$ --	$ 11,455,440	$ --	$ --
Certificates of Deposit	10,887,224	N/A	--	--	--	10,887,224
Corporate notes	7,013,900	A	--	3,016,450	3,997,450	--
Capital stock	107,800	A	--	--	--	107,800
Money market funds	8,574	A	--	--	8,574	--
Local Agency Investment Fund	12,275,310	N/A	--	--	--	12,275,310
Tulare County Investment Pool	8,509,465	N/A	--	--	--	8,509,465
CSJVRMA JPA Investment Pool	6,528,384	N/A	--	--	--	6,528,384
Held by bond trustees:						
Money market funds	5,834,722	A	--	--	4,832,727	1,001,995
Federal agency securities	4,518,808	N/A	--	4,518,808	--	--
Certificates of Deposit	655,647	N/A	--	--	--	655,647
Total	$ 67,795,274		$ --	$ 18,990,698	$ 8,838,751	$ 39,965,825

Concentration of credit risk

The investment policy of the City of Porterville 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 mutual funds and external investment pools) that represent 5 percent or more of the total City investments are as follows:

Issuer	Investment type	Reported amount
Federal National Mortgage Association	Federal agency securities	$ 7,519,607
Federal Home Loan Banks	Federal agency securities	$ 3,968,730

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City of Porterville's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

> The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2014, $1,109,592 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts. As of June 30, 2014, Porterville's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

Investment type		Reported amount
Federal agency securities	$	8,470,690
Certificates of deposit		1,913,043
Corporate notes		5,019,800

Investment in the State Investment Pool

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

Central San Joaquin Valley Risk Management Authority (CSJVRMA) investment pool

As a member city of the CSJVRMA, the City accepted the opportunity to participate in its sponsored investment pool. Four cities, Livingston, Atwater, Ripon and Porterville, participate with the RMA in this pool. The pool is managed by Chandler Asset Management who typically invests in agencies (e.g., FHLB debentures, FNMA and FHLMC notes), treasuries and high-grade corporate stock. Approved investment instruments are asset-backed securities, banker's acceptance, commercial paper and medium term notes, money market accounts, mutual funds, and negotiable certificates of deposit with mixed maturity dates not to exceed 5 years. Investment in repurchase agreements is authorized, but maturity is limited to 1 year maximum. The fair value of the City's investment in this pool is reported at amounts based upon the City's pro-rata share of the fair value provided by Chandler Asset Management for the entire CSJVRMA portfolio.

Tulare County Investment Pool

The City is a voluntary participant in the Tulare County Investment Pool that is managed by the County Treasurer. The pooled investments, which are governed by the California Government Code, include U.S. Treasuries, Federal agencies, medium term/corporate notes, municipals, repurchase agreements, commercial paper, money market funds and LAIF. The fair value of the City's investment in this pool is reported at amounts based upon the City's pro-rata share of the fair value provided by Tulare County for the entire investment portfolio.

B. Receivables

Receivables as of June 30, 2014, for the City's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Public Safety Sales Tax	Community Development Block Grant	Capital Projects	Sewer Operations
Receivables:					
Interest	$ 98,525	$ --	$ --	$ --	$ 4,462
Taxes	957,413	228,600	--	--	--
Other accounts receivable	534,811	--	10,925,006	--	1,018,759
Intergovernmental – restricted	1,947,695	--	209,476	2,033,063	--
Gross receivables	3,538,444	228,600	11,134,482	2,033,063	1,023,221
Less: allowance for uncollectibles	--	--	--	--	(25,704)
Net total receivables	$ 3,538,444	$ 228,600	$ 11,134,482	$ 2,033,063	$ 997,517

	Water Operations	Solid Waste	Transit Operations	Nonmajor and Other Funds	Total
Receivables:					
Interest	$ 1,378	$ --	$ --	$ 2,273	$ 106,638
Taxes	--	--	--	339,449	1,525,462
Other accounts receivable	725,308	874,275	210,505	206,923	14,495,587
Intergovernmental - restricted	--	14,768	517,017	3,180,418	7,902,437
Gross receivables	726,686	889,043	727,522	3,729,063	24,030,124
Less: allowance for uncollectibles	(21,345)	(22,739)	--	--	(69,788)
Net total receivables	$ 705,341	$ 866,304	$ 727,522	$ 3,729,063	$23,960,336

C. Notes receivable

On December 29, 2009, the City of Porterville entered into a loan agreement with Prospect-Henderson Partners, L.P., whereby the City provided funds in the amount of $2,700,000 to Prospect-Henderson Partners, L.P. to assist in the revitalization effort and mitigate the loss of retail services within the City by enabling the developer to lease to Kohl's Department Stores, Inc, a 76,367 square foot building left vacant by the closing of the Mervyn's store, for the operation of a Kohl's store at the site. The loan is secured with a Promissory Note and Deed of Trust. The loan has a compound interest rate of 1.5 percent amortized over an initial 70 month term, and a compound interest rate of 3 percent over the second 60 month term. Monthly interest-only payments started in November 15, 2010 with the repayment of the principal and any remaining unpaid interest to be made in full no later than October 27, 2020. On August 29, 2011, an agreement for partial release and reconveyance was entered into between the City of Porterville and Prospect-Henderson Partners, L.P. for the release of 19,025 square feet at a price of $114,150 to be credited to the outstanding balance of the note. As of June 30, 2014, $2,620,221 is owed in principal and accrued interest.

On September 7, 2010, a Construction Loan Agreement was executed by the Tulare County Junior Livestock Show and Community Fair for the purpose of obtaining a loan from the City of Porterville, the proceeds of which shall be used for the construction of improvements on the Fairgrounds facilities in an amount not to exceed $2,000,000. The actual amount of the loan shall be determined upon completion of all improvements. The term of the loan is 10 years with interest at the rate of 3 percent per annum, compounded semi-annually. Construction of the improvements was completed in 2012 with the City disbursing a total amount of $1,900,283. Semi-annual payments commenced on January 15, 2012. As of June 30, 2014, the outstanding loan balance is $1,476,020.

D. Capital assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 269,023,213	$ 138,523	$ --	$ --	$ 269,161,736
Construction in progress	2,513,333	14,785,915	(1,520,500)	(72,611)	15,706,137
Works of art and collections	183,938	--	--	--	183,938
Total capital assets, not being depreciated	271,720,484	14,924,438	(1,520,500)	(72,611)	285,051,811
Capital assets, being depreciated:					
Buildings	14,040,037	201,948	--	--	14,241,985
Improvements other than buildings	7,332,659	400,477	--	--	7,733,136
Machinery and equipment	11,569,282	1,147,111	(481,412)	--	12,234,981
Infrastructure	107,218,171	1,742,988	--	--	108,961,159
Total capital assets, being depreciated	140,160,149	3,492,524	(481,412)	--	143,171,261
Less accumulated depreciation for:					
Buildings	(5,298,517)	(294,442)	--	--	(5,592,959)
Improvements other than buildings	(2,195,786)	(185,696)	--	--	(2,381,482)
Machinery and equipment	(6,306,459)	(834,872)	442,642	--	(6,698,689)
Infrastructure	(24,117,762)	(2,234,975)	--	--	(26,352,737)
Total accumulated depreciation	(37,918,524)	(3,549,985)	442,642	--	(41,025,867)
Total capital assets, being depreciated, net	102,241,625	(57,461)	(38,770)	--	102,145,394
Governmental activities capital assets, net	$ 373,962,109	$ 14,866,977	$ (1,559,270)	$ (72,611)	$ 387,197,205

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Governmental activities:		
Community and economic development	$	42,128
General government		139,102
Parks and recreation		422,185
Public safety – fire		175,505
Public safety – police		351,998
Public works		2,378,084
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		40,983
Total depreciation expense - governmental activities	$	3,549,985

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 4,938,508	$ --	$ --	$ --	$ 4,938,508
Construction in progress	3,259,069	4,372,902	(5,667,255)	(8,803)	1,955,913
Total capital assets, not being depreciated	8,197,577	4,372,902	(5,667,255)	(8,803)	6,894,421
Capital assets, being depreciated:					
Buildings	5,358,573	--	--	--	5,358,573
Improvements other than buildings	10,017,552	146,828	--	--	10,164,380
Machinery and equipment	16,687,579	2,892,527	(306,272)	--	19,273,834
Distribution and collection systems	83,098,255	4,473,309	--	--	87,571,564
Infrastructure	--	825,876	--	--	825,876
Total capital assets, being depreciated	115,161,959	8,338,540	(306,272)	--	123,194,227
Less accumulated depreciation for:					
Buildings	(1,921,730)	(105,665)	--	--	(2,027,395)
Improvements other than buildings	(3,871,489)	(260,648)	--	--	(4,132,137)
Machinery and equipment	(10,637,085)	(1,214,311)	306,272	--	(11,545,124)
Distribution and collection systems	(33,650,660)	(1,848,506)	--	--	(35,499,166)
Infrastructure	--	(27,469)	--	--	(27,469)
Total accumulated depreciation	(50,080,964)	(3,456,559)	306,272	--	(53,231,291)
Total capital assets, being depreciated, net	65,080,995	4,881,941	--	--	69,962,936
Business-type activities capital assets, net	$ 73,278,572	$ 9,254,843	$ (5,667,255)	$ (8,803)	$ 76,857,357

E. Interfund and advances receivable/payable, and transfers

The composition of interfund balances as of June 30, 2014, is as follows:

Interfund receivable/payable

Receivable Fund	Payable Fund	Amount	Purpose
Nonmajor governmental funds	Nonmajor enterprise funds	$ 629,849	Temporary operating loan
Internal service funds	General fund	15,779	Current portion of advance for underground storage tank upgrade
Total		$ 645,628	

Advances receivable/payable

Receivable Fund	Payable Fund	Amount	Purpose
Sewer operating fund	General fund	$ 286,212	Certificate forward purchase proceeds dedicated for sports park
Water operating fund	General fund	266,851	Certificate forward purchase proceeds dedicated for sports park
Internal service fund	General fund	63,462	Advance for underground storage tank upgrade
Total		$ 616,525	

Interfund transfers

	Transfers In				
Transfers Out	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Enterprise Funds	Total
General fund	$ --	$ 2,167,930	$ 5,901,024	$ 80,217	$ 8,149,171
Public safety sales tax fund	--	300,348	45,695	--	346,043
Community development block grant fund	117,492	29,410	--	--	146,902
Nonmajor governmental funds	5,777,176	4,561,292	3,740	5,192	10,347,400
Non major enterprise funds	--	--	337	--	337
Total	$ 5,894,668	$ 7,058,980	$ 5,950,796	$ 85,409	$ 18,989,853

Transfers are used to move revenues from the funds with collection authorization to the capital projects fund to finance various capital outlays including several construction projects. General fund revenues were moved to the debt service fund as debt service principal and interest payments become due while funds from non-major funds were moved to the general fund to help pay for debt service. Transfers are also used to move grant revenue from the Community Development Block Grant Fund to the General Fund to reimburse expenditures for the operation of the Youth Center. The Golf Course and the Zalud Enterprise Funds received funds from the General Fund to aid in the operations of the funds.

F. Long-term debt

Certificates of Participation

The City has issued $44,715,000 in Certificates of Participation, $26,290,000 to support governmental activities and $18,425,000 to support business-type activities. The governmental issues are entitled 2002 Public Buildings Refunding (formerly 1992 Public Buildings Project) and 2005 Infrastructure Financing Project (formerly 1998 Infrastructure Financing Project). Interest rates vary from 5.8 percent to 6.3 percent and 3.0 percent to 5.0 percent, respectively. The business-type issues are entitled 2002 Sewer System Refunding Project and 2002 Water System Refunding Project (both formerly 1992 Improvement Projects). Interest rates range from 5.8 percent to 6.3 percent.

In 1998, underwriters Lehman Brothers Special Financing, Inc., made an offer to advance refund the 1992 Public Buildings, Water System and Sewer System certificates in order to take advantage of current market conditions. The City accepted and on March 26, 1999, entered into a certificate forward purchase agreement, receiving $169,471 for the Public Building issue, $230,887 for the Sewer System issue, and $215,503 for the Water System issue. The City elected to receive an amount net of estimated transaction costs associated with a refunding; in the event that the underwriters chose to complete the refunding process in 2002, the costs to the City would be greatly minimized. On August 1, 2002, the City was notified that Lehman Brothers wished to exercise the option to refund and generate new certificates.

On December 1, 2005, the City advance refunded its 1998 Infrastructure Financing Project Certificates for $20,850,000 to provide funds to finance and refinance various public infrastructure improvements, fund a reserve fund through the purchase of a reserve fund surety bond and fund the costs of the transaction. On April 1, 2013, the City entered into a lease agreement providing for lease payments with an aggregate principal component in the amount of $21,060,000 for the purpose of providing for the defeasance of the 2005 Certificates. Through April 1, 2016, interest is payable at a fixed rate of 3.30 percent. Beginning on April 2, 2016, interest is payable at a variable rate based on the U.S. dollar one month LIBOR plus 2.125 percent, but in no case lower than 3.30 percent. $19,887,098 of the proceeds was deposited into an escrow bank for the payment of the principal and interest with respect to the 2005 Certificates. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $2,576,570. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

Certificates of participation currently outstanding are as follows:

2002 Public Building Refunding Project	$ 2,285,000
2002 Sewer System Refunding Project	3,125,000
2002 Water System Refunding Project	2,915,000
2013 Infrastructure Lease Financing Project	21,060,000
	$ 29,385,000

Debt service requirements on Certificates of Participation are as follows:

Fiscal Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2015	$ 405,000	$ 826,178	$ 1,065,000	$ 346,972
2016	425,000	800,032	1,135,000	277,673
2017	690,000	772,312	1,205,000	203,962
2018	1,170,000	729,338	1,275,000	125,843
2019	1,285,000	674,573	1,360,000	42,840
2020 – 2024	4,990,000	2,853,015	--	--
2025 – 2029	7,280,000	1,865,160	--	--
2030 – 2033	7,100,000	537,570	--	--
Total	$ 23,345,000	$ 9,058,178	$ 6,040,000	$ 997,290

Revenue bonds

In January of 2011, the City issued $19,743,587 (maturity value of $19,870,000) of Sewer Revenue Bonds, 2011 Series A and advance refunded the 1997 Sewer System Refinancing Certificates of Participation. Interest rates vary from 1 percent to 5.75 percent. The installment payments are secured by a pledge of and lien on the net revenues of the City's municipal sewer enterprise. The bonds were issued to finance the construction of certain improvements and facilities to the Sewer System, refund the remaining outstanding principal balance of the 1997 Certificates, fund a reserve fund for the bonds, and pay the costs of issuance. $7,000,000 of the proceeds will be used to finance the sewer project which generally consists of the extension of sanitary sewer service to five separate areas annexed to the City in April 2006 and bring sewer service to various scattered areas lacking in sewer facilities throughout the City. $9,470,000 of the proceeds was deposited into an escrow fund for the payment of principal and interest with respect to the 1997 Certificates. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $1,306,684. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which was shorter than the life of the new debt issued.

Revenue bonds outstanding at June 30, 2014 amount to $19,555,000.

Debt service requirements on revenue bonds are as follows:

Fiscal Year Ending June 30	Business-type Activities Principal	Interest
2015	$ --	$ 1,050,808
2016	--	1,050,807
2017	--	1,050,808
2018	--	1,050,807
2019	--	1,050,808
2020 – 2024	3,410,000	4,984,869
2025 – 2029	4,900,000	3,895,302
2030 – 2034	6,440,000	2,297,688
2035 – 2037	4,805,000	415,266
Total	$ 19,555,000	$ 16,847,163

Pension Obligation Bond

On July 16, 2013, the City Council of the City of Porterville authorized the issuance of its 2013 taxable pension obligation bonds for the purpose of refunding its public safety employee side fund obligation to the California Public Employee's Retirement System (CalPERS) and take advantage of lower interest rates. On November 22, 2013, Rabobank, N.A. offered to enter into an agreement with the City to purchase all of its 2013 Taxable Pension Obligation Refunding Bond for the purchase price of $3,765,000. The bond will mature on October 1, 2020 and will bear interest at the rate of 3 percent per annum, payable semiannually.

Debt service requirements on the pension obligation bond is as follows:

Fiscal Year Ending June 30	Governmental Activities Principal	Interest
2015	$ 490,000	$ 105,600
2016	505,000	90,675
2017	520,000	75,300
2018	540,000	59,400
2019	555,000	42,975
2020	570,000	26,100
2021	585,000	8,775
Total	$ 3,765,000	$ 408,825

Notes payable

On October 1, 2003, the City of Porterville was awarded $3,885,000 under HUD's Section 108 Loan Guarantee Program to fund the construction of a new neighborhood community center. The note was in a Variable/Fixed Rate format which was designed to convert from a variable rate note to a fixed rate note on its 'Conversion Date', which is a date after all advances had been made by the City. Funds were deposited in a trust account with Union Bank of California in May 2004 and the note was converted into a fixed rate note on June 30, 2004. Annual debt service payments began on February 1, 2005. Repayment will be made over a 20-year term with interest rates ranging from 2.42 percent to 6.13 percent. As of June 30, 2014, the outstanding balance of the note is $2,556,000.

In September 2004, the City entered into an Enterprise Fund Installment Sale Agreement with the California Infrastructure and Economic Development Bank (I-Bank) in the amount of $5,356,000 to fund the various capital projects needed to comply with Regional Water Quality Control Board's Cease and Desist Order and Water Discharge Requirements. The term of the agreement is 30 years with an interest rate of 2.98 percent per annum. The remaining balance of the note at June 30, 2014 is $4,244,071.

On May 24, 2005, the City of Porterville executed a loan agreement with the State of California Department of Transportation for the sum of $118,000 to purchase hangars at the Porterville Municipal Airport. The loan will extend for a period of 12 years at an annual interest of 4.4477 percent. As of June 30, 2014, $51,911 remains outstanding.

On July 1, 2009, the City entered into an Enterprise Fund Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB) in the amount of $6,757,500 to finance the Eastside Water Improvement Projects including the construction and installation of pipelines, booster pumps, and storage reservoir and well pump equipment and accessories. The term of the agreement is 30 years with an interest rate of 3.84 percent per annum. On March 1, 2014, the City entered into a Replacement Agreement with CIEDB which reduced the interest rate by 25 basis points, to 3.59 percent per annum commencing with the effective date of the replacement agreement and continuing for the remaining term of the agreement. The outstanding balance of the note as of June 30, 2014 is $6,325,522.

In addition, the City entered into a second Enterprise Fund Installment Sale Agreement with CIEDB for $1,500,000. Proceeds from this loan were used to finance the Rocky Hill Reservoir Project which involves the construction of a 550,000 gallon storage reservoir. The remainder of the loan proceeds will fund the construction of a new well and a supplemental booster pump. The term of this agreement is 30 years with interest only payments through July 31, 2011 and principal payments beginning on August 1, 2011. The interest rate on the loan is 3.31 percent per annum. As of June 30, 2014, $1,402,025 is outstanding.

Debt service requirements on notes payable are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
Ending June 30	Principal	Interest	Principal	Interest
2015	$ 204,000	$ 140,050	$ 360,251	$ 400,231
2016	219,000	128,887	372,899	386,814
2017	234,000	116,606	385,955	374,283
2018	251,000	103,179	398,632	361,302
2019	268,000	88,552	398,121	347,895
2020 – 2024	1,380,000	202,776	2,203,407	1,531,493
2025 – 2029	--	--	2,605,708	1,138,441
2030 – 2034	--	--	3,082,669	672,665
2035 – 2039	--	--	2,137,239	207,917
2040	--	--	78,648	1,302
Total	$ 2,556,000	$ 780,050	$ 12,023,529	$ 5,422,343

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the City did not have excess investment earnings and does not expect to incur a significant liability.

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates payable	$ 23,725,000	$ --	$ (380,000)	$ 23,345,000	$ 405,000
Pension obligation bond	--	3,765,000	--	3,765,000	490,000
Plus deferred amounts:					
For issuance premiums	35,714	--	(6,800)	28,914	--
Total bonds payable	23,760,714	3,765,000	(386,800)	27,138,914	895,000
Notes payable	2,747,000	--	(191,000)	2,556,000	204,000
Claims	1,124,065	4,206,331	(4,155,914)	1,174,482	764,877
Net other postemployment benefits obligation*	2,078,558	931,217	(713,995)	2,295,780	--
Compensated absences*	949,859	1,051,907	(896,064)	1,105,702	660,783
Governmental activity Long-term liabilities	$ 30,660,196	$ 9,954,455	$ (6,343,773)	$ 34,270,878	$ 2,524,660

* Governmental compensated absences are primarily liquidated in the General Fund. Net other postemployment benefits obligation and claims liabilities are liquidated by the internal service funds.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
Certificates payable	$ 7,040,000	$ --	$ (1,000,000)	$ 6,040,000	$ 1,065,000
Revenue bonds	19,555,000	--	--	19,555,000	--
Plus deferred amounts:					
For issuance premiums	94,078	--	(17,913)	76,165	--
Less deferred amounts:					
For issuance discounts	(889,555)	--	47,081	(842,474)	--
Total bonds payable	25,799,523	--	(970,832)	24,828,691	1,065,000
Notes payable	12,371,524	--	(347,995)	12,023,529	360,251
Compensated absences	136,362	188,684	(176,639)	148,407	108,800
Business-type activity Long-term liabilities	$ 38,307,409	$ 188,684	$ (1,495,466)	$ 37,000,627	$ 1,534,051

G. Fund balance

Stabilization arrangement

On April 3, 2012, the City Council adopted an ordinance that established a budget stabilization reserve in the general fund. Its purpose is to mitigate one-time annual budget revenue shortfalls due to changes in economic environment and/or actions by the county/state/federal government that have a material effect on the City's revenues. The reserve shall be maintained at a minimum of 15 percent of the general fund annual budgeted operating expenditures. If the reserve balance falls below 10 percent of the annual budgeted operating expenditures, the policy provides that a plan be established to replenish the reserve to the required level within 3 fiscal years.

Expenditures from the budget stabilization reserve may only occur by formal City Council action with not less than four-fifths vote of those voting in agreement. Formal City Council action shall require adoption of a resolution which shall contain the basis of a finding of material effect and that the finding is within the intent and purpose of the budget stabilization reserve policy.

Fund balance components

Governmental fund balances are presented in the following categories: nonspendable, committed, assigned, and unassigned. A detailed schedule of fund balances at June 30, 2014, is as follows:

	General	Public Safety Sales Tax	Community Development Block Grant	Capital Projects	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Long-term notes receivable	$4,096,241	--	--	--	--	$4,096,241
Intergovernmental receivable - Successor Agency	1,125,465	--	--	--	--	1,125,465
Prepaid items	23,015	--	--	--	--	23,015
Total nonspendable	5,244,721	--	--	--	--	5,244,721
Restricted:						
Ballpark projects	61,821		--	--	--	61,821
Public safety – fire equipment	--	--	--	--	50,000	50,000
Public safety – police	--	--	--	--	119,222	119,222
Public safety station	--	4,238,723	--	--	--	4,238,723
Literacy center development	--	100,000	--	--	--	100,000
Community development	--	--	745,650	--	--	745,650
Public works projects	--	--	--	1,332,735	8,652,695	9,985,430
Building construction	--	--	--	--	692,451	692,451
Debt service	--	--	--	--	1,814,270	1,814,270
Landscape maintenance districts	--	--	--	--	639,763	639,763
Total restricted	61,821	4,338,723	745,650	1,332,735	11,968,401	18,447,330
Committed:						
Animal shelter construction	625,690	--	--	--	--	625,690
Porterville hotel project	209,086	--	--	--	--	209,086
Budget stabilization	3,459,711	--	--	--	--	3,459,711
Catastrophic/emergency reserve	500,000	--	--	--	--	500,000
Council special purposes	100,000	--	--	--	--	100,000
Total committed	4,894,487	--	--	--	--	4,894,487
Assigned:						
Equipment replacement	6,573,514	--	--	--	--	6,573,514
Total assigned	6,573,514	--	--	--	--	6,573,514
Unassigned	1,538,931	--	--	--	--	1,538,931
Total fund balances	$18,313,474	4,338,723	745,650	1,332,735	11,968,401	$36,698,983

NOTE 5 - Other information

A. Joint venture

The City is a member of the Central San Joaquin Valley Risk Management Authority (the Authority). The Authority is comprised of 54 Central California member cities and is organized under the provisions of Sections 6500 - 6515 of the California Government Code. It was established for the purpose of operating and maintaining a cooperative program of self-insurance and risk management which benefits its member agencies through cost reductions, insurance coverage stability and loss control techniques. Each member city has a representative on the Board of Directors. The Board members elect officers of the Authority. The Authority establishes claim liabilities based on actuarial estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred, but not reported.

The following is the condensed audited statement of net position and the changes in net position of the Authority for the year ended June 30, 2014.

	Workers' Compensation Programs	Liability Programs
Net Position		
Assets	$ 58,079,746	$ 16,698,356
Liabilities to member cities	(50,477,856)	(13,250,144)
Net position, reserved for insurance claims and losses	$ 7,601,890	$ 3,448,212
Changes in Net Position		
Operating revenues	$ 17,246,750	$ 8,891,406
Operating expenses	(18,057,772)	(9,803,751)
Operating income (loss)	(811,022)	(912,345)
Non-operating revenues	674,879	382,059
Change in net position	(136,143)	(530,286)
Net position, July 1	7,738,033	3,978,498
Net position, June 30	$ 7,601,890	$ 3,448,212

This information is not included in the accompanying financial statements. Separate financial statements of the Authority may be obtained at Bickmore Risk Services, 1020 19th Street, Suite 200, Sacramento, CA 95814.

B. Risk management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective January 1979, the City Council approved a program of self-insurance for workers' compensation, medical and dental, unemployment and, effective July 1985, general liability. The self-insurance program was established as an Internal Service Fund and is supported by charges to various City departments that are reported as interfund services provided and used. There have neither been significant reductions in insurance coverage from the prior year nor any settlements exceeding insurance coverage for each of the past three years.

The City's coverage for workers' compensation and general liability is as follows:

Workers Compensation

Limits of Coverage
National Union Fire Insurance Company (AIG) $50M to Statutory Limits
Renaissance Reinsurance Company / Montpelier Reinsurance / Axis Reinsurance $5M to $50M
Local Agency Workers Compensation Excess Joint Powers Authority (LAWCX) Pooled Layer $500,000 to $5M
City's Retained Limit $500,000

Liability

Limits of Coverage
Colony Natl Insurance Company Group Purchased through CARMA $14M to $29M
AmTrust Reinsurance Group Purchased through CARMA $4M to $14M
CARMA Pooled Layer $1M to $4M
CSJVRMA Mid-Layer Pool $500,000 to $1M
CSJVRMA Primary Pool $100,000 to $500,000
City's Retained Limit $100,000

The City contracts with a third-party administrator to administer all claims under the medical and dental program. Charges per employee are based on total outstanding claims and past history. The City will pay all medical claims up to $110,000 per claim. The City then purchases stop loss coverage that covers claim costs above $110,000 up to $2,000,000. The maximum payment for dental claims is $2,000 per employee per year.

The unemployment liability program is administered through the State of California wherein the City is charged for the actual cost of claims paid by the State.

At June 30, 2014, $1,174,482 has been accrued for claims representing estimates of amounts to be paid for actual claims and incurred but not reported claims based on past actuarial experience. Non-incremental claims adjustment expenses have been included as part of the liability for claims and judgments.

Changes in the balances of claims liabilities during the past two years are as follows:

	Fiscal year ended	
	June 30, 2014	June 30, 2013
Unpaid claims, beginning of year	$ 1,124,065	$ 1,976,521
Incurred claims	4,206,331	2,694,959
Claim payments	(4,155,914)	(3,547,415)
Unpaid claims, end of year	$ 1,174,482	$ 1,124,065

C. Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Various other claims and suits have been filed against the City in the normal course of business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance and other insurance coverage.

D. Deferred compensation plans

The City offers several deferred compensation plans created in accordance with Internal Revenue Service Code Section 457 and 401(a). The original 457 plan has two provisions to accommodate regular and part-time, temporary and seasonal employees (PTS). For regular employees, the plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. For PTS employees, participation is not optional. In lieu of participation in PERS, PTS employees must contribute 7.5 percent of their gross earnings in accordance with IRS regulations. In regards to both classifications of employees, the deferred compensation is not available until termination, retirement, death or unforeseeable emergency.

Effective on July 1, 2012, the City implemented a two-tiered retirement benefit program. Concurrently, a supplemental deferred compensation (457) plan with a City-match component was implemented for all new employees hired on or after July 1, 2012. With the supplemental 457 plan, the City shall match, from the first dollar contributed by an employee, all employee contributions to said supplemental 457 plan, provided that the City's contribution on behalf of the employee to CalPERS plus the City's contribution to the supplemental 457 plan shall not exceed twenty five percent of the employee's gross salary.

The City Council has adopted amendments to the 457 plan to accommodate certain tax law changes established by the Internal Revenue Service. In addition to the ICMA Retirement Corporation, the City contracted with Strategic Retirement Advisors to administer the plans and offer several investment options. The choice of the investment option(s) is available only to regular employees and is made solely by the participants. The City has no liability for investment losses under the plan and in accordance with GASB 32, the assets of each of the aforementioned plans have been excluded from the financial statements.

E. Defined benefit pension plan

Plan Description

The City has two defined benefit pension plans, a Miscellaneous Plan and a Safety Plan, each providing retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Both plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions, as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. The new Public Employees Pension Reform Act (PEPRA) implemented new benefit formulas and final compensation, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member as per PEPRA.

Beginning on January 1, 2013, the City's pension plans include the following benefit formulas:

	Miscellaneous	Safety
Tier 1 – Hire date before 7/1/12	2.7 % at Age 55	3.0% at Age 55
Tier 2 – Hire date between 7/1/12 and 12/31/12	2.0% at Age 55	2.0% at Age 55
Tier 3 – Hire date on or after 1/1/13	2.0% at Age 62	2.7% at Age 57

CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

Funding Policy

The City as well as the active plan members are required to contribute a percentage of the annual covered salary to the Plan. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employer contribution rate is established and may be amended by CalPERS and the contribution requirements of the active plan members are established by State statute. For the period July 1, 2013 to June 30, 2014, the required employer and employee contribution rates are as follows:

	Employer Rate	Employee Rate*
Miscellaneous – Tier 1	22.995%	8.00%
Miscellaneous – Tier 2	22.995%	7.00%
Miscellaneous – Tier 2	22.995%	6.75%
Safety – Tier 1	31.234%**	9.00%
Safety – Tier 2	20.742%	7.00%
Safety – Tier 3	11.500%	11.50%

*For the fiscal year 2013-2014, several of the employee bargaining units signed their Memorandum of Understanding with the City, agreeing to pay a portion of the employer's required contribution rate.

**In November 2013, the City issued taxable pension obligation bonds to prepay the City's safety side fund obligation to CalPERS, which reduced the Safety - Tier 1 employer rate to 21.669 %.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost equal to the annual required contribution plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. For the fiscal year 2013-2014, the City's annual pension cost of $3,238,877 for all plans was equal to the City's required and actual contributions.

Miscellaneous Plan

The annual required contribution (ARC) for the period July 1, 2013 to June 30, 2014 for the Miscellaneous Plan has been determined by an actuarial valuation of the plan as of June 30, 2011 using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions and methods used to determine ARC includes:

Amortization method	level percent of payroll
Average remaining period	25 years as of the valuation date
Asset valuation method	15 year smoothed market
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry to CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-year trend information for the City's annual pension cost for the Miscellaneous Plan follows:

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	$	2,099,697	100%	--
06/30/13	$	1,774,926	100%	--
06/30/14	$	1,825,014	100%	--

The funded status of the plan as of June 30, 2013, the plan's most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	$	74,049,847
Market value of plan assets		47,351,065
Unfunded actuarial accrued liability (UAAL)	$	26,698,782
Funded ratio (market value of plan assets/AAL)		63.9%
Covered payroll	$	9,203,279
UAAL as a percentage of covered payroll		290.1%

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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, included in the required supplementary information following the notes to the 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 liabilities for benefits.

Safety Plan

The Safety Plan is part of the Safety 3.0% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit plan. The contractually required contribution for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2011 using the entry age normal cost method. The actuarial assumptions and methods used to determine the contractually required contributions for the cost-sharing multiple-employer defined benefit plan includes:

Amortization method	level percent of payroll
Average remaining period	20 years as of the valuation date
Asset valuation method	15 year smoothed market
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

The City's annual pension cost and prepaid pension asset, computed in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, for the year ended June 30, 2014, were as follows:

Annual required contribution	$	1,413,863
Annual pension cost		1,413,863
Contributions made		(5,178,863)
Amortization of pension asset		313,750
Increase (decrease) in pension asset		(3,451,250)
Net pension asset, beginning of year		--
Net pension asset, end of year	$	(3,451,250)

The following table shows the City's annual pension cost for the Safety Plan and the percentage contributed for the fiscal year 2013-2014 and each of the two preceding fiscal years:

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Asset
06/30/12	$	1,803,336	100.00%	$	--
06/30/13	$	1,635,608	100.00%		--
06/30/14	$	1,413,863	244.10%		3,451,250

F. Other postemployment benefits

Plan Description

In addition to the pension benefits described above in Note 5F, the City provides other postemployment benefits (OPEB) for its employees, a single-employer retiree health program. Retired employees are eligible to purchase the City's Medical, Dental, and/or Vision Plan benefits for themselves and their spouse, provided the spouse was covered under each of the Benefit Plans proposed to be purchased for not less than 30 days immediately prior to the employee's retirement date. Employees who retire on or after January 1, 2005 will pay 70 percent of the nominal monthly contribution rate established for medical coverage for themselves and for their eligible spouse; and the City will contribute 30 percent of said costs, for so long as timely and continuous monthly premium payments are made by or on behalf of the eligible retiree and/or by their eligible spouse. Medical plan benefit coverage for retirees and eligible spouses will be effective until they reach the age of 65.

Funding Policy and Actuarial Methods and Assumptions

At this time, the City manages its own other postemployment benefit plan. The City's funding policy is to finance benefit payments as they come due, on a pay-as-you-go basis.

The calculation method used to determine the annual accrual amount was the entry age normal actuarial cost method. The allocation of OPEB cost was based on years of service and the level percentage of payroll method was used to allocate OPEB cost over years of service. The amortization method used to allocate amortization cost by year is the level percentage of payroll method. The amortization period used is an open 30 year amortization period for the initial unfunded actuarial accrued liability (UAAL) as well as for any residual UAAL. Projections of benefits are based on the substantive plan, the formulation of which was based on a review of written plan documents as well as historical information regarding practices with respect to employer and employee contributions and other relevant factors. Economic assumptions included (a) 3 percent per year inflation rate, (b) an investment return/discount rate of 5 percent per year based on assumed long-term return on employer assets, (c) a long-term trend assumption of 4 percent per year, and (d) a payroll increase of 3 percent per year.

Annual OPEB Cost and Net OPEB Obligation

As required by GASB 45, an actuary will determine the City's annual required contribution (ARC) at least once every two years. The ARC is calculated in accordance with certain parameters, and includes the normal cost for one year and a component of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years. This is the basis of the annual OPEB cost and the net OPEB obligation. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan, and the City's net OPEB obligation at June 30, 2014:

Annual required contribution	$	898,319
Interest on net OPEB obligation / (asset)		103,928
Adjustment to annual required contribution		(71,030)
Annual OPEB cost (expense)		931,217
Contributions made		(713,995)
Increase in net OPEB obligation / (asset)		217,222
Net OPEB obligation / (asset) – beginning of year		2,078,558
Net OPEB obligation / (asset) – end of year	$	2,295,780

The City's annual OPEB Cost, the percentage of annual OPEB Cost contributed to the plan, and the net OPEB obligation for the current year and the two preceding years, are as follows:

Fiscal Year Ended		Annual OPEB Cost		Contributions	Percentage Contribution		Net OPEB Obligation
06/30/12	$	701,991	$	275,785	39.3%	$	1,587,786
06/30/13	$	906,678		415,906	45.9%		2,078,558
06/30/14	$	931,217	$	713,995	76.7%	$	2,295,780

The funded status of the plan as of March 1, 2013, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$	7,014,995
Actuarial value of plan assets		--
Unfunded actuarial accrued liability (UAAL)	$	7,014,995
Funded ratio (actuarial value of plan assets/AAL)		0.0%
Covered payroll		12,341,952
UAAL as a percentage of covered payroll		56.9%

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

The schedule of funding progress, included in the required supplementary information following the notes to the 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 liabilities for benefits.

NOTE 6 – Prior year's debt defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in this trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2014, the amount of the defeased debt outstanding amounted to $17,440,000.

NOTE 7 – Prior period adjustments

Pursuant to GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", the City no longer amortizes the cost of debt issuance. These amounts should be expensed in the year they are incurred. The City made adjustments for these items as a cumulative effect of change in accounting principle in the current fiscal year. These adjustments resulted in the decrease of $568,286 in the net position for governmental activities and $551,149 in the net position for business-type activities, particularly in the sewer operations fund. An adjustment was also made for the Successor Agency which reduced its net position by $305,143.

In September of 2013, the California State Controller's Office (SCO) performed a review of all asset transfers made by the Porterville Redevelopment Agency (RDA) to the City of Porterville or any other public agency after January 1, 2011. The SCO asset transfer review report concluded that the asset transfers made by the RDA on February 1, 2012 to the Porterville Housing Authority (Authority), which was formed and designated as the Housing Successor Agency, were unallowable pursuant to Health and Safety Code section 34167.5, and ordered the Authority to reverse the transfers and turn over the assets to the Porterville Successor Agency. This resulted in a prior period adjustment that reduced the net position for governmental activities and fund balances of governmental funds by $18,551. For the Successor Agency, the adjustment increased net position by $18,551.

NOTE 8 – Successor Agency trust for assets of former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Porterville that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On September 20, 2011, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution No. 59-2011.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfer of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in conjunction with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Capital assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 615,669	$ --	$ --	$ 615,669
Construction in progress	--	19,449	--	19,449
Improvements other than buildings	814,652	--	--	814,652
Accumulated depreciation - improvements	(132,739)	(16,293)	--	(149,032)
Capital assets, net	$ 1,297,582	$ 3,156	$ --	$ 1,300,738

Note receivable

On April 7, 2009, the Porterville Redevelopment Agency entered into an Affordable Housing Agreement with Porterville Housing Partners, L.P. (PHP), to carry out and implement the Redevelopment Plan. Pursuant to the agreement, the Agency conveyed 2.7 acres of real property to PHP on February 3, 2010 for a purchase price of $930,000 which constitutes a loan to be repaid from the residual receipts of ownership and operating of residential buildings to be constructed on the property. The term of the loan is 55 years after the date of the City's issuance of a certificate of occupancy with interest at the rate of 3 percent per annum, compounded annually, commencing on the date of the promissory note dated February 1, 2010. With the dissolution of the redevelopment agencies, this note was effectively transferred to the Porterville Successor Agency on February 1, 2012.

Long-term debt

On February 1, 2012, the following long-term obligations of the former redevelopment agency were assumed by the Successor Agency private-purpose trust fund:

$8,000,000 of the 2008 Tax Allocation Refunding Bonds outstanding at January 31, 2012 was transferred to the Successor Agency. The bonds were issued in September 2008 and comprised of $5,725,000 of non-taxable bonds with interest rates ranging from 2.6 percent to 5.7 percent, and $2,750,000 of taxable bonds with interest rates ranging from 6.4 percent to 8.5 percent. The issue was undertaken to finance redevelopment activities and low and moderate housing activities within or of benefit to the Redevelopment Project Area, refund $4,905,000 of the 2002 Revenue Bonds, fund a portion of the reserve account for the bonds, and provide for the costs of issuing the bonds. $5,093,350 of the proceeds was deposited into an escrow account for all future debt service payments with respect to the 2002 Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $728,052. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Revenue bonds outstanding at June 30, 2014 amount to $7,645,000.

At January 31, 2012, the outstanding balance of $128,519 on a promissory note held by the former redevelopment agency was assumed by the Successor Agency. The promissory note was issued to the California Department of Commerce, Rural Economic Development Infrastructure Loan Program in the amount of $300,000 in April 1991 to partially finance street and storm drainage system infrastructure improvements. The term of the loan is 25 years with an interest rate of 3.0 percent. Interest payments were deferred for the first five years, interest-only payments for the next five years, and principal and interest payments for the remaining 15 years. As of June 30, 2014, $66,650 is owed in principal and deferred interest.

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Promissory Note Principal	Promissory Note Interest
2015	$ 130,000	$ 496,253	$ 26,066	$ 1,805
2016	135,000	489,579	26,854	1,018
2017	145,000	482,585	13,730	206
2018	155,000	474,800	--	--
2019	160,000	466,372	--	--
2020 – 2024	945,000	2,179,445	--	--
2025 – 2029	1,265,000	1,847,475	--	--
2030 – 2034	1,735,000	1,376,780	--	--
2035 – 2039	2,400,000	710,608	--	--
2040	575,000	39,467	--	--
Total	$ 7,645,000	$ 8,563,364	$ 66,650	$ 3,029

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 7,770,000	$ --	$ (125,000)	$ 7,645,000	$ 135,000
Less deferred amounts:					
For issuance discounts	(111,716)	--	4,256	(107,460)	--
On refunding	(481,034)	--	52,004	(429,030)	--
Total bonds payable	7,177,250	--	(68,740)	7,108,510	125,000
Notes payable	91,952	--	(25,302)	66,650	26,066
Total long-term liabilities	$ 7,269,202	$ --	$ (94,042)	$ 7,175,160	$ 151,066

Intergovernmental payable

Advances in the amount of $1,714,374 made by the City of Porterville to the former redevelopment agency for various redevelopment purposes, before its dissolution, were transferred to the Successor Agency private-purpose trust fund as intergovernmental payable. In November 19, 2013, the Successor Agency entered into a loan agreement with the City of Porterville for the reimbursement of costs resulting from a deficit of Redevelopment Property Tax Trust Funds (RPTTF) available to pay for enforceable obligations including administrative expenses. On February 7, 2014, the Oversight Board to the Successor Agency adopted Resolution Number 2014-01 approving the loan in the amount of $93,791.

The composition of intergovernmental payable as of June 30, 2014 is as follows:

Purpose		Amount
Start-up costs	$	752,167
Storm drain repairs		168,595
Payoff note payable to County		79,507
Construction of parking lot		514,105
Payoff note payable to Porterville Civic Development Foundation		200,000
Reimbursement of RPTTF deficit		93,791
Total intergovernmental payable	$	1,808,165

Contingencies

Under AB 1X 26, the repayment of loans made in good faith by the City of Porterville to the former redevelopment agency became unenforceable as of February 1, 2012 and not subject to repayment by the Successor Agency. Under AB1484, the City may be eligible to receive repayment of sums loaned to the redevelopment agency more than two years after the redevelopment agency was created. However, AB 1484 places several conditions on the repayment of the loans by the Successor Agency to the City which could significantly reduce the repayment amount. It is also possible that the State of California Department of Finance (DOF) could invalidate any of the loans made by the City to the redevelopment agency. On August 17, 2013, DOF approved the Finding of Completion for the City of Porterville Successor Agency which allows loan agreements between the former redevelopment agency and the City of Porterville to be placed on the Recognized Obligation Payment Schedule, as an enforceable obligation. Loan repayments will be governed by criteria pursuant to Health and Safety Code section 34191.4 (a)(2).

NOTE 9 – New Pronouncements

The following GASB Statements will be implemented in future financial statements:

Statement No. 68	Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27	The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.
Statement No. 69	Government Combinations and Disposals of Government Operations	The requirement of this Statement are effective for financial statements for fiscal years beginning after December 15, 2013.
Statement No. 71	Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68	The requirements of this statement should be applied simultaneously with the requirements of Statement No. 68.

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Required Supplementary Information

City of Porterville
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final		
REVENUES				
Property taxes	$ 7,058,762	$ 7,058,762	$ 7,406,413	$ 347,651
Sales taxes	4,182,651	4,182,651	4,218,380	35,729
Utility users tax	4,000,000	4,000,000	3,955,357	(44,643)
Franchise tax	1,471,134	1,471,134	1,551,762	80,628
Transient occupancy tax	315,000	315,000	370,999	55,999
Business licenses	395,000	395,000	417,856	22,856
Building permits	160,000	160,000	206,815	46,815
Plumbing permits	100,000	100,000	175,405	75,405
Electrical permits	50,000	50,000	62,942	12,942
Other licenses and permits	17,000	17,000	18,514	1,514
Vehicle license fees	29,379	29,379	23,542	(5,837)
Federal grants	391,823	391,823	208,850	(182,973)
State grants/reimbursements	1,674,522	1,743,005	1,299,803	(443,202)
Planning and zoning	35,000	35,000	22,085	(12,915)
Engineering and inspection	61,100	61,100	73,738	12,638
Police services	374,000	374,000	407,366	33,366
Fire services	28,000	28,000	60,172	32,172
Library services	40,000	40,000	42,251	2,251
Recreational activities	1,751,922	1,751,922	1,600,988	(150,934)
Other service charges	2,900	2,900	6,240	3,340
Interdepartmental service charge	1,600,000	1,600,000	1,748,299	148,299
Special assessments and fees	5,848	5,848	5,833	(15)
Parking fines	12,000	12,000	13,579	1,579
Vehicle code fines	3,000	3,000	3,688	688
Other fines	50,000	50,000	56,884	6,884
Interest	183,000	183,000	291,275	108,275
Rent	102,277	102,277	107,980	5,703
Contributions	4,000	4,150	4,570	420
Other revenues	63,000	63,000	80,810	17,810
Total revenues	24,161,318	24,229,951	24,442,396	212,445
EXPENDITURES				
Current:				
Community Development	806,231	806,231	725,461	80,770
General government	2,700,795	2,719,595	2,538,855	180,740
Parks and recreation	4,596,240	4,640,293	4,225,116	415,177
Public safety - fire	3,468,299	3,492,822	3,120,349	372,473
Public safety - police	8,387,421	8,387,421	7,970,708	416,713
Public works	2,265,810	2,265,810	2,048,747	217,063
Debt service:				
Interest and administrative charges	-	-	234	(234)
Capital outlay	789,823	870,482	909,946	(39,464)
Total expenditures	23,014,619	23,182,654	21,539,416	1,643,238
Excess (deficiency) of revenues over (under) expenditures	1,146,699	1,047,297	2,902,980	1,855,683
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	-	7,957	7,957
Transfers in	1,309,199	1,309,199	5,894,668	4,585,469
Transfers out	(79,000)	(79,000)	(7,927,063)	(7,848,063)
Total other financing sources (uses)	1,230,199	1,230,199	(2,024,438)	(3,254,637)
Net change in fund balances	2,376,898	2,277,496	878,542	(1,398,954)
Fund balance - beginning	17,434,932	17,434,932	17,434,932	-
Fund balance - ending	$ 19,811,830	$ 19,712,428	$ 18,313,474	$ (1,398,954)

City of Porterville

Public Safety Sales Tax Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive(Negative)
REVENUES				
Sales tax	$ 2,939,507	$ 2,939,507	$ 3,182,807	$ 243,300
Charges for services	-	-	427	427
Interest	35,000	35,000	65,323	30,323
Total revenues	2,974,507	2,974,507	3,248,557	274,050
EXPENDITURES				
Current:				
Parks and leisure services	440,000	440,000	405,976	34,024
Public safety - fire	976,906	981,998	903,736	78,262
Public safety - police	1,363,634	1,363,634	1,335,347	28,287
Total expenditures	2,780,540	2,785,632	2,645,059	140,573
Excess(deficiency) of revenues over(under) expenditures	193,967	188,875	603,498	414,623
OTHER FINANCING SOURCES (USES)				
Transfers out	(3,600,000)	(3,600,000)	(300,348)	3,299,652
Net change in fund balances	(3,406,033)	(3,411,125)	303,150	3,714,275
Fund balance - beginning	4,035,573	4,035,573	4,035,573	-
Fund balance - ending	$ 629,540	$ 624,448	$ 4,338,723	$ 3,714,275

City of Porterville

Community Development Block Grant

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with
			Actual	Final Budget
	Original	Final	Amounts	Positive(Negative)
REVENUES				
Federal grants	$ 620,694	$ 620,694	$ 703,301	$ 82,607
State grants/reimbursements	250,000	250,000	52,874	(197,126)
Other service charges	149,022	149,022	350,774	201,752
Interest	20,000	20,000	28,217	8,217
Total revenues	1,039,716	1,039,716	1,135,166	95,450
EXPENDITURES				
Current:				
Community Development	157,943	157,943	375,197	(217,254)
Debt Service:				
Principal	191,000	191,000	191,000	-
Interest and administrative charges	150,195	150,195	150,195	-
Total expenditures	499,138	499,138	716,392	(217,254)
Excess(deficiency) of revenues over(under) expenditures	540,578	540,578	418,774	(121,804)
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,352,477)	(1,352,477)	(146,902)	1,205,575
Net change in fund balances	(811,899)	(811,899)	271,872	1,083,771
Fund balance - beginning	473,778	473,778	473,778	-
Fund balance - ending	$ (338,121)	$ (338,121)	$ 745,650	$ 1,083,771

REQUIRED SUPPLEMENTARY INFORMATION

Public Employees Retirement System
Schedule of Funding Progress

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
06/30/11	$ 65,817,690	$ 46,529,355	$ 19,288,335	70.7%	$ 9,285,309	207.7%
06/30/12	69,702,439	49,788,994	19,913,445	71.4%	9,136,886	217.9%
06/30/13	74,049,847	47,351,065	26,698,782	63.9%	9,203,279	290.1%

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan
Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
03/01/09	$ --	$ 9,983,546	$ 9,983,546	0.0%	$ 12,184,836	70.2%
03/01/11	--	5,348,777	5,348,777	0.0%	12,489,805	36.1%
03/01/13	--	7,014,995	7,014,995	0.0%	12,341,952	47.8%

An actuarial study of the City of Porterville's retiree health liabilities is conducted every two years as required by GASB 43 and 45. The next study will be prepared for the fiscal year 2014-2015.

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Supplemental Statements

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. These funds are required by statute, charter provisions, or local ordinance to finance particular activities of the City of Porterville.

Porterville Housing Authority Fund – This fund was established on January 31, 2012 upon the formation of the Porterville Housing Authority and its designation to be the Housing Successor Agency for the former Redevelopment Agency Low and Moderate Income Housing Fund. On February 1, 2012, the fund received all the assets and liabilities of the former redevelopment agency housing fund and assumed all the housing functions previously performed by the redevelopment agency. In November of 2014, the California State Controller's Office issued an order to reverse the transfers and turn over the assets to the Successor Agency. As of June 30, 2014, all housing assets and transactions are reported under the Successor Agency.

Special Gas Tax Fund - This fund was established by Resolution No. 229 in 1935, as required by the State, to account for monies received from gasoline taxes that must be expended mainly for constructing or improving major city streets.

Local Transportation Funds Fund - This fund is used to account for monies received from the County of Tulare for public transportation purposes. Revenues to each county's local transportation fund are derived from one-quarter cent of the sales tax collected in that county. Beginning with fiscal year 2007-2008, this fund is also used to account for the one-half cent sales tax measure (Measure R), which the voters of Tulare County approved in the November 2006 election. These funds are to be used for road and transportation improvements.

Traffic Safety Fund - This fund was established based on Section 1463 of the Penal Code. All fines and forfeitures collected from any person charged with a misdemeanor under this code must be deposited into a special fund known as the "Traffic Safety Fund." These funds are to be used exclusively for official traffic control devices and the maintenance thereof, equipment and supplies for traffic law enforcement and traffic accident prevention, and for the maintenance, improvement, or construction of public streets, bridges, and culverts within the city, but not for the compensation of traffic or other police officers.

Public Safety Grant Fund - This fund was established as a result of Assembly Bill 3229, Chapter 134, Statutes of 1996, which formulated the Citizen's Option for Public Safety Program. The plan allows proportionate shares of the State's appropriated funds to be allocated to qualifying local agencies for the purpose of financing front-line police services. This fund is also used to account for other public safety activities that have restricted funding requirements.

Landscape Maintenance District Fund - This fund is used to account for activities related to the landscape maintenance districts. The City maintains certain landscaping and is reimbursed by way of special assessments levied against the property owners within each district.

Transportation Development Fund - This fund was established by Council action on May 5, 1998 to account for the collection and distribution of the newly-adopted Traffic Impact Fee assessed on new developments. These funds are to be used for the implementation of the Circulation Element.

Park Development Fund - This fund was established to account for receipts of federal and state grants for the improvement, maintenance, and acquisition of parks within the City. The current revenue stream consists of developer impact fees and interest income. These funds help pay for debt service on the Infrastructure Refinancing Bonds for that portion spent on the construction of the sports complex.

Storm Drain Development Fund - This fund was established to account for storm drain acreage fees from subdivisions and developers. The funds will be used to finance storm drainage facilities.

Building Construction Fund - This fund was created to accumulate and account for monies for building new facilities. The amounts in this fund are derived from an accumulation of general reserves, sale of surplus real property and interest earnings. Interest income from this fund is used for debt service of the Public Buildings Refunding Project Certificates of Participation.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources and the payments of general long-term debt principal and interest of the General Government. These funds do not include debt being financed by proprietary funds.

General Government Fund - This fund is used to account for the payment of principal and interest on the 2002 Public Buildings Refunding Project Certificates of Participation obligation and the 2013 Infrastructure Refunding Lease Agreement.

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CITY OF PORTERVILLE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue					
	Porterville Housing Authority	Special Gas Tax	Local Transportation Funds (LTF)	Traffic Safety	Public Safety Grant	Landscape Maintenance District
ASSETS						
Investments	$ -	$ 1,992,077	$ 1,563,827	$ -	$ 160,982	$ 645,516
Receivables - misc (net):						
Interest	-	-	-	-	-	-
Taxes	-	164,339	167,740	-	-	7,370
Other	-	-	-	-	-	-
Intergovernmental receivables	-	21,723	2,403,807	54,053	17,660	-
Interfund receivables	-	-	-	-	-	-
Restricted - cash with fiscal agent	-	-	-	-	-	-
Total assets	$ -	$ 2,178,139	$ 4,135,374	$ 54,053	$ 178,642	$ 652,886
LIABILITIES						
Accounts and other payables	$ -	$ -	$ -	$ -	$ 182	$ 12,044
Payroll payable	-	-	-	-	9,238	1,079
Total liabilities	-	-	-	-	9,420	13,123
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-intergovernmental	-	-	971,909	-	-	-
Total deferred inflows of resources	-	-	971,909	-	-	-
FUND BALANCES						
Restricted						
Building construction	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Landscape maintenance districts	-	-	-	-	-	639,763
Public safety	-	-	-	-	169,222	-
Public works	-	2,178,139	3,163,465	54,053	-	-
Total fund balances	-	2,178,139	3,163,465	54,053	169,222	639,763
Total liabilities, deferred inflows of resources and fund balances	$ -	$ 2,178,139	$ 4,135,374	$ 54,053	$ 178,642	$ 652,886

The notes to financial statements are an integral part of this statement.

Transportation Development (Special Revenue)	Park Development (Special Revenue)	Storm Drain Development (Special Revenue)	Building Construction (Special Revenue)	General Government (Debt Service)	Total Nonmajor Governmental Funds
$ 1,011,566	$ -	$ 2,296,074	$ 62,602	$ 248,614	$ 7,981,258
-	-	-	-	2,273	2,273
-	-	-	-	-	339,449
-	-	85,047	-	-	85,047
-	-	-	-	-	2,497,243
-	-	-	629,849	-	629,849
-	-	-	-	1,563,383	1,563,383
$ 1,011,566	$ -	$ 2,381,121	$ 692,451	$ 1,814,270	$ 13,098,502
$ -	$ -	$ 135,649	$ -	$ -	$ 147,875
-	-	-	-	-	10,317
-	-	135,649	-	-	158,192
-	-	-	-	-	971,909
-	-	-	-	-	971,909
-	-	-	692,451	-	692,451
-	-	-	-	1,814,270	1,814,270
-	-	-	-	-	639,763
-	-	-	-	-	169,222
1,011,566	-	2,245,472	-	-	8,652,695
1,011,566	-	2,245,472	692,451	1,814,270	11,968,401
$ 1,011,566	$ -	$ 2,381,121	$ 692,451	$ 1,814,270	$ 13,098,502

CITY OF PORTERVILLE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Special Revenue					
	Porterville Housing Authority	Special Gas Tax	Local Transportation Funds (LTF)	Traffic Safety	Public Safety Grant	Landscape Maintenance District
Revenues:						
Intergovernmental	$ -	$ 2,270,795	$ 2,996,147	$ -	$ 307,493	$ -
Special assessments and fees	-	-	-	-	-	49,924
Fines and forfeitures	-	-	-	205,800	-	-
Investment earnings	-	34,876	41,742	370	2,407	-
Miscellaneous	-	-	-	-	505	-
Total revenues	-	2,305,671	3,037,889	206,170	310,405	49,924
Expenditures:						
Parks and leisure services	-	-	-	-	-	171,792
Public safety - fire	-	-	-	-	32,971	-
Public safety - police	-	-	-	-	209,123	-
Debt redemption, principal	-	-	-	-	-	-
Debt redemption, interest & charges	-	-	-	-	-	-
Pension obligation bond issuance costs	-	-	-	-	-	-
Capital outlay	-	-	-	-	18,066	-
Total expenditures	-	-	-	-	260,160	171,792
Excess (deficiency) of revenues over (under) expenditures	-	2,305,671	3,037,889	206,170	50,245	(121,868)
Other financing sources (uses):						
Transfers in	-	4,474,497	-	-	-	-
Transfers out	-	(6,877,943)	(2,761,517)	(168,534)	(115,276)	-
Pension obligation bonds issued	-	-	-	-	-	-
Payment to CalPERS	-	-	-	-	-	-
Total other financing sources (uses)	-	(2,403,446)	(2,761,517)	(168,534)	(115,276)	-
Net change in fund balances	-	(97,775)	276,372	37,636	(65,031)	(121,868)
Fund balances - July 1	18,551	2,275,914	2,887,093	16,417	234,253	761,631
Prior period adjustment	(18,551)	-	-	-	-	-
Fund balances - June 30	$ -	$ 2,178,139	$ 3,163,465	$ 54,053	$ 169,222	$ 639,763

The notes to financial statements are an integral part of this statement.

Special Revenue				Debt Service	
Transportation Development	Park Development	Storm Drain Development	Building Construction	General Government	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 5,574,435
128,356	40,323	188,578	-	-	407,181
-	-	-	-	-	205,800
15,791	73	36,453	11,299	9,406	152,417
-	-	-	1,640	-	2,145
144,147	40,396	225,031	12,939	9,406	6,341,978
-	-	-	-	-	171,792
-	-	-	-	-	32,971
-	-	-	-	-	209,123
-	-	-	-	380,000	380,000
-	-	-	-	863,955	863,955
-	-	-	-	190,273	190,273
-	-	-	-	-	18,066
-	-	-	-	1,434,228	1,866,180
144,147	40,396	225,031	12,939	(1,424,822)	4,475,798
-	-	-	-	1,476,299	5,950,796
(150,000)	(40,396)	(177,493)	(56,241)	-	(10,347,400)
-	-	-	-	3,765,000	3,765,000
-	-	-	-	(3,559,662)	(3,559,662)
(150,000)	(40,396)	(177,493)	(56,241)	1,681,637	(4,191,266)
(5,853)	-	47,538	(43,302)	256,815	284,532
1,017,419	-	2,197,934	735,753	1,557,455	11,702,420
-	-	-	-	-	(18,551)
$ 1,011,566	$ -	$ 2,245,472	$ 692,451	$ 1,814,270	$ 11,968,401

CITY OF PORTERVILLE

PORTERVILLE HOUSING AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Interest	$ -	$ -	$ -
Other	-	-	-
Total revenues	-	-	-
Expenditures:			
Community development :			
Administration	-	-	-
Total expenditures	-	-	-
Net change in fund balance	$ -	-	$ -
Fund balance - July 1		18,551	
Prior period adjustment		(18,551)	
Fund balance - June 30		$ -	

CITY OF PORTERVILLE

GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes:			
State gasoline tax section 2103	$ 525,782	$ 766,362	$ 240,580
State gasoline tax section 2105	234,682	374,091	139,409
State gasoline tax section 2106	172,282	165,031	(7,251)
State gasoline tax section 2107	369,830	400,210	30,380
State gasoline tax section 2107.5	7,500	7,500	-
Total other taxes	1,310,076	1,713,194	403,118
Intergovernmental:			
State grants	450,000	535,568	85,568
Federal grants	303,500	22,033	(281,467)
Total intergovernmental	753,500	557,601	(195,899)
Interest	20,000	34,876	14,876
Total revenues	2,083,576	2,305,671	222,095
Other financing uses:			
Transfers in	-	4,474,497	4,474,497
Transfers out	(4,045,591)	(6,877,943)	(2,832,352)
Total other financing uses	(4,045,591)	(2,403,446)	1,642,145
Net change in fund balance	$ (1,962,015)	(97,775)	$ 1,864,240
Fund balance - July 1		2,275,914	
Fund balance - June 30		$ 2,178,139	

CITY OF PORTERVILLE

LOCAL TRANSPORTATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other taxes:			
State gasoline tax - LTF	$ 400,000	$ 1,015,758	$ 615,758
Sales tax - County Measure R	3,283,800	1,344,132	(1,939,668)
Total other taxes	3,683,800	2,359,890	(1,323,910)
Intergovernmental:			
Federal grants	2,559,100	636,257	(1,922,843)
Interest	8,000	41,742	33,742
Total revenues	6,250,900	3,037,889	(3,213,011)
Other financing uses:			
Transfers out	(5,775,396)	(2,761,517)	3,013,879
Total other financing uses	(5,775,396)	(2,761,517)	3,013,879
Net change in fund balance	$ 475,504	276,372	$ (199,132)
Fund balance - July 1		2,887,093	
Fund balance - June 30		$ 3,163,465	

CITY OF PORTERVILLE

TRAFFIC SAFETY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Fines and forfeitures:			
Penal code fines	$ 150,000	$ 205,800	$ 55,800
Interest	300	370	70
Total revenues	150,300	206,170	55,870
Other financing uses:			
Transfers out	(150,500)	(168,534)	(18,034)
Total other financing uses	(150,500)	(168,534)	(18,034)
Net change in fund balance	$ (200)	37,636	$ 37,836
Fund balance - July 1		16,417	
Fund balance - June 30		$ 54,053	

CITY OF PORTERVILLE

PUBLIC SAFETY GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental:			
State grants	$ 230,000	$ 270,231	$ 40,231
Federal grants	36,412	37,262	850
Total intergovernmental	266,412	307,493	41,081
Interest	1,000	2,407	1,407
Other	505	505	-
Total revenues	267,917	310,405	42,488
Expenditures:			
Public safety - fire	79,912	32,971	46,941
Public safety - police	345,360	209,123	136,237
Capital outlay	-	18,066	(18,066)
Total expenditures	425,272	260,160	165,112
Excess (deficiency) of revenues over (under) expenditures	(157,355)	50,245	207,600
Other financing uses:			
Transfers out	(112,981)	(115,276)	(2,295)
Total other financing uses	(112,981)	(115,276)	(2,295)
Net change in fund balance	$ (270,336)	(65,031)	$ 205,305
Fund balance - July 1		234,253	
Fund balance - June 30		$ 169,222	

CITY OF PORTERVILLE

LANDSCAPE MAINTENANCE DISTRICT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Special assessments	$ 44,362	$ 49,924	$ 5,562
Total revenues	44,362	49,924	5,562
Expenditures:			
Parks and leisure services:			
Cost of service	170,080	171,792	(1,712)
Total expenditures	170,080	171,792	(1,712)
Net change in fund balance	$ (125,718)	(121,868)	$ 7,274
Fund balance - July 1		761,631	
Fund balance - June 30		$ 639,763	

CITY OF PORTERVILLE

TRANSPORTATION DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Transportation impact fees	$ 200,000	$ 128,356	$ (71,644)
Interest	5,000	15,791	10,791
Total revenues	205,000	144,147	(60,853)
Other financing uses:			
Transfers out	(241,750)	(150,000)	91,750
Total financing uses	(241,750)	(150,000)	91,750
Net change in fund balance	$ (36,750)	(5,853)	$ 30,897
Fund balance - July 1		1,017,419	
Fund balance - June 30		$ 1,011,566	

CITY OF PORTERVILLE

PARK DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Park impact fees	$ 20,000	$ 40,323	$ 20,323
Interest	-	73	73
Total revenues	20,000	40,396	20,396
Other financing uses:			
Transfers out	(20,000)	(40,396)	(20,396)
Total other financing uses	(20,000)	(40,396)	(20,396)
Net change in fund balance	$ -	-	$ -
Fund balance - July 1		-	
Fund balance - June 30		$ -	

CITY OF PORTERVILLE

STORM DRAIN DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Storm drain fees	$ 100,000	$ 188,578	$ 88,578
Interest	15,000	36,453	21,453
Total revenues	115,000	225,031	110,031
Other financing uses:			
Transfers out	(2,022,765)	(177,493)	1,845,272
Total other financing uses	(2,022,765)	(177,493)	1,845,272
Net change in fund balance	$ (1,907,765)	47,538	$ 1,955,303
Fund balance - July 1		2,197,934	
Fund balance - June 30		$ 2,245,472	

CITY OF PORTERVILLE

BUILDING CONSTRUCTION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Interest	$ 6,000	$ 11,299	$ 5,299
Other	-	1,640	1,640
Total revenues	6,000	12,939	6,939
Other financing uses:			
Transfers out	(579,500)	(56,241)	523,259
Total other financing uses	(579,500)	(56,241)	523,259
Net change in fund balance	$ (573,500)	(43,302)	$ 530,198
Fund balance - July 1		735,753	
Fund balance - June 30		$ 692,451	

CITY OF PORTERVILLE

GENERAL GOVERNMENT DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Totals		
	Original and Final Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues:			
Interest	$ 5,000	$ 9,406	$ 4,406
Total revenues	5,000	9,406	4,406
Expenditures:			
General government:			
Administration	1,500	2,000	(500)
Debt redemption, principal	380,000	380,000	-
Debt redemption, interest & charges	822,422	861,955	(39,533)
Pension obligation bonds issuance costs	-	190,273	(190,273)
Total expenditures	1,203,922	1,434,228	(230,306)
Excess (deficiency) of revenues over (under) expenditures	(1,198,922)	(1,424,822)	(225,900)
Other financing sources (uses):			
Transfers in	1,205,942	1,476,299	270,357
Pension obligation bonds issued	-	3,765,000	3,765,000
Payment to CalPERS	-	(3,559,662)	(3,559,662)
Total other financing sources (uses)	1,205,942	1,681,637	475,695
Net change in fund balance	$ 7,020	256,815	$ 249,795
Fund balance - July 1		1,557,455	
Fund balance - June 30		$ 1,814,270	

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the general public on a continuing basis and are financed primarily through user charges.

Zalud House Fund

This fund was established to account for the original gift of money and assets from the Pearle Zalud Estate. It is now used to account for the operations of the Zalud House Museum.

Airport Fund

This fund was established to account for all revenues and expenses associated with the operation of the Porterville Municipal Airport. The principal sources of revenue for this fund are fuel sales, hangar rentals, land leases, and concession fees.

Golf Course Fund

This fund was established to account for all revenues and expenses incurred in the operation of the Porterville Municipal Golf Course. The principal source of revenue for this fund is green fees.

City of Porterville
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2014

	Zalud House	Airport Operations	Golf Course	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 10	$ 180	$ 500	$ 690
Investments	81,766	1,415,088	-	1,496,854
Accounts receivable, net of allowance for uncollectibles	-	61,267	3,339	64,606
Intergovernmental receivables	-	7	-	7
Inventories	-	190,440	-	190,440
Total current assets	81,776	1,666,982	3,839	1,752,597
Noncurrent assets:				
Capital assets:				
Land	23,240	1,000,125	102,048	1,125,413
Construction in progress	-	100,286	8,865	109,151
Buildings and equipment	138,867	1,136,311	340,709	1,615,887
Improvements other than buildings	3,547	8,863,991	385,917	9,253,455
Less accumulated depreciation	(107,639)	(4,412,846)	(498,034)	(5,018,519)
Total noncurrent assets	58,015	6,687,867	339,505	7,085,387
Total assets	139,791	8,354,849	343,344	8,837,984
LIABILITIES				
Current liabilities:				
Accounts and other payables	385	22,069	9,432	31,886
Payroll payable	504	8,160	5,081	13,745
Interfund payable	-	-	629,849	629,849
Compensated absences payable	-	4,981	1,191	6,172
Accrued interest payable	-	1,778	-	1,778
Loans payable - current	-	11,949	-	11,949
Total current liabilities	889	48,937	645,553	695,379
Noncurrent liabilities:				
Compensated absences payable	-	1,707	-	1,707
Loans payable	-	39,962	-	39,962
Total noncurrent liabilities	-	41,669	-	41,669
Total liabilities	889	90,606	645,553	737,048
NET POSITION				
Net investment in capital assets	58,015	6,635,956	339,505	7,033,476
Unrestricted	80,887	1,628,287	(641,714)	1,067,460
Total net position	$ 138,902	$ 8,264,243	$ (302,209)	$ 8,100,936

The notes to the financial statements are an integral part of this statement.

City of Porterville
Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2014

	Zalud House	Airport Operations	Golf Course	Total Nonmajor Enterprise Funds
Operating revenues:				
Charges for services	$ 3,090	$ 1,251,811	$ 213,482	$ 1,468,383
Other revenues	348	163,617	467	164,432
Total operating revenues	3,438	1,415,428	213,949	1,632,815
Operating expenses:				
Cost of sales and services	17,820	1,146,840	262,438	1,427,098
General and administrative	4,366	104,620	87,213	196,199
Depreciation/amortization	3,437	267,335	39,309	310,081
Total operating expenses	25,623	1,518,795	388,960	1,933,378
Operating income (loss)	(22,185)	(103,367)	(175,011)	(300,563)
Nonoperating revenues (expenses):				
Intergovernmental revenues	-	10,000	-	10,000
Investment earnings	1,274	20,658	2,472	24,404
Interest expense	-	(1,360)	-	(1,360)
Total nonoperating revenue (expenses)	1,274	29,298	2,472	33,044
Income before contributions and transfers	(20,911)	(74,069)	(172,539)	(267,519)
Capital contributions and transfers:				
Capital contributions - federal and state grants	-	34,957	-	34,957
Transfers in	10,000	5,192	69,000	84,192
Total contributions and transfers	10,000	40,149	69,000	119,149
Change in net position	(10,911)	(33,920)	(103,539)	(148,370)
Net position - beginning	149,813	8,298,163	(198,670)	8,249,306
Net position - ending	$ 138,902	$ 8,264,243	$ (302,209)	$ 8,100,936

The notes to the financial statements are an integral part of this statement.

City of Porterville
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2013

	Zalud House	Airport Operations	Golf Course	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 3,438	$ 1,459,997	$ 212,905	$ 1,676,340
Payments to employees	(14,999)	(137,002)	(142,633)	(294,634)
Payments to suppliers and others	(7,308)	(1,121,540)	(215,033)	(1,343,881)
Net cash provided by operating activities	(18,869)	201,455	(144,761)	37,825
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash from interfund	-	-	73,289	73,289
Intergovernmental - operating assistance	-	10,000	-	10,000
Transfers in from other funds	10,000	5,192	69,000	84,192
Net cash (used) by noncapital financing	10,000	15,192	142,289	167,481
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction and other capital projects	-	(38,914)	-	(38,914)
Interest paid on long-term debt and advances	-	(1,741)	-	(1,741)
Principal payments on long-term debt	-	(11,129)	-	(11,129)
Subsidy from federal and state grants	-	34,957	-	34,957
Net cash (used) by capital and related financing activities	-	(16,827)	-	(16,827)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1,275	20,658	2,472	24,405
Net cash provided by investing activities	1,275	20,658	2,472	24,405
Net Increase (decrease) in cash and cash equivalents	(7,594)	220,478	-	212,884
Balances - beginning of year	89,370	1,194,790	500	1,284,660
Balances - end of the year	$ 81,776	$ 1,415,268	$ 500	$ 1,497,544
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ (22,185)	$ (103,367)	$ (175,011)	$ (300,563)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	3,437	267,335	39,309	310,081
Changes in assets and liabilities:				
Accounts payable	124	5,648	(2,936)	2,836
Compensated absences	-	(1,661)	(5,166)	(6,827)
Customer receivables	-	44,569	(1,044)	43,525
Inventory	-	(14,820)	-	(14,820)
Salaries and benefits payable	(245)	3,751	87	3,593
Net cash provided by operating activities	$ (18,869)	$ 201,455	$ (144,761)	$ 37,825

The notes to the financial statements are an integral part of this statement.

INTERNAL SERVICE FUNDS

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

Risk Management Fund

This fund was created for the purpose of identifying, controlling, preventing, and transferring risk and to manage the City's insurance programs including liability, worker's compensation, unemployment, property, and employee health. The City is self-insured for liability claims below the amount covered by the City's insurance carriers. This fund accounts for these self-insured claims as well as the payments of the premiums for the excess liability insurance coverage. Revenues are derived from charges to departments and interest income.

Equipment Management Fund

This fund was established to account for the activities pertaining to the acquisition, maintenance, and repair of City vehicles and equipment. The cost of labor, replacement parts, and fuel are tabulated on a monthly basis and charged to the user departments. The funds derived from such charges are used to maintain operations of this fund.

City of Porterville
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	Risk Management	Equipment Management	Total Internal Service Funds
ASSETS			
Current assets:			
Investments	$ 1,138,644	$ 787,124	$ 1,925,768
Accounts receivable, net of allowance for uncollectibles	18,015	39,255	57,270
Intergovernmental receivable	682,700	468	683,168
Interfund receivable	15,779	-	15,779
Total current assets:	1,855,138	826,847	2,681,985
Noncurrent assets:			
Advances receivable	63,462	-	63,462
Capital assets:			
Buildings and equipment	-	726,874	726,874
Improvements other than buildings	-	6,639	6,639
Less accumulated depreciation	-	(506,233)	(506,233)
Total noncurrent assets:	63,462	227,280	290,742
Total assets	1,918,600	1,054,127	2,972,727
LIABILITIES			
Current liabilities:			
Accounts and other payables	165,038	168,151	333,189
Payroll payable	5,852	18,834	24,686
Accrued claims	764,877	-	764,877
Compensated absences payable	5,893	15,689	21,582
Total current liabilities	941,660	202,674	1,144,334
Noncurrent liabilities:			
Accrued claims	409,605	-	409,605
Compensated absences payable	2,167	7,909	10,076
Total noncurrent liabilities	411,772	7,909	419,681
Total liabilities	1,353,432	210,583	1,564,015
NET POSITION			
Net investment in capital assets	-	227,280	227,280
Restricted for self-insurance	565,168	-	565,168
Unrestricted	-	616,264	616,264
Total net position	$ 565,168	$ 843,544	$ 1,408,712

The notes to the financial statements are an integral part of this statement.

City of Porterville

Combining Statement of Revenues, Expenses, and Changes in Net Position

Internal Service Funds

For the Fiscal Year Ended June 30, 2014

	Risk Management	Equipment Management	Total Internal Service Funds
Operating revenues:			
Charges for services	$ 4,174,577	$ 3,108,777	$ 7,283,354
Other revenues	6,085	77,950	84,035
Total operating revenues	4,180,662	3,186,727	7,367,389
Operating expenses:			
Cost of sales and services	6,002,926	2,936,878	8,939,804
General and administrative	145,535	71,040	216,575
Depreciation/amortization	-	40,983	40,983
Total operating expenses	6,148,461	3,048,901	9,197,362
Operating income (loss)	(1,967,799)	137,826	(1,829,973)
Nonoperating revenues (expenses):			
Investment earnings	32,081	10,344	42,425
Sale of capital assets	-	521	521
Change in net position	(1,935,718)	148,691	(1,787,027)
Net position - beginning	2,500,886	694,853	3,195,739
Net position - ending	$ 565,168	$ 843,544	$ 1,408,712

The notes to the financial statements are an integral part of this statement.

City of Porterville
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

	Risk Management	Equipment Management	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customer	$ 4,178,520	$ 3,193,039	$ 7,371,559
Payments to employees	(141,290)	(549,925)	(691,215)
Payments to suppliers and others	(6,059,205)	(2,399,708)	(8,458,913)
Net cash provided by operating activities	(2,021,975)	243,406	(1,778,569)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances to other funds	26,375	-	26,375
Intergovernmental - operating assistance	-	25,277	25,277
Net cash (used) by noncapital financing	26,375	25,277	51,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	-	521	521
Purchase of capital assets	-	(37,661)	(37,661)
Net cash (used) by capital and related financing activities	-	(37,140)	(37,140)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	32,081	10,344	42,425
Net cash provided by investing activities	32,081	10,344	42,425
Net Increase (decrease) in cash and cash equivalents	(1,963,519)	241,887	(1,721,632)
Balances - beginning of year	3,102,163	545,237	3,647,400
Balances - end of the year	$ 1,138,644	$ 787,124	$ 1,925,768
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ (1,967,799)	$ 137,826	$ (1,829,973)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	40,983	40,983
Changes in assets and liabilities:			
Accounts payable	(160,313)	61,775	(98,538)
Accrued claims	50,417	-	50,417
Compensated absences	553	(1,021)	(468)
Customer receivables	(2,142)	6,312	4,170
Prepaid expenses	56,921	-	56,921
Salaries and benefits payable	388	(2,469)	(2,081)
Net cash provided by operating activities	$ (2,021,975)	$ 243,406	$ (1,778,569)

The notes to the financial statements are an integral part of this statement.

AGENCY FUNDS

Agency funds are purely custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governmental units and/or other funds.

Special Deposits Fund

This fund was established to account for monies received by the City acting as an agent. Examples of these transactions are construction bonds, utility service deposits and asset seizure funds.

City of Porterville
Schedule of Changes in Assets and Liabilities
Agency Fund
For the Fiscal Year Ended June 30, 2014

Special Deposits	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Assets				
Cash and investments	$ 1,605,152	$ 532,043	$ 702,879	$ 1,434,316
Accounts and other receivables	874	-	874	-
Total assets	$ 1,606,026	$ 532,043	$ 703,753	$ 1,434,316
Liabilities				
Accounts and other payables	$ 80,605	$ 529,360	$ 585,633	$ 24,332
Refundable deposits, utilities	341,635	109,860	96,642	354,853
Refundable deposits, miscellaneous	637,813	368,187	424,371	581,629
Other deposits, safety	545,973	57,165	129,636	473,502
Total liabilities	$ 1,606,026	$ 1,064,572	$ 1,236,282	$ 1,434,316

Statistical Section

STATISTICAL SECTION

This part of the City of Porterville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents **Page**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF PORTERVILLE
NET POSITION BY COMPONENT (in thousands)
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Governmental activities:										
Net investment in capital assets	$ 10,074	$ 17,122	$ 314,402	$ 337,298	$ 349,278	$ 351,422	$ 351,797	$ 352,352	$ 350,078	$ 362,675
Restricted	8,317	10,326	14,739	12,732	15,181	14,383	11,681	9,160	8,266	4,152
Unrestricted	1,314	(96)	21,232	26,116	16,992	15,908	17,321	23,043	28,545	32,343
Total governmental activities net position	$ 19,705	$ 27,352	$ 350,373	$ 376,146	$ 381,451	$ 381,713	$ 380,799	$ 384,555	$ 386,889	$ 399,170
Business-type activities:										
Net investment in capital assets	$ 26,133	$ 26,690	$ 32,940	$ 39,016	$ 41,328	$ 35,164	$ 46,006	$ 44,059	$ 44,211	$ 43,444
Restricted	4,114	4,061	3,960	2,494	1,453	1,450	3,251	3,271	3,239	3,272
Unrestricted	19,269	21,323	18,172	18,641	18,807	26,701	18,665	21,633	24,254	27,762
Total business-type activities net position	$ 49,516	$ 52,074	$ 55,072	$ 60,151	$ 61,588	$ 63,315	$ 67,922	$ 68,963	$ 71,704	$ 74,478
Primary government:										
Net investment in capital assets	$ 36,207	$ 43,812	$ 346,623	$ 376,314	$ 390,606	$ 386,586	$ 397,803	$ 396,411	$ 394,289	$ 406,119
Restricted	12,431	14,387	18,699	15,226	16,634	15,833	14,932	12,431	11,505	7,424
Unrestricted	20,583	21,227	40,123	44,757	35,799	42,609	35,986	44,676	52,799	60,105
Total primary government net position	$ 69,221	$ 79,426	$ 405,445	$ 436,297	$ 443,039	$ 445,028	$ 448,721	$ 453,518	$ 458,593	$ 473,648

CITY OF PORTERVILLE
CHANGES IN NET POSITION (in thousands)
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
EXPENSES										
Governmental activities:										
Community and economic development	$ 3,484	$ 2,355	$ 2,401	$ 3,595	$ 2,690	$ 3,284	$ 3,070	$ 1,975	$ 1,450	$ 1,350
General government	7,498	2,614	2,619	2,726	2,847	4,925	3,613	3,041	2,923	2,816
Parks and recreation	3,211	4,088	4,140	5,018	5,165	5,528	5,449	5,832	5,350	5,490
Public safety - fire	2,142	3,015	3,306	3,721	3,979	4,410	4,646	4,878	4,498	4,692
Public safety - police	4,973	6,632	7,285	8,335	9,023	9,746	9,725	10,368	9,788	10,863
Public works	1,209	2,461	3,776	4,106	4,654	5,448	6,392	7,135	6,694	5,258
Interest on long-term debt	2,478	2,587	1,796	1,746	1,909	1,942	1,934	1,524	1,080	1,205
Total governmental activities expenses	24,995	23,752	25,323	29,247	30,267	35,283	34,829	34,753	31,783	31,674
Business-type activities:										
Airport	764	972	1,290	1,562	1,656	974	1,287	1,563	1,335	1,534
Golf course	352	398	382	388	419	386	376	384	383	403
Sewer operating	5,778	5,888	6,464	6,378	6,501	6,032	6,170	6,697	6,235	6,500
Solid waste	4,121	5,087	4,857	5,159	5,181	5,310	5,358	5,338	5,233	5,450
Transit	1,845	1,939	1,843	2,056	2,037	2,017	2,151	2,210	2,303	3,084
Water operating	4,039	4,278	4,554	4,619	4,746	5,106	4,967	4,971	4,829	5,472
Zalud estate	31	27	29	29	31	24	29	28	27	26
Total business-type activities expenses	16,930	18,589	19,419	20,191	20,571	19,849	20,338	21,191	20,345	22,469
Total primary government expenses	$ 41,925	$ 42,341	$ 44,742	$ 49,438	$ 50,838	$ 55,132	$ 55,167	$ 55,944	$ 52,128	$ 54,143
PROGRAM REVENUES										
Governmental activities:										
Charges for services:										
Community and economic development	$ 231	$ 795	$ 783	$ 528	$ 236	$ 211	$ 263	$ 258	$ 352	$ 373
General government	3,771	1,864	1,658	1,786	1,494	1,585	1,613	1,622	1,656	1,746
Parks and recreation	949	1,014	1,324	1,307	1,603	1,731	1,891	1,931	1,942	1,695
Public safety - fire	13	27	30	22	36	45	23	80	70	86
Public safety - police	183	208	380	510	520	598	461	587	624	485
Public works	1,131	750	244	256	233	167	204	298	219	390
Operating grants and contributions:										
Community and economic development	--	--	1,019	2,626	1,600	1,388	1,576	1,489	854	796
General government	16	30	394	427	486	599	476	469	469	449
Parks and recreation	195	139	250	123	163	206	199	53	243	33
Public safety - fire	17	261	76	5	--	30	304	6	71	76
Public safety - police	367	350	638	185	263	334	308	400	255	247
Public works	2,253	1,718	2,865	1,611	1,348	1,275	1,699	1,850	1,241	1,306
Capital grants and contributions:										
Community and economic development	1,019	2,019	40	66	--	--	--	--	--	--
Parks and recreation	157	236	696	177	42	1,159	282	59	331	1,283
Public safety - fire	1	17	36	--	--	--	100	128	50	--
Public safety - police	--	--	--	45	--	--	85	76	141	108
Public works	347	1,966	1,089	5,876	5,637	3,444	3,392	4,854	4,894	14,199
Total governmental activities program revenues	10,650	11,394	11,522	15,550	13,661	12,772	12,876	14,160	13,412	23,272

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Business-type activities:										
Charges for services:										
Airport	683	829	1,138	1,488	1,597	805	1,288	1,485	1,206	1,415
Golf course	272	313	308	299	323	281	225	235	226	214
Sewer operating	6,701	7,268	7,166	7,584	6,554	7,042	6,964	6,868	7,115	7,011
Solid waste	4,221	4,928	5,131	5,468	4,971	5,290	5,418	5,536	5,659	5,676
Transit	274	307	323	345	375	332	357	381	462	624
Water operating	4,569	4,717	4,869	5,169	4,371	4,621	4,842	4,736	4,942	5,073
Zalud estate	3	3	3	2	3	7	5	7	7	3
Operating grants and contributions:										
Airport	85	31	10	10	10	--	20	10	10	10
Sewer operating	--	--	--	--	--	--	--	--	--	--
Solid waste	--	--	--	3	7	12	6	10	6	8
Transit	918	1,158	1,218	1,305	1,943	1,315	1,470	1,452	1,796	3,140
Capital grants and contributions:										
Airport	--	--	310	68	57	477	1,850	306	32	35
Sewer operating	173	122	255	47	49	32	51	16	25	34
Solid waste	--	--	405	--	--	--	421	525	--	1,221
Transit	415	529	88	2,039	528	704	1,387	69	1,001	551
Water operating	331	184	--	92	99	191	177	33	75	250
Total business-type activities program revenues	18,645	20,389	21,224	23,919	20,887	21,109	24,481	21,669	22,562	25,265
Total primary government program revenues	$ 29,295	$ 31,783	$ 32,746	$ 39,469	$ 34,548	$ 33,881	$ 37,357	$ 35,829	$ 35,974	$ 48,537
Net (expense)/revenue										
Governmental activities	$ (14,345)	$ (12,358)	$ (13,801)	$ (13,697)	$ (16,606)	$ (22,511)	$ (21,953)	$ (20,593)	$ (18,371)	$ (8,402)
Business-type activities	1,715	1,800	1,805	3,728	316	1,260	4,143	478	2,217	2,796
Total primary government net expense	$ (12,630)	$ (10,558)	$ (11,996)	$ (9,969)	$ (16,290)	$ (21,251)	$ (17,810)	$ (20,115)	$ (16,154)	$ (5,606)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	$ 5,606	$ 6,520	$ 7,557	$ 8,301	$ 8,408	$ 7,644	$ 7,777	$ 7,238	$ 7,347	$ 7,406
Sales taxes	3,669	4,339	7,319	6,882	6,147	5,785	6,122	6,484	7,163	7,401
Utility users tax	3,001	3,384	3,665	3,854	3,894	4,046	4,048	3,908	3,970	3,955
Other taxes	3,011	2,218	2,803	2,598	2,312	2,128	2,028	1,819	1,838	1,923
Unrestricted investment earnings	714	822	1,623	1,790	1,428	1,060	704	666	191	603
Miscellaneous	216	387	215	933	178	2,007	324	96	87	66
Transfers	(202)	(158)	(95)	(309)	(455)	103	(68)	(83)	109	(85)
Total governmental activities	16,015	17,512	23,087	24,049	21,912	22,773	20,935	20,128	20,705	21,269
Business-type activities:										
Unrestricted investment earnings	543	598	980	965	661	569	386	479	105	408
Miscellaneous	4	--	118	78	5	--	10	1	528	36
Transfers	202	158	95	309	455	(103)	68	83	(109)	85
Total business-type activities	749	756	1,193	1,352	1,121	466	464	563	524	529
Total primary government	$ 16,764	$ 18,268	$ 24,280	$ 25,401	$ 23,033	$ 23,239	$ 21,399	$ 20,691	$ 21,229	$ 21,798
Extraordinary item - governmental activities	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ 4,221	$ --	$ --
Change in Net Position										
Governmental activities	$ 1,670	$ 5,154	$ 9,286	$ 10,352	$ 5,306	$ 262	$ (1,018)	$ 3,756	$ 2,334	$ 12,867
Business-type activities	2,464	2,556	2,998	5,080	1,437	1,726	4,607	1,041	2,741	3,325
Total primary government	$ 4,134	$ 7,710	$ 12,284	$ 15,432	$ 6,743	$ 1,988	$ 3,589	$ 4,797	$ 5,075	$ 16,192

CITY OF PORTERVILLE
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Property Tax	Franchise Tax	Utility Users Tax	Transient Occupancy Tax	Sales Tax	Motor Vehicle In-Lieu Tax	Total
2004-05	$ 5,291,741	$ 1,456,558	$ 3,000,783	$ 253,294	$ 3,808,831	$ 1,177,781	$ 14,988,988
2005-06	6,520,333	1,473,974	3,383,843	273,584	4,338,578	301,100	16,291,412
2006-07	7,556,569	1,542,033	3,664,966	268,672	7,318,460	870,673	21,221,373
2007-08	8,301,092	1,695,368	3,854,176	319,431	6,881,840	498,926	21,550,833
2008-09	8,407,702	1,576,019	3,894,372	310,832	6,147,526	424,887	20,761,338
2009-10	7,644,246	1,469,489	4,045,732	276,338	5,784,887	382,477	19,603,169
2010-11	7,776,735	1,485,182	4,048,106	301,029	6,121,968	242,142	19,975,162
2011-12	7,237,972	1,482,657	3,908,443	309,577	6,484,037	27,107	19,449,793
2012-13	7,346,813	1,473,957	3,969,652	335,319	7,163,179	28,249	20,317,169
2013-14	7,406,413	1,551,762	3,955,357	370,999	7,401,187	23,542	20,709,260

CITY OF PORTERVILLE
FUND BALANCES OF GOVERNMENTAL FUNDS (in thousands)
LAST TEN FISCAL YEARS

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
General fund:									
Nonspendable	$ 1,493	$ 1,475	$ 1,355	$ 1,316	$ 1,262	$ 4,041	$ 8,400	$ 5,551	$ 5,323
Restricted	--	--	--	--	--	--	518	439	418
Committed	2,213	2,213	1,867	1,867	1,867	2,462	2,644	2,091	4,373
Assigned	3,189	2,361	3,284	4,061	4,706	4,890	5,361	5,654	6,251
Unassigned	3,322	4,642	8,389	10,741	10,940	7,313	4,918	2,372	1,070
Total general fund	$ 10,217	$ 10,691	$ 14,895	$ 17,985	$ 18,775	$ 18,706	$ 21,841	$ 16,107	$ 17,435
All other governmental funds:									
Nonspendable	$ 280	$ --	$ --	$ --	$ 930	$ --	$ --	$ --	$ --
Restricted	14,376	16,927	16,728	16,146	18,483	18,848	17,821	17,341	18,744
Unassigned	(1,257)	(1,257)	(1,443)	(1,390)	(1,346)	(1,790)	(3,929)	--	--
Total all other governmental funds	$ 13,399	$ 15,670	$ 15,285	$ 14,756	$ 18,067	$ 17,058	$ 13,892	$ 17,341	$ 18,744

CITY OF PORTERVILLE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (in thousands)
LAST TEN FISCAL YEARS

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenues:									
Taxes	$ 13,935	$ 16,289	$ 21,343	$ 21,636	$ 20,761	$ 19,603	$ 19,975	$ 19,450	$ 20,317
Licenses and permits	668	802	1,368	1,141	957	836	825	749	780
Intergovernmental	5,049	5,828	4,407	7,221	7,979	7,291	6,744	8,202	6,879
Charges for services	2,844	3,808	3,877	3,903	3,520	3,703	3,845	4,178	4,263
Special assessments and fees	1,160	965	1,442	2,206	705	515	1,032	539	933
Fines and forfeitures	195	169	214	269	268	355	240	286	233
Investment earnings	715	697	1,309	1,436	1,183	891	702	665	279
Miscellaneous	521	600	263	993	373	114	220	109	145
Total revenues	25,087	29,158	34,223	38,805	35,746	33,308	33,583	34,178	33,829
Expenditures:									
Community/Economic development	1,870	2,469	2,314	3,545	2,582	3,114	2,964	1,860	1,373
General government	2,711	2,286	2,536	2,600	2,733	4,638	3,449	2,674	2,612
Parks and recreation	3,500	3,934	4,044	4,687	4,861	5,026	4,888	5,149	4,809
Public safety:									
Fire	2,569	2,960	3,306	3,592	3,817	4,033	4,305	4,501	4,203
Police	5,930	6,587	7,118	7,990	8,584	8,887	8,848	9,441	8,957
Public works	1,559	1,678	1,903	2,205	2,483	2,972	3,777	4,642	4,140
Capital outlay	7,687	5,913	4,216	9,298	7,288	4,601	2,755	4,142	3,544
Debt service:									
Principal	839	980	3,019	1,012	1,117	981	974	914	948
Interest and other charges	1,639	2,279	2,023	1,732	2,207	1,872	1,894	1,516	1,810
Total expenditures	28,304	29,086	30,479	36,661	35,672	36,124	33,854	34,839	32,396
Excess of revenues over (under) expenditures	(3,217)	72	3,744	2,144	74	(2,816)	(271)	(661)	1,433
Other financing sources (uses):									
Transfers in	8,567	6,931	7,297	11,788	13,845	11,090	8,066	9,798	7,914
Transfers out	(8,769)	(7,090)	(7,386)	(12,070)	(13,373)	(11,382)	(8,128)	(9,851)	(7,805)
Other debt issued	--	6,024	--	--	8,543	--	--	--	21,060
Payments to refunded bond escrow	--	(3,282)	--	--	(5,003)	--	--	--	(19,887)
Sale of capital assets	--	92	162	697	15	2,030	198	15	16
Total other financing sources (uses)	(202)	2,675	73	415	4,027	1,738	136	(38)	1,298
Net change in fund balances before extraordinary items	(3,419)	2,747	3,817	2,559	4,101	(1,078)	(135)	(699)	2,731
Extraordinary item:									
RDA dissolution	--	--	--	--	--	--	--	(1,586)	--
Net change in fund balances	$ (3,419)	$ 2,747	$ 3,817	$ 2,559	$ 4,101	$ (1,078)	$ (135)	$ (2,285)	$ 2,731
Debt service as a percentage of noncapital expenditures	12.019%	14.064%	19.198%	10.028%	11.711%	9.051%	9.222%	7.916%	9.559%

CITY OF PORTERVILLE
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year		Secured Locally Assessed		State Assessed		Unsecured		Total Taxable Assessed Value (1)	Total Direct Tax Rate
2004-05	$	1,411,853,553	$	1,921,645	$	60,358,762	$	1,474,133,960	0.117%
2005-06		1,489,982,506		1,921,062		76,622,795		1,568,526,363	0.117%
2006-07		1,722,052,186		1,903,653		66,330,335		1,790,286,174	0.117%
2007-08		2,067,588,443		1,792,900		70,340,070		2,139,721,413	0.118%
2008-09		2,171,628,515		1,792,900		76,479,583		2,249,900,998	0.118%
2009-10		2,090,270,281		1,951,769		78,626,789		2,170,848,839	0.118%
2010-11		2,084,784,505		1,983,635		75,997,039		2,162,765,179	0.118%
2011-12		2,039,834,161		1,983,897		86,842,153		2,128,660,211	0.118%
2012-13		1,982,402,325		1,965,732		81,810,544		2,066,178,601	0.118%
2013-14		2,048,455,363		2,191,850		81,633,705		2,132,280,918	0.118%

Source: County of Tulare Office of the Auditor-Controller

NOTE:
In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual value of taxable property and is subject to the limitations described above.

CITY OF PORTERVILLE
DIRECT AND OVERLAPPING PROPERTY TAX RATES
(per $100 of assessed value)

LAST SEVEN FISCAL YEARS

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
City Direct Rates:						
City Basic Rate	0.1180	0.1183	0.1182	0.1182	0.1183	0.1182
Total City Direct Rate	0.1180	0.1183	0.1182	0.1182	0.1183	0.1182
Overlapping Rates:						
County of Tulare	0.1815	0.1821	0.1825	0.1820	0.1820	0.1814
Porterville Elementary School	0.2530	0.2477	0.2471	0.2497	0.2443	0.2544
Porterville High School	0.1294	0.1294	0.1294	0.1294	0.1294	0.1294
Kern Community College	0.0838	0.0848	0.0851	0.0858	0.0848	0.0842
County School Service Fund	0.0244	0.0244	0.0244	0.0244	0.0244	0.0244
Porterville Cemetery District	0.0046	0.0046	0.0046	0.0046	0.0046	0.0046
Porterville Memorial District	0.0085	0.0085	0.0085	0.0085	0.0085	0.0085
Sierra View District Hospital	0.0193	0.0193	0.0193	0.0193	0.0193	0.0193
Tulare County Air Pollution Control District	0.0003	0.0003	0.0003	0.0003	0.0003	0.0003
Tulare County Flood Control District	0.0021	0.0021	0.0021	0.0021	0.0021	0.0021
Education Revenue Augmentation	0.2383	0.2374	0.2371	0.2376	0.2376	0.2383
Total Direct Rate	1.0633	1.0591	1.0588	1.0621	1.0557	1.0652

Note:
In 1978, the State of California passed Proposition 13 which sets the property tax rate at a 1% fixed amount. This 1% is shared by all taxing agencies for which the subject property resides within. In addition to the 1% fixed amount, taxes are levied within the tax rate area to pay interest and redemption charges on voter-approved indebtedness. Some of the bonds are applicable to only a few tax rate areas within the City.

Data for fiscal years ended prior to June 30, 2006, is not available in this format.

Source: County of Tulare Office of the Auditor-Controller

CITY OF PORTERVILLE
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2013-14 Taxable Assessed Value	2013-14 Rank	2013-14 Percentage of Total Taxable Assessed Value	2004-2005 Taxable Assessed Value	2004-2005 Rank	2004-2005 Percentage of Total Taxable Assessed Value
Wal-Mart Realty Company	$ 77,665,419	1	3.64%	$ 65,784,859	1	4.42%
Del Mesa Farms	41,773,887	2	1.96%			-
Target Corporation	18,828,906	3	0.88%	6,375,841	8	0.43%
Lowes HIW Inc	14,131,690	4	0.66%			-
Royalty Carpet Mills Inc	11,943,560	5	0.56%	14,328,069	3	0.96%
Daryl & Victoria Nicholson (TRS)	11,749,319	6	0.55%			-
Cherry Keith (SCSR)	11,281,261	7	0.53%			-
Beckman Coulter Inc	10,739,648	8	0.50%	11,322,671	4	0.76%
Grand-Prospect Partners LP	9,916,778	9	0.47%			-
Porterville Investments 2005 LP	9,818,000	10	0.46%			-
Foster Farms			-	39,558,194	2	2.66%
Save Mart - West			-	9,588,000	5	0.64%
Porterville Retirement Residence			-	8,395,632	6	0.56%
Home Depot			-	7,416,731	7	0.50%
Mervyns			-	5,577,196	9	0.37%
Sierra Valley Rehab			-	4,473,041	10	0.30%
Subtotal	217,848,468		10.22%	172,820,234		11.60%
Total taxable assessed value of other taxpayers	1,914,432,450		89.78%	1,316,943,834		88.40%
Total taxable assessed value	$ 2,132,280,918		100.00%	$ 1,489,764,068		100.00%

Source: County of Tulare Office of the Auditor-Controller

CITY OF PORTERVILLE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Total Tax Levy	Collections within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2004-05	$ 2,203,906	$ 2,203,906	100.00%	$ -	$ 2,203,906	100.00%
2005-06	2,761,512	2,652,063	96.04%	-	2,652,063	96.04%
2006-07	3,023,938	2,948,751	97.51%	-	2,948,751	97.51%
2007-08	3,480,712	3,405,377	97.84%	-	3,405,377	97.84%
2008-09	3,725,591	3,725,591	100.00%	-	3,725,591	100.00%
2009-10	3,531,015	3,279,389	92.87%	76,304	3,355,693	95.03%
2010-11	3,517,413	3,246,202	92.29%	67,880	3,314,082	94.22%
2011-12	3,393,024	2,757,668	81.27%	82,257	2,839,925	83.70%
2012-13	3,317,263	2,171,025	65.45%	83,571	2,254,596	67.97%
2013-14	3,423,529	2,354,390	68.77%		2,354,390	68.77%

Source: County of Tulare Office of the Auditor-Controller

CITY OF PORTERVILLE
SEWER OPERATIONS REVENUE
LAST TEN FISCAL YEARS

Fiscal Year	Sewer Service Charges	Lab Service Charges	Reclamation Operation	Connection Fees	Other	Total
2004-05	$ 5,113,336	$ 303,835	$ 251,671	$ 948,549	$ 83,400	$ 6,700,791
2005-06	5,602,053	310,594	316,500	956,991	81,888	7,268,026
2006-07	5,510,041	331,909	307,896	930,935	85,382	7,166,163
2007-08	5,955,869	338,697	530,248	648,746	110,412	7,583,972
2008-09	5,394,799	311,697	311,758	445,630	89,896	6,553,780
2009-10	6,013,311	309,356	114,156	455,457	150,307	7,042,587
2010-11	5,961,692	354,055	-	461,041	186,916	6,963,704
2011-12	6,068,089	326,127	-	264,428	209,754	6,868,398
2012-13	6,278,051	344,206	-	303,851	189,212	7,115,320
2013-14	6,171,141	379,558	-	272,981	187,559	7,011,240

CITY OF PORTERVILLE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita amount)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Governmental activities:										
Notes	$ 5,869	$ 5,729	$ 3,885	$ 3,737	$ 3,779	$ 3,611	$ 3,232	$ 2,925	$ 2,747	$ 2,556
Revenue bonds	5,510	4,753	4,587	4,406	7,392	7,344	7,295	-	-	-
Pension obligation bond	-	-	-	-	-	-	-	-	-	3,765
Certificates of Participation	22,865	25,501	24,533	23,929	23,295	22,631	21,948	21,220	21,292	23,374
Business-type activities:										
Notes	5,356	5,474	5,343	5,208	5,069	13,181	13,032	12,708	12,372	12,024
Revenue bonds	69	-	-	-	-	-	17,652	17,483	17,630	18,712
Certificates of Participation:	25,340	22,428	21,485	20,482	19,414	18,280	8,462	7,633	6,745	6,116
Capital lease	266	262	253	244	233	-	-	-	-	-
Total primary government	$ 65,275	$ 64,147	$ 60,086	$ 58,006	$ 59,182	$ 65,047	$ 71,621	$ 61,969	$ 60,786	$ 66,547
Percentage of personal income (1)	N/A	N/A	N/A	7.66%	7.23%	7.13%	7.78%	6.61%	6.56%	6.93%
Per capita (1)	1,467	1,262	1,167	1,118	1,137	1,228	1,322	1,125	1,095	1,195

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(1) See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF PORTERVILLE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2014

2013-14 Assessed Valuation:	$ 2,132,280,918
Redevelopment Incremental Valuation:	93,213,485
Adjusted Assessed Valuation:	2,225,494,403

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/14	% Applicable	City's Share of Debt 6/30/14
Kern Community College District Safety, Repair and Improvement District	$ 151,861,262	2.747%	$ 4,171,629
Porterville Unified School District	2,685,000	0.056%	1,504
Porterville Unified School District School Facilities Improvement District	19,549,772	77.844%	15,218,325
Burton School District	1,823,641	92.838%	1,693,032
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			$ 21,084,490
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT:			
Tulare County Certificates of Participation	$ 48,900,000	8.030%	$ 3,926,670
Tulare County Board of Education Certificates of Participation	37,570,000	8.030%	3,016,871
Kern Community College District Certficates of Participation	82,245,000	2.484%	2,042,966
Kern Community College District Benefit Obligations	59,870,000	2.484%	1,487,171
Porterville Unified School District Certificates of Participation	29,660,000	44.366%	13,158,956
Burton School District Certificates of Participation	3,825,000	92.838%	3,551,054
City of Porterville General Fund Obligations	**23,373,914**	**100.000%**	**23,373,914**
City of Porterville Pension Obligation Bonds	**3,765,000**	**100.000%**	**3,765,000**
City of Porterville Notes Payable	**2,556,000**	**100.000%**	**2,556,000**
TOTAL DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT			$ 56,878,602
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	$ 7,645,000	100.000%	$ 7,645,000
TOTAL DIRECT DEBT			$ 27,138,914
TOTAL OVERLAPPING DEBT			$ 58,469,178
COMBINED TOTAL DEBT			$ 85,608,092 (2)

(1) The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:		
Overlapping Tax and Assessment Debt	....	2.63%
Total Direct Debt ($27,110,000)	....	**1.22%**
Combined Total Debt	....	3.85%

Ratios to Redevelopment Successor Agency Incremental Valuation ($93,213,485):		
Total Overlapping Tax Increment Debt	....	8.20%

Source: California Municipal Statistics, Inc.
City of Porterville Finance Department

CITY OF PORTERVILLE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Assessed valuation	$ 1,474,134	$ 1,568,526	$ 1,790,286	$ 2,139,721	$ 2,249,901	$ 2,170,849	$ 2,162,765	$ 2,128,660	$ 2,066,179	$ 2,132,281
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	368,533	392,132	447,572	534,930	562,475	542,712	540,691	532,165	516,545	533,070
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	55,280	58,820	67,136	80,240	84,371	81,407	81,104	79,825	77,482	79,961
Total net debt applicable to limit: General obligation bonds (1)	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 55,280	$ 58,820	$ 67,136	$ 80,240	$ 84,371	$ 81,407	$ 81,104	$ 79,825	$ 77,482	$ 79,961
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based on 15% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership of that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that legal debt margin was enacted by the State of California for local governments located within the State.

(1) The City of Porterville does not have any general obligation debt.

Sources:
County of Tulare Office of the Auditor-Controller
City of Porterville Department of Finance

CITY OF PORTERVILLE
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year	Total Revenue (1)	Less: Operating Expense (2)	Net Available Revenue	2002 Senior Bonds Debt Service	Senior Debt Service Coverage	Remaining Net Revenue	Parity/ Subordinate Debt Service	Parity/ Subordinate Coverage	Net Revenue After Debt Service
Water system improvement projects									
2004-05	$ 4,794	$ 2,890	$ 1,904	$ 694	2.74	$ 1,210	$ 141	8.58	$ 1,069
2005-06	4,912	3,133	1,779	687	2.59	1,092	71	15.38	1,021
2006-07	5,213	3,426	1,787	688	2.60	1,099	-	-	1,099
2007-08	5,440	3,489	1,951	687	2.84	1,264	-	-	1,264
2008-09	4,525	3,552	973	690	1.41	283	-	-	283
2009-10	4,783	3,670	1,113	687	1.62	426	151	2.82	275
2010-11	4,941	3,467	1,474	687	2.15	787	326	2.41	461
2011-12	4,858	3,441	1,417	681	2.08	736	476	1.55	260
2012-13	4,978	3,233	1,745	684	2.55	1,061	476	2.23	585
2013-14	5,135	3,867	1,268	684	1.85	584	476	1.23	108
Sewer system improvement projects									
2004-05	$ 6,945	$ 3,444	$ 3,501	$ 739	4.74	$ 2,762	$ 1,120	2.47	$ 1,642
2005-06	7,577	3,566	4,011	740	5.42	3,271	1,190	2.75	2,081
2006-07	7,680	4,229	3,451	739	4.67	2,712	1,315	2.06	1,397
2007-08	8,134	4,121	4,013	737	5.45	3,276	1,315	2.49	1,961
2008-09	6,960	4,255	2,705	739	3.66	1,966	1,308	1.50	658
2009-10	7,361	3,749	3,612	734	4.92	2,878	1,309	2.20	1,569
2010-11	7,191	3,654	3,537	733	4.83	2,804	1,259	2.23	1,545
2011-12	7,158	3,848	3,310	735	4.50	2,575	1,652	1.56	923
2012-13	7,162	3,441	3,721	735	5.06	2,986	1,336	2.24	1,650
2013-14	7,248	3,688	3,560	728	4.89	2,832	1,336	2.12	1,496

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Total revenue includes investment earnings.

(2) Operating expenses do not include interest or depreciation and amortization expenses.

CITY OF PORTERVILLE
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (2)	Median Age (2)	Education Level in Years of Formal Schooling (2)	School Enrollment (3)	Unemployment Rate (4)
2004-05	44,496	N/A	$ -	N/A	N/A	16,325	8.3%
2005-06	50,840	N/A	$ -	N/A	N/A	16,752	7.6%
2006-07	51,467	N/A	$ -	N/A	N/A	17,214	7.8%
2007-08	51,863	$ 757,251,663	$ 14,601	28.7	65.9% High school graduate or higher	17,399	9.0%
2008-09	52,056	$ 818,997,048	$ 15,733	28.1	67.6% High school graduate or higher	17,550	13.5%
2009-10	52,960	$ 911,706,400	$ 17,215	28.6	61.7% High school graduate or higher	17,112	14.4%
2010-11	54,165	$ 920,209,185	$ 16,989	28.8	67.9% High school graduate or higher	18,130	14.3%
2011-12	55,107	$ 937,370,070	$ 17,010	29.0	69.7% High school graduate or higher	18,335	13.9%
2012-13	55,490	$ 926,960,450	$ 16,705	28.0	68.5% High school graduate or higher	18,623	13.6%
2013-14	55,697	$ 960,661,856	$ 17,248	29.6	68.9% High school graduate or higher	18,892	12.4%

Sources:

(1) City of Porterville Community Development Department

(2) U.S. Census Bureau "American Community Survey ", at www.factfinder2.census.gov

(3) California Department of Education "District Enrollment by Grade" at http://dq.cde.ca.gov/dataquest

(4) State of California Employment Development Department "Unemployment Rates and Labor Force", at www.labormarketinfo.edd.ca.gov

CITY OF PORTERVILLE
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2013-14			2004-05		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Porterville Public Schools	1,580	1	7.49%	1,491	3	8.62%
Porterville State Developmental Center	1,243	2	5.89%	1,918	1	11.09%
Wal-Mart Distribution Center/Retail Store	961	3	4.55%	1,602	2	9.26%
Sierra View District Hospital	942	4	4.46%	798	4	4.61%
City of Porterville	542	5	2.57%	229	10	1.32%
Eagle Mountain Casino	515	6	2.44%	-		0.00%
Foster Farms	454	7	2.15%	364	5	2.10%
Burton School District	442	8	2.09%	357	6	2.06%
Young's Commercial Transfer	289	9	1.37%	-		0.00%
SmithCare, Inc.	284	10	1.35%	-		0.00%
Royalty Carpet	-		0.00%	285	7	1.65%
Beckman Coulter	-		0.00%	258	8	1.49%
U.S. Forest Service	-		0.00%	256	9	1.48%
Total	7,252		34.37%	7,558		43.69%
City labor force	21,100			17,300		

Source: City of Porterville Community Development Department
California Employment Development Department "Unemployment Rates and Labor Force," at www.labormarketinfo.edd.ca.gov

CITY OF PORTERVILLE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
General government	17	25	24	23	24	26	24	25	25	23
Public safety:										
Fire										
Sworn	27	35	35	35	35	35	34	35	32	35
Unsworn	1	1	2	3	3	2	2	3	3	2
Police										
Sworn	49	47	58	54	59	55	60	54	60	59
Unsworn	18	21	21	24	25	25	27	26	28	31
Public works:										
Engineering and building	14	15	17	16	16	17	18	18	17	17
Streets maintenance	3	5	7	5	6	6	6	6	5	5
Community development:										
Planning and zoning	7	9	10	10	10	9	8	6	8	6
Economic development	2	2	2	2	2	2	2	2	2	2
Housing	2	2	2	2	2	2	2	2	2	2
Parks and Leisure Services:										
Parks	18	18	20	21	20	20	20	18	17	18
Leisure Services	5	5	5	5	5	5	5	5	4	4
Library	7	7	10	10	10	9	10	10	10	10
Sewer operations	16	18	17	14	13	14	16	13	17	16
Solid waste	19	20	22	22	22	21	20	20	20	20
Airport operations	1	1	1	1	1	1	1	1	2	2
Golf course	2	2	2	2	2	2	2	2	2	2
Water operations	18	13	12	14	13	11	12	12	12	15
Equipment maintenance	8	8	6	6	6	6	6	7	7	6
Total	234	254	273	269	274	268	275	265	273	275

Source: City of Porterville, Finance Department

CITY OF PORTERVILLE
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Police										
Crimes (1):										
Homicide	2	5	8	7	2	5	1	3	3	7
Rape	18	23	14	9	9	10	11	7	12	7
Robbery	48	47	76	73	60	60	65	47	73	39
Assaults	605	606	656	582	551	575	606	467	461	408
Burglary	506	533	522	497	351	386	482	558	542	436
Theft	1,351	1,514	1,496	1,422	1,024	1,091	1,242	1,003	936	737
Stolen vehicles	430	484	356	357	262	223	267	162	253	190
Traffic accidents:										
Non-injury	348	423	347	415	349	310	368	373	329	293
Injury	188	195	165	188	187	207	194	220	182	222
Fatal	-	-	3	2	6	5	3	2	6	3
Calls for service	28,143	68,203	76,648	25,941	28,792	30,094	30,753	31,895	31,701	30,263
Officer-initiated activity	23,990	23,342	28,644	27,171	31,303	38,970	37,161	38,394	33,868	33,322
Reports	9,783	9,782	10,999	11,117	9,579	9,503	9,474	9,268	9,159	8,723
Arrests:										
Felony	1,635	1,503	1,716	1,596	1,624	1,506	1,421	1,204	1,246	1,457
Misdemeanor	2,285	1,959	2,420	2,905	2,690	2,527	2,296	2,463	2,094	2,295
Mover citations	1,643	1,490	1,504	2,482	2,387	2,313	2,551	2,725	3,433	2,536
Non-mover and other citations	1,610	1,679	2,982	4,164	2,927	2,369	2,314	2,917	3,965	3,115
Fire										
Emergency responses:										
Fires	434	519	540	555	473	375	413	431	521	409
Medical	1,775	2,153	2,615	3,003	3,040	2,848	2,922	2,985	3,247	3,055
Hazardous materials	-	-	-	-	-	-	-	-	-	-
Other	1,125	1,143	1,061	959	863	881	854	942	1,004	967
Inspections	840	692	645	1,040	865	1,123	1,255	1,125	1,588	1,100
Hazard abatement	33	270	204	126	1,424	1,395	998	1,461	769	1,276
Violations noticed/citations issued	3	5	44	130	244	235	583	154	473	382
Public education - presentations and tours	89	81	123	145	138	179	238	204	123	118
Investigations	N/A	299	347	267	212	158	155	146	262	133

continued

continued

CITY OF PORTERVILLE
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Public works:										
Building permits issued	374	381	607	474	364	293	230	240	222	211
Streets:										
Street resurfacing (square feet)	9,561	20,592	369,600	350,286	114,000	1,000,071	1,211,969	1,687,492	1,936,432	1,309,796
Potholes repaired (square feet)	2,326	2,438	2,447	10,358	21,000	17,000	14,153	14,396	10,511	8,717
Solid waste:										
Refuse collected (tons/day)	88	91	118	115	109	111	123	123	109	96
Recyclables collected (tons/day)	27	30	39	42	37	38	47	50	50	45
Water:										
Number of consumers	14,690	14,680	14,562	14,486	14,673	14,694	14,843	15,214	15,395	15,450
Water introduced into system (millions of gallons)	4,132	4,025	4,468	4,484	4,271	4,042	3,970	4,208	4,284	4,196
Metered water deliveries (millions of gallons)	3,630	3,668	3,900	3,931	4,201	3,456	3,529	3,955	3,836	3,642
New water connections	109	290	276	193	178	97	156	54	74	102
Water mains breaks	10	10	7	6	6	11	11	3	6	11
Wastewater:										
Average daily sewage treatment (millions of gallons)	4.7	4.7	4.8	4.8	4.8	4.6	4.8	4.8	4.8	4.6
Parks and leisure services:										
Athletic field permits issued	29	N/A	129	114	84	63	64	54	70	69
Facility rentals										
Community rooms/centers	410	N/A	85	34	14	14	29	42	34	28
Municipal swimming pool	35	N/A	65	43	40	32	43	45	56	60
Park pavilions	583	N/A	626	441	392	481	489	525	552	530
Zalud Estate house and gardens	8	N/A	5	1	1	5	6	9	15	11
Recreation program enrollment:										
Recreation afterschool program (RAP)	2,542	2,579	2,620	2,235	1,926	1,579	1,739	1,917	1,622	1,485
Sports activities	1,085	1,123	1,265	1,395	1,617	1,483	1,813	2,101	2,621	2,499
Summer/winter camp	100	157	157	425	552	211	240	417	353	441
Kindergarten/pre-school classes	39	145	600	608	324	420	297	352	316	394

Sources: Various city departments

Note: (1) These are the seven primary categories of crime, uniformly reported to the FBI and the State of California; they are used as indicators nationwide of the crime rate for the state, county and local jurisdictions.

CITY OF PORTERVILLE
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Public safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	10	38	52	61	66	70	76	75	68	68
Fire:										
Stations	2	2	2	2	2	2	2	2	2	2
Hydrants	1,533	1,584	1,619	1,694	1735	1829	1840	1,929	1,937	1,875
Public works:										
Streets, lights, signals										
Miles	171	187	190	193	193	196	196	196	196	196
Streetlights	N/A	N/A	163	3,114	3232	3333	3336	3,336	3,336	3,535
Traffic signals	N/A	N/A	43	48	48	49	49	49	49	49
Sewers (miles)	165	167	170	170	170	170	171	171	171	176
Water mains (miles)	174	178	187	210	210	210	212	212	213	213
Storm drains (miles)	N/A	N/A	52	52	52	52	52	52	52	52
Parks and Leisure Services:										
Parks acreage	306	306	306	306	306	306	306	306	306	308
Parks	24	24	24	24	24	24	24	24	24	25
Community centers	2	2	2	2	2	1	1	1	1	1
Library volumes/circulations	246,487	231,803	228,203	255,025	271,337	271,161	294,212	297,900	288,326	300,662

Sources: Various city departments
N/A = NOT AVAILABLE

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City of Porterville, California

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APPENDIX C

INVESTMENT POLICY OF THE CITY

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CITY OF PORTERVILLE

Statement of Investment Policy
April 2006

INTRODUCTION

The City of Porterville has a fiduciary responsibility to maximize the productive use of its liquid assets entrusted to its care and to manage those public funds wisely and prudently. The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. Related activities, which comprise good cash management, include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing programs which coordinate working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

SCOPE

It is intended that this investment policy cover all funds and investment activities under the direct authority of the City of Porterville organization. This policy does not cover any funds held by the fiscal agent in connection with the issuance of any bonds by the City. Such funds shall be invested in accordance with the applicable trust indenture.

PHILOSOPHY

The basic premise underlying Porterville's investment philosophy is to insure that money is always available when needed. An amount of not less than one month's payables and one month's payroll, about $2.5 million, is maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund or other cash equivalents. This may include commercial paper or banker's acceptances.

Porterville takes an active investment posture in an attempt to earn a higher yield. This investment posture is best demonstrated by the City's long-term investments. By taking advantage of the positive yield curve (i.e., longer term rates are higher than shorter maturities), in the long run, the City should average a higher yield.

The City's investments will be limited to an average life of three years or less. When the market warrants purchase of longer maturities to capture a higher rate of return, purchases will be limited to United States Treasury Notes and Bonds and Mortgage Backed Securities. No investment will be made in securities that have a final maturity over five years.

The economy and various markets are monitored carefully to assess the probable course of interest rates. In a market with increasing interest rates, the City will attempt to invest in securities with shorter maturities. This makes funds available for other investments when the interest rates are higher. When interest rates appear to be near a relatively high rate, the City will attempt to purchase investments with medium to long-term maturities to lock in the higher rate of return. When interest rates are falling, the City will invest in securities with longer maturities to hold the higher rate for a longer period of time.

The City will also take advantage of any new vehicle that becomes eligible for municipal investment only after a detailed study of the investment, its safety, liquidity, and yield.

PRUDENCE

The City adheres to the guidance provided by the "prudent person standard," as set forth in Government Code section 53600.3, which specifically addresses public investing, as follows:

> "Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired by law."

The primary objective is to safeguard the principal of the funds under the City's control. The secondary objective is to meet the liquidity needs of the City. The third objective is to achieve a return on the funds. Porterville strives to maintain the level of investment of all funds as near 100% as possible through daily and projected cash flow determinations. Investments are made so maturities match or precede the cash needs of the City. The City will maintain adequate cash availability and maximum yield on invested funds while insuring that principal invested is protected from loss.

INVESTMENT CRITERIA

Criteria for selecting investments are:

1. Safety;
2. Liquidity; and
3. Yield.

Porterville attempts to obtain the highest yield available when selecting investments, provided that criteria for safety and liquidity are met. Because ordinarily yield curves are positively sloped, (i.e., longer term rates are higher than shorter maturities), the City attempts to ladder its maturities. This meets anticipated cash needs in such a way that new investment money can be placed in maturities that carry a higher rate than is available in the extremely short market of 90 days or under.

Government and agency paper are the highest quality investments available in terms of safety and liquidity. Certificates of deposit, savings accounts, and bankers acceptances are insured or collateralized. Only direct-issue commercial paper, with A-1 Moody's and Standard and Poor's ratings, will be purchased. These quality-rating criteria shall apply at the time of investment. Should a particular issuer fall below these standards ("be downgraded") while the investment is in the City's portfolio, the prudent investor rule shall apply. Negotiable Certificates of Deposit are not insured or collateralized.

Most investments are highly liquid, with the exception of collateralized certificates of deposit held by banks, savings and loans, and Small Business Administration notes. Maturities are selected to anticipate cash needs, thereby avoiding the need for forced liquidation.

STATE AND CHARTER REGULATIONS

The City operates its investment pool with many State and self-imposed constraints. In accordance with SB 564 and SB 866, effective January 1, 1996, the City Treasurer will bring this Policy before City Council annually for its reaffirmation. Government Code Section 53601 restricts the City portfolio mix to:

1. 30% in Medium Term Notes;
2. 30% in Negotiable Certificates of Deposit;
3. 40% in Bankers Acceptance Notes, not to exceed 180 days in maturity; and
4. 25% in Commercial Paper, not to exceed 270 days in maturity.

These restrictions primarily apply to short-term investments and are interpreted to apply at the time of investment. If, as the portfolio mix changes over time, a particular segment exceeds these restrictions, the prudent investor rule shall apply. The City does not buy stocks and it does not speculate.

The City will be selective in purchasing long-term negotiable certificates of deposit and medium term notes, placing such an investment only with a large stable institution.

MATURITY OF INVESTMENTS

The City of Porterville will operate a portfolio with an average life of three years or less. This is to insure liquidity and the ability to move with changing markets and interest rate movements.

Accordingly, no investment will be made in securities that have a final maturity over five years. The long-term securities shall only be Treasury Notes and Bonds and Mortgage Backed Securities.

SECURITIES DEALERS AND BROKERS

The City of Porterville will undertake a yearly review of its broker/dealer relationships. The City will deal generally with the major broker/dealer firms or major banks in the country and then with only their institutional investment divisions. Primary government securities dealers are preferred for conducting transactions of all eligible securities. Primary dealers must report daily to the Federal Reserve, are very tightly regulated, and must keep specified levels of working capital. Secondary dealers are those dealers who buy and sell securities in the open market. Secondary and other security dealers who wish to engage in transactions with the City must meet the City's requirements for reliability and safety and be approved prior to purchase. These relationships are formalized through a corporate statement. The City will deal with both after meeting the City's requirements.

The City shall also be open to contracting investment management services for a portion of the portfolio. That portion shall be limited to longer-term investments of two years or longer. Any investment management firm contracted shall meet criteria established by the Finance Department. All investments made under contract will be purchased in the City's name and in accordance with the guidelines established by the City's investment policy.

PERIODIC REPORTING

Also in accordance with SB 564 and SB 866, each quarter, the City Treasurer will issue a report of the City's current investment portfolio, detailing securities, purchase and maturity date, and face and market value. This report will also confirm that current portfolio holdings are in compliance with this policy and that the City's cash needs will be met.

Each quarter some of the long-term investments will be reviewed in order to determine if it is advantageous to sell those securities and purchase others. The review will consider current market conditions and various spread relationships among security types. The monitoring of the conditions set forth in this policy statement is the responsibility of the City Treasurer or delegate.

TYPES OF INVESTMENTS

Cash management and investment transactions are the responsibility of the City Treasurer or delegated investment officer. Investments are made in the following:

1. <u>Securities of the U.S. Government</u>

   Securities of the Government include U.S. Treasury bills, notes and bonds.

   U. S. Treasury Bills - are issued by the U.S. Treasury and are available in maturities out to one year. They are non-interest bearing and sold on a discount basis. The face amount is paid at maturity.

   Treasury Notes - are issued by the U.S. Treasury with maturities from two to ten years. They are issued in coupon form and many issues are also available in registered form. Interest is payable at six month intervals until maturity.

   Treasury Bonds - are issued by the U.S. Treasury with maturities of ten years to thirty years. The City may purchase the interest and/or principal of a U.S. Treasury Bond. A principal only instrument is commonly called a "stripped" or "zero" coupon. Stripped coupons are sold at discount basis. The face amount is paid at maturity.

2. <u>Securities of U.S. Government Agencies</u>

   The United States Treasury initially financed the capital of U.S. Government agencies. But as they have grown and operated profitably over the years, the Treasury's investment has been replaced in large measure by private capital. At the present time, obligations of only a few agencies are backed by the full faith and credit of the U.S. Government. The obligations of all the federal agencies described in the following sections are not guaranteed by the U.S. Government with the exception of Government National Mortgage Association, but are considered to be investments of the highest quality.

   Federal National Mortgage Association (Fannie Mae) is a quasi-public corporation created by an act of Congress to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. FNMA issues Notes and Bonds. Notes are issued with maturities of less than one year with interest paid at maturity. Bonds are issued for 15 and 30 year maturities with interest paid semi-annually. Interest is computed on a 30/360-day basis. There is a strong secondary market in these securities. A secondary market means these instruments are actively traded, they are bought and sold daily.

Government National Mortgage Association (Ginnie Mae) is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development. A certificate collateralized by FHA/VA residential mortgages represents a share in a pool of FHA or VA mortgages. Ginnie Maes are registered securities. Principal and interest are paid monthly and sent directly from the issuer of the pool, usually a mortgage banker, to the City. Original maturities range from 12 to 30 years with a 7 to 12-year assumed average life (Assumed average life is due to prepayments of mortgages).

Federal Home Loan Banks provide credit to member lending institutions such as savings and loan associations, cooperative banks, insurance companies and savings banks. The agency offers bonds in the public market with maturities of one year to ten years. These bonds are usually offered on a quarterly basis depending on the current demands of the housing industry. Interest is paid semi-annually on a 30/360 day basis.

Federal Farm Credit Banks are debt instruments issued to meet the financial needs of farmers and the national agricultural industry. Discount notes are issued monthly with 6 and 9-month maturities. Discount notes pay interest at maturity. Longer-term debentures (2-5 years) are also issued. Debentures pay interest semi-annually on a 30/360 day basis. These issues enjoy an established secondary market.

Small Business Administration Loans (SBA). The Small Business Administration is an independent agency of the United States government that furnishes financial and management assistance to small businesses. The SBA guarantees the principal portion of the loans it approves. Porterville purchases the guaranteed portion of these loans. Maturity can be for 1 year to 30 years. These loans can be either set at a fixed rate or variable rate that is usually tied to the prime rate. Principal and interest are paid monthly on a 30/360-day basis.

Federal Home Loan Mortgage Corporation (Freddie Macs) participation certificates are backed by 30-year conventional residential mortgages and are 100 percent guaranteed by the Federal Home Loan Mortgage Corporation. The Federal Home Loan Mortgage Corporation is wholly owned by the Federal Home Loan Banks. The Mortgage Corporation is a corporate instrumentality of the United States. Freddie Macs are registered securities. Principal and interest passed through the Mortgage Corporation and then to the City monthly. These instruments have an assumed life of approximately 12 years and pay on a 30/360-day basis.

Other U.S. government securities available to the City for investment purposes include: Student Loan Marketing Association (SLMA or Sallie Mae), Aid for International Development (AID), and debentures of Tennessee Valley Authority (TVA). However, these instruments are not offered on a regular basis and do not offer the same liquidity as the before mentioned instruments.

3. Time Deposits or Certificates of Deposit

Time deposits are placed with commercial banks and savings and loan agencies. A time deposit is a receipt for funds deposited in a financial institution for a specified period of time at a specified rate of interest. Generally, the time is 3 months to 5 years. Denominations can be any agreed upon amount and interest is normally calculated using actual number of days on a 360-day year and paid monthly. Deposits of $100,000 (commonly referred to as Jumbo C.D.'s) per institution are insured by the government and collateralized Certificates of Deposit can be supported by either 110% Government agency notes or 150% mortgages currently held by the bank or savings and loan. An institution must meet the following criteria to be considered by the City:

1. The institution must maintain a net worth to asset ratio of at least 3% and a positive earnings record;

2. The institution must be in compliance with the Financial Institution Reform Act (FIRREA) capital ratio requirements for risk-based, tangible, and core capital; and

3. The institution must make available a current FDIC call reports (banks) or FHLB report. A call report presents the financial condition of the institution to the agency with oversight responsibility of that institution.

4. Negotiable Certificates of Deposit

Negotiable Certificates of Deposit are a form of Certificate of Deposit that have been an important money market instrument since 1961 when commercial banks began issuing them and a secondary market developed to provide liquidity. Since these certificates of deposit can be traded in the secondary market, they are negotiable instruments, hence their name negotiable certificate of deposit. They are supported only by the strength of the institution from which they are purchased. This is a riskier investment that provides a higher yield than regular certificates of deposit. Some issues have quarterly floating rates that mean they will more closely approximate the market in yield. Interest is paid semi-annually (quarterly on the floaters) computed on a 30/360-day basis. Maturities range from 3 months to 2 years. Negotiable Certificates of Deposit are generally issued in blocks of $1 million, $5 million, $10 million and so on.

The City will restrict its investments in Negotiable Certificates of Deposit to the 100 largest United States banks and 100 largest international banks according to asset size. The profitability of the financial institution as well as its financial stability is also taken into account prior to placing the investment. As a general rule, the City will not place more than 15% of its portfolio in Negotiable Certificates of Deposit with one institution or 20% of its portfolio with any one Commercial Bank or savings and loan association in any form of Certificate of Deposit.

5. Bankers Acceptance Notes

A banker's acceptance (B.A.) is a unique credit instrument used to finance both domestic and international transactions. As a money market instrument, it is an attractive short-term investment. When a bank "accepts" such a time draft, it becomes, in effect, a predated certified check payable to the bearer at some future, specified date. Little risk is involved because the commercial bank assumes primary liability once the draft is accepted. Banker's acceptances are frequently in odd amounts. Maturities normally range from 30 up to 180 days. Banker's acceptances are sold at a discount. This means, the face amount is received at maturity. The City will purchase B.A.'s only of the top 100 U.S. or Foreign Banks. The profitability of the financial institution as well as its financial stability is also taken into account prior to placing the investment.

6. Commercial Paper

Commercial paper is the trade name applied to unsecured promissory notes issued by finance and industrial companies to raise funds on a short-term basis. Commercial paper can be purchased on an interest bearing or discount basis. Interest bearing instruments pay interest semi-annually. Discounted instruments pay interest at maturity. The City will invest in commercial paper only if the yields are attractive, and if the paper is rated A-1 by Moody's and by Standard & Poor's rating services. Maturities range from 30 to 180 days with interest computed on a 30/360-day basis.

7. Medium Term Notes

In recent years, this financing mechanism has grown, providing capital to the private sector, and diminishing the Negotiable Certificate of Deposit market. The trend towards medium term notes related to buyer and seller flexibility and convenience. The notes are issued on any given date and maturing on a negotiated date. They generally range from 2 to 5 years in maturity. This market provides an excellent alternative to Negotiable C.D.'s. The City will only purchase Medium Term Notes with ratings of A or better with maturities of 5 years or less. Their interest is calculated on a 30/360-day basis like Agency bonds. Interest is paid semi-annually.

8. Local Agency Investment Fund demand deposit

The Local Agency Investment Fund (LAIF) was established by the state to enable treasurers to place funds in a pool for investments. The LAIF has been particularly beneficial to those jurisdictions with small portfolios. Each agency is limited to an investment of $15.0 million. Porterville uses this fund for short-term liquidity, investment, and yield when rates are declining. Funds are available on demand. At present, two accounts have been opened; one for the City and one for Porterville Redevelopment Agency. Interest is paid quarterly.

9. Central San Joaquin Valley Risk Management Authority (CSJVRMA) investment pool

As a member city of the CSJVRMA, the City accepted the opportunity in July 2001 to participate in its sponsored investment pool. The pool is managed by Chandler Asset Management and invests in agency instruments such as Federal Home Loan Bank, treasuries and high-grade corporate stock. Funds are available on demand, with interest paid quarterly.

9. County of Tulare investment pool

Porterville participates in the County of Tulare's investment pool that is managed by the County Treasurer, O. Gerald Fields. The County invests in the same type of State-approved instruments, as does the City. Funds are available on demand, and interest is paid quarterly.

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

City Council of the
City of Porterville
291 North Main Street
Porterville, California 93257

OPINION: $20,000,000* Certificates of Participation (2015 Refinancing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the City of Porterville, as the Rental for Certain Property Pursuant to a Lease Agreement with the Porterville Public Improvement Corporation

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Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Porterville (the "City"), of its $20,000,000* Lease Agreement, dated as of May 1, 2015, by and between the Porterville Public Improvement Corporation(the "Corporation") and the City (the "Lease Agreement"), pursuant to the California Government Code. The Corporation has, pursuant to the Assignment Agreement, dated as of May 1, 2015 (the "Assignment Agreement"), by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), assigned certain of its rights under the Lease Agreement, including its right to receive a portion of the lease payments made by the City thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of May 1, 2015, by and among the Trustee, the Corporation and the City (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. 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 Lease Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

1. The City is duly created and validly existing as a municipal corporation and chartered city organized and existing under the laws of the State of California with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Lease Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City valid, binding and enforceable against the City in accordance with its terms.

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* Preliminary, subject to change.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the City are payable from general funds of the City lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. Subject to the City's compliance with certain covenants, interest with respect to the Certificates 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 minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to be includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

Ownership of the Certificates may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Certificates.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Assignment Agreement and the Trust Agreement may be subject to the 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 E

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement prepared for Certificates. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the County and from the Trustee.

DEFINITIONS

"*Additional Payments*" means the payments so designated and required to be paid by the City pursuant to the Lease Agreement.

"*AGM*" means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assigns thereof.

"*Assignment Agreement*" means the Assignment Agreement, dated as of May 1, 2015, by and between the Corporation and the Trustee, together with any duly authorized and executed amendments thereto.

"*Board*" means the City Council of the City.

"*Bond Counsel*" means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"*Business Day*" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located or in the State are closed or are required to close or a day on which the New York Stock Exchange is closed.

"*Certificates*" means the certificates of participation to be executed and delivered pursuant to the Trust Agreement which evidence direct, undivided fractional Interests of the Owners thereof in Lease Payments.

"City" means City of Porterville, municipal corporation and chartered city duly organized and existing under and by virtue of the laws of the State.

"*City Representative*" means the Mayor, City Manager, the Finance Director, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the City under or with respect to the Site and Facility Lease, the Lease Agreement and the Trust Agreement.

"*Closing Date*" means May 12, 2015, the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase price of the Certificates by the Original Purchaser.

"*Code*" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Lease Agreement or the Trust Agreement) 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*" shall mean that certain Continuing Disclosure Certificate executed by the City and dated the date of execution and delivery of the Certificates, as it may be amended from time to time in accordance with the terms thereof.

"*Corporation*" means the Porterville Public Improvement Corporation, a nonprofit, public benefit corporation organized and existing under and by virtue of the laws of the State.

"*Corporation Representative*" means the President, the Vice President, the Executive Director, the Treasurer and the Secretary of the Corporation, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the Corporation under or with respect to the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement.

"*Defeasance Obligations*" means (a) cash, (b) non callable direct obligations of the United States of America ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (d) subject to the prior written consent of the Insurer, pre refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (e) subject to the prior written consent of AGM, securities eligible for "AAA" defeasance under then existing criteria of S&P AGM otherwise approves.

"*Delivery Costs*" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution and delivery of the Site and Facility Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, costs for statistical data, initial fees and charges of the Trustee (including the fees and expenses of its counsel), financing discounts, legal fees and charges, insurance fees and charges (including title insurance), financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates, the premiums for the Municipal Bond Insurance Policy and the Reserve Policy and charges and fees in connection with the foregoing.

"*Delivery Costs Fund*" means the fund by that name established and held by the Trustee pursuant to Article III of the Trust Agreement.

"*Escrow Agreement*" means that certain Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the City and the Escrow Bank, as originally entered into or as it may be amended or supplemented pursuant to the provisions thereof, created to provide for the refunding of the 2002 Certificates.

"*Escrow Bank*" means U.S. Bank National Association, as escrow bank under the Escrow Agreement, or any successor thereto appointed as escrow bank thereunder in accordance with the provisions thereof.

"*Escrow Fund*" means the fund by that name created and maintained by the Escrow Bank pursuant to the Escrow Agreement.

"*Event of Default*" means an event of default under the Lease Agreement.

"*Facility*" means those certain existing facilities more particularly described in Exhibit B to the Site and Facility Lease and in Exhibit B to the Lease Agreement.

"*Federal Securities*" means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United Sates of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidence of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligator and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"*Fiscal Year*" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the City as its fiscal year.

"*Independent Counsel*" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the City or the Trustee.

"*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 or disseminating notices of redemption of obligations similar to the Certificates.

"*Insurance and Condemnation Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Interest Payment Date*" means the first (1st) day of April and October in each year, commencing October 1, 2015, so long as any Certificates are Outstanding.

"*Lease Agreement*" means that certain agreement for the lease of the Property by the Corporation to the City, dated as of May 1, 2015, together with any duly authorized and executed amendments thereto.

"*Lease Payment Date*" means the fifteenth (15th) day of March and September in each year during the Term of the Lease Agreement, commencing September 15, 2015.

"*Lease Payment Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Lease Payments*" means the total payments required to be paid by the City pursuant to the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement, which payments consist of an interest component and a principal component, as set forth in the Lease Agreement.

"*Moody's*" means Moody's Investors Service, New York, New York, or its successors.

"*Municipal Bond Insurance Policy*" means the municipal bond insurance policy issued by AGM guaranteeing the payment, when due, of the principal and interest with respect to the Certificates.

"*Net Proceeds*," when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"*2002 Certificates*" means the City's outstanding Certificates of Participation (2002 Public Buildings Refunding Project).

"*2013 Lease*" means that certain Lease Agreement, dated as of April 1, 2013, by and between the Corporation and the City, which has been assigned to Rabobank, N.A.

"*Original Purchaser*" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"*Outstanding,*" when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or Defeasance Obligations in the necessary amount shall have theretofore been deposited with the Trustee or an escrow holder (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"*Owner*" or "*Certificate Owner*" or "*Owner of a Certificate,*" or any similar term, when used with respect to a Certificate means the person in whose name such Certificate shall be registered on the Registration Books.

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

"*Permitted Encumbrances*" means, as of any particular time: (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of Article V of the Lease Agreement, permit to remain unpaid; (b) the Site and Facility Lease; (c) the Lease Agreement; (d) the Assignment Agreement; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (f) easements, rights-of-way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Property; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Corporation and the City agree in writing do not reduce the value of the Property.

"*Permitted Investments*" means any of the following:

(a) Federal Securities;

(b) Federal Housing Administration debentures;

(c) The following listed obligations government-sponsored agencies which are <u>not</u> backed by the full faith and credit of the United States of America:

> (i) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts),
>
> (ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes,
>
> (iii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations,

(iv) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts),

(v) Financing Corporation (FICO) debt obligations, and

(vi) Resolution Funding Corporation (REFCORP) debt obligations;

(d) Unsecured certificates of deposit, time deposits, and bankers" acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P;

(e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million;

(f) Commercial paper (having original maturities of not more than 30 days) rated "A-1+" by S&P and "Prime-1" by Moody's;

(g) Money market funds rated in the highest rating category by S&P and Moody's including such funds for which the Trustee or an affiliate provides investment advice or other services;

(h) "State Obligations," which means:

(i) Direct general obligations of any state of the United States of America or any subdivision of agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated,

(ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated "A-1+" by S&P and "MIG-1" by Moody's, and

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (i) above and rated "AA" or better by S&P and "Aa" or better by Moody's;

(i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions,

(ii) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations,

(iii) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification"),

(iv) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations

(v) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification, and

(vi) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(j) Repurchase agreements with

(i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "AA" by S&P and Moody's, or

(ii) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "AA" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or

(iii) any other entity rated "AA" or better by S&P and Moody's and acceptable to AGM, provided that:

(A) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach),

(B) The Trustee or a third party acting solely as agent therefor or for the City (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books),

(C) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession),

(D) All other requirements of S&P in respect of repurchase agreements shall be met, and

(E) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by AGM), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the City or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

(k) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt is rated at least "AA" (stable) by S&P and "Aa" (stable) by Moody's, or, in the case of a monoline municipal bond insurance company, claims paying ability of the guarantor is rated at least "AAA" (stable) by S&P and "Aaa" (stable) by Moody's; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) with respect to the Certificates;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the City and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(iv) the City or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the City and AGM) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, AGM;

(v) the investment agreement shall provide that if during its term:

(A) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by AGM), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee, and

(vi) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(vii) the investment agreement must provide that if during its term:

(A) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Trustee (who shall give such direction if so directed by AGM), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and

(B) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate.

(l) The Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

(m) The Tulare County Investment Pool

(n) Other forms of investments (including repurchase agreements) approved in writing by AGM.

"*Principal Corporate Trust Office*" means the corporate trust office of the Trustee located at 633 West Fifth Street, 24th Floor, Los Angeles, CA 90071, Attention: Global Corporate Trust Services, or such other office designated by the Trustee from time to time.

"*Proceeds*," when used with reference to the Certificates, means the face amount of the Certificates, less original issue discount.

"*Property*" means, collectively, the Site and the Facility.

"*Rating Category*" means, with respect to any Permitted Investment, one of the generic categories of rating by Moody's or S&P applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"*Registration Books*" means the records maintained by the Trustee pursuant to the Trust Agreement for registration of the ownership and transfer of ownership of the Certificates.

"*Regular Record Date*" means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

"*Rental Period*" means each twelve-month period during the Term of the Lease Agreement commencing on October 2 in any year and ending on October 1 in the next succeeding year; *provided, however*, that the first Rental Period shall commence on the Closing Date and shall end on October 1, 2015.

"*Reserve Policy*" means the Municipal Bond Insurance Policy issued by AGM for deposit in the Reserve Fund in an amount equal to the Reserve Requirement.

"*Reserve Requirement*" means an amount equal to the least of maximum annual Lease Payments, 125% of average annual Lease Payments, and 10% of the principal amount of the Certificates, which amount shall be $__________ on the Closing Date. The amount of the Reserve Requirement shall not be reduced unless the Certificates are partially refunded, in which such amount shall be reduced to an amount equal to the maximum annual Lease Payments relating to the Certificates not so refunded, as specified in a certificate of a City Representative delivered to the Trustee.

"S&*P*" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and its successors.

"*Securities Depositories*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041 Attention: Call Notification Department; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

"*Site*" means that certain real property more particularly described in Exhibit A to the Site and Facility Lease and in Exhibit A to the Lease Agreement.

"*Site and Facility Lease*" means the Site and Facility Lease, dated as of May 1, 2015, by and between the City, as lessor, and the Corporation, as lessee, together with any duly authorized and executed amendments thereto.

"*State*" means the State of California.

"*Term of the Lease Agreement*" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"*Trust Agreement*" means the Trust Agreement, dated as of May 1, 2015, by and among the City, the Corporation and the Trustee, together with any duly authorized amendments thereto.

"*Trustee*" means U.S. Bank National Association, or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

SITE AND FACILITY LEASE

The Site and Facility Lease is entered into between the City and the Corporation. The City agrees to lease the Site and the Facility to the Corporation for a term continuous with the term of the Lease Agreement. The City and the Corporation agree that the lease to the Corporation of the City's right, title and interest in the Site and the Facility pursuant to the Site and Facility Lease serves the public purposes of the City by enabling the Corporation to lease the Site and Facility back to the City.

LEASE AGREEMENT

Deposit of Money

On the Closing Date, the Corporation shall cause to be deposited with the Trustee the net proceeds of sale of the Certificates, net of amounts paid by the Original Purchaser to AGM as an accommodation to the City for the premiums relating to the Municipal Bond Insurance Policy and the Reserve Policy. Amounts estimated to be required to pay Delivery Costs shall be deposited in the Delivery Costs Fund, the amount, together with other moneys, required to defease the 2002 Certificates, shall be transferred to the Escrow Bank for deposit in the Escrow Fund, and the amount required to prepay the 2013 Lease shall be transferred to Rabobank, N.A.

Payment of Delivery Costs

Payment of Delivery Costs shall be made from the moneys deposited in the Delivery Costs Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with the Trust Agreement.

Lease

The Corporation leases the Property to the City, and the City leases the Property from the Corporation, upon the terms and conditions set forth in the Lease Agreement. The leasing of the Property by the City to the Corporation pursuant to the Site and Facility Lease shall not affect or result in a merger of the City's leasehold estate pursuant to the Lease Agreement and its fee estate as lessor under the Site and Facility Lease.

Term of Agreement; Possession

The Term of the Lease Agreement shall commence on the Closing Date, and shall end on October 1, 2036, unless such term is extended as hereinafter provided. If, on October 1, 2036, the Trust Agreement shall not be discharged by its terms or if the Lease Payments or Additional Payments, if any, payable hereunder shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended without the need to execute any amendment to the Lease Agreement until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event shall the Term of the Lease Agreement extend beyond October 1, 2046. If, prior to October 1, 2036, the Trust Agreement shall be discharged by its terms, the Term of the Lease Agreement shall thereupon end.

Notwithstanding the foregoing, the Term of the Lease Agreement shall not end so long as any amounts are owed to AGM with respect to the Municipal Bond Insurance Policy or the Reserve Policy.

The City agrees to accept and take possession of the Property on or prior to the date of recordation of the Lease Agreement. The first Lease Payment shall be due on September 15, 2015.

Lease Payments

Obligation to Pay. The City agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease Agreement, to be due and payable on the respective Lease Payment Dates specified in the Lease Agreement. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole and other than amounts required for payment of Certificates not yet surrendered) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Property payable in any Rental Period shall be for the use of the Property for such Rental Period.

Effect of Prepayment. In the event that the City prepays all remaining Lease Payments and all additional payments due under the Lease Agreement in full, the City's obligations under the Lease Agreement shall thereupon cease and terminate including, but not limited to, the City's obligation to pay Lease Payments under the Lease Agreement; subject however, to the provisions of the Lease Agreement in the case of prepayment by application of a security deposit. In the event that the City optionally prepays the Lease Payments in part but not in whole, such prepayment shall be credited entirely towards the prepayment of the Lease Payments as follows: (i) the principal components of each remaining such Lease Payments shall be reduced in such order as shall be selected by the City in integral multiples of $5,000; and (ii) the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates redeemed pursuant to the Trust Agreement.

Rate on Overdue Payments. In the event the City should fail to make any of the payments required in the Lease Agreement, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate per annum payable with respect to the Certificates. Such interest, if received, shall be deposited in the Lease Payment Fund or in the Reserve Fund to replenish the Reserve Fund if withdrawals were made therefrom as a result of the default.

Fair Rental Value. The Lease Payments for each Rental Period shall constitute the total rental for the Property for each such Rental Period and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy and the continued quiet use and enjoyment of the Property during each Rental Period. The parties to the Lease Agreement have agreed and determined that the total Lease Payments represent the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public.

Source of Payments; Budget and Appropriation. Lease Payments shall be payable from any source of available funds of the City. The City covenants to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and for additional payments due under the Lease Agreement. To that end, the Board of Supervisors shall direct budgetary staff to include in each annual budget proposal to the Board of Supervisors an appropriation sufficient to pay Lease Payments and Additional Payments. The City expresses its present intent to appropriate Lease Payments and additional payments due under the Lease Agreement during the Term of the Lease Agreement. The covenants on the part of the City contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Assignment. The City understands and agrees that all Lease Payments have been assigned by the Corporation to the Trustee in trust, pursuant to the Assignment Agreement, for the benefit of the Owners of the Certificates, and the City assents to such assignment. The Corporation directs the City, and the City agrees to pay to the Trustee at the Principal Corporate Trust Office, all payments payable by the City pursuant to the Lease Agreement.

Additional Payments

In addition to the Lease Payments, the City shall pay when due the following additional payments:

(a) Any fees and expenses incurred by the City in connection with or by reason of its leasehold estate in the Property as and when the same become due and payable;

(b) Any amounts due to the Trustee pursuant to the Trust Agreement for all services rendered under the Trust Agreement and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Trust Agreement;

(c) Any reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the City, the Corporation or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Trust Agreement;

(d) Any reasonable out-of-pocket expenses of the City in connection with the execution and delivery of the Lease Agreement or the Trust Agreement, or in connection with the execution and delivery of the Certificates, including any and all expenses incurred in connection with the authorization, execution, sale and delivery of the Certificates, or incurred by the Corporation in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Trust Agreement, the Certificates or any of the other documents contemplated or thereby, or incurred by the Corporation in connection with the Continuing Disclosure Certificate, or otherwise incurred in connection with the administration thereof.

(e) The City agrees to pay any amounts owed to AGM pursuant to the Trust Agreement. The City's obligation to pay such amounts shall expressly survive payment in full of the Certificates.

Title

During the Term of the Lease Agreement, the Corporation shall hold leasehold title to the Property and shall hold fee title to those portions of the Property which are newly acquired or constructed and any and all additions which comprise fixtures, repairs, replacements or modifications to the Property, except for those fixtures, repairs, replacements or modifications which are added to the Property by the City at its own expense and which may be removed without damaging the Property and except for any items added to the Property by the City pursuant to the Lease Agreement.

If the City prepays the Lease Payments in full or makes the security deposit permitted by the Lease Agreement, or pays all Lease Payments during the Term of the Lease Agreement as the same become due and payable, all right, title and interest of the Corporation in and to the Property shall be terminated. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the City and the City shall pay, or otherwise arrange, for the payment of all utility services supplied to the Property which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments, the Corporation agrees to provide only the Property. The City waives the benefits of subsections 1 and 2 of section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease Agreement.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the City affecting the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation or AGM shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Corporation and AGM with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation. The City shall provide the Corporation and AGM with written notice of any such contest and shall provide such updates on the contest as the Corporation or AGM may reasonably request.

Modification of Property

The City shall, at its own expense, have the right to remodel the Property or to make additions, modifications and improvements to the Property. All additions, modifications and improvements to the Property shall thereafter comprise part of the Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Property, substantially alter its nature, cause the interest component of Lease Payments to be subject to federal income taxes or cause the Property to be used for purposes other than those authorized under the provisions of State and federal law; and the Property, upon completion of any additions, modifications and improvements made thereto pursuant to the Lease Agreement, shall be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to the Lease Agreement; provided that if any such lien is established and the City shall first notify the Corporation of the City's intention to do so, the City may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Insurance

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the City, the Trustee and AGM and their respective members, officers, agents and employees. 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 through a joint exercise of powers authority created for such purpose or, with the prior written consent of AGM, in the form of self-insurance by the City. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $100,000 (subject to a deductible clause of not to exceed $5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. 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 the form of insurance maintained through a joint exercise of powers authority created for such purpose or, with the prior written consent of AGM, in the form of self-insurance by the City. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance; No Earthquake Insurance. The City shall maintain, or cause to be maintained throughout the Term of the Lease Agreement, insurance against loss or damage to any part of the Property constituting structures, if any, by fire and lightning, with extended coverage and vandalism and malicious mischief insurance; *provided, however*, that the City shall not be required to maintain earthquake insurance with respect to the Property. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of such portion of the Property, if any. Such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City and with the prior written consent of AGM, may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement. The City may not satisfy the requirements of the Lease Agreement for fire and extended coverage insurance with self-insurance, except with the prior written consent of AGM.

Rental Interruption Insurance. The City shall maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement, if any, in an amount at least equal to two times maximum annual Lease Payments. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the City and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The City may not satisfy the requirements of the Lease Agreement for rental interruption insurance with self-insurance.

Title Insurance. The City shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date, an CLTA title insurance policy in the amount of not less than the principal amount of the Certificates, insuring the City's leasehold estate in the Property, subject only to Permitted Encumbrances.

Insurance Net Proceeds; Form of Policies Each policy or other evidence of insurance required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required under the Lease Agreement, shall name the Trustee and AGM as additional insureds and shall be applied as provided in the Lease Agreement. Insurance must be provided by an insurer rated "A" or better by S&P or A.M. Best Company, unless waived by AGM. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All policies evidencing required insurance shall provide thirty (30) days' prior written notice to the Corporation, the City, the Trustee and AGM of any cancellation, reduction in amount or material change in coverage. The Trustee shall not be responsible for the sufficiency of any insurance required in the Lease Agreement, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The City shall cause to be delivered annually on or before each June 1 to the Trustee and AGM a certification, signed by a City Representative, stating compliance with the provisions of the Lease Agreement. The Trustee shall be entitled to rely on such certification without independent investigation. The City shall have the adequacy of any insurance reserves maintained by the City or by a joint exercise of powers authority, if applicable, for purposes of the insurance required by the Lease Agreement reviewed at least annually, on or before each June 1, by an independent insurance consultant and shall maintain reserves in accordance with the recommendations of such consultant to the extent moneys are available for such purpose and not otherwise appropriated.

Tax Covenants

Private Activity Bond Limitation. The City shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Lease Agreement to satisfy the private business tests of section 141(b) of the Code or 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 Certificates or the Lease Agreement 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, to the extent that such section is applicable to the Certificates and the Lease Agreement.

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 Certificates 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 Certificates or the Lease Agreement 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 with respect to the Certificates from the gross income of the Owners of the Certificates 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.

No Condemnation

The City covenants and agrees, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Property. The City further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City should fall or refuse to abide by such covenant and condemns the Property, the appraised value of the Property shall not be less than the greater of (i) if the Certificates are then subject to redemption, the principal and interest components of the Certificates Outstanding through the date of their redemption, or (ii) if the Certificates are not then subject to redemption, the amount necessary to defease the Certificates to the first available redemption date in accordance with the Trust Agreement.

Eminent Domain

If all of the Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the City and the Corporation and communicated to the Trustee such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property, except to the extent of special funds, such as amounts in the Reserve Fund available for the payment of Lease Payments.

Application of Net Proceeds

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Property constituting structures, if any, by fire or other casualty shall be paid by the City to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund held by the Trustee and applied as set forth in the Trust Agreement.

From Eminent Domain Award. The Net Proceeds of any eminent domain award shall be paid by the City to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

From Title Insurance. The Net Proceeds of any title insurance award shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement of Lease Payments in the Event of Damage or Destruction

Lease Payments shall be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the City of the Property or any portion thereof to the extent to be agreed upon by the City and the Corporation and communicated by a City Representative to the Trustee. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties, or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction as communicated by a City Representative to the Trustee. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Reserve Fund, if cash funded, and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Access to the Property

The City agrees that the Corporation and any City Representative, and the Corporation's successors or assigns, and AGM, shall have the right at all reasonable times to enter upon and to examine and inspect the Property.

The City further agrees that the Corporation, any City Representative, and the Corporation's successors or assigns, and AGM, shall have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the City to perform its obligations under the Lease Agreement.

Release and Indemnification Covenants

The City shall and agrees to indemnify and save the Corporation, the Trustee and AGM and their officers, agents, directors, employees, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Property by the City, (ii) any breach or default on the part of the City in the performance of any of its obligations under the Lease Agreement or the Trust Agreement, (iii) any act or omission of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act or omission of any sublessee of the City with respect to the Property, or (v) the authorization of payment of the Delivery Costs. Such indemnification shall include the costs and expenses of defending any claim or liability arising under the Lease Agreement or the Trust Agreement and the transactions contemplated thereby. No indemnification is made in the Lease Agreement for willful misconduct, negligence or breach of duty under the Lease Agreement by the Corporation, its officers, agents, directors, employees, successors or assigns.

Assignment by the Corporation

The Corporation's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been assigned to the Trustee pursuant to the Assignment Agreement.

Assignment and Subleasing by the City

The Lease Agreement may not be assigned by the City. The City may sublease the Property or any portion thereof, but only with the written consent of the Corporation and AGM and subject to, and delivery to the Corporation of a certificate as to, all of the following conditions:

(a) The Lease Agreement and the obligation of the City to make Lease Payments shall remain obligations of the City;

(b) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Trustee and AGM a true and complete copy of such sublease;

(c) No such sublease by the City shall cause the Property to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State; and

(d) The City shall furnish the Corporation, the Trustee and AGM with a written opinion of Bond Counsel, which shall be an Independent Counsel, stating that such sublease does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Amendment of Lease Agreement

(a) *Substitution of Site or Facility*. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a "Substitute Site") and/or a substitute facility (a "Substitute Facility") for the Site (the "Former Site"), or a portion thereof, and/or the Facility (the "Former Facility"), or a portion thereof, provided that the City shall satisfy all of the following requirements (to the extent applicable) which are declared to be conditions precedent to such substitution:

(i) If a substitution of the Site, the City shall file with the Corporation, the Trustee and AGM an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(ii) If a substitution of the Site, the City shall file with the Corporation, the Trustee and AGM an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(iii) If a substitution of the Facility, the City shall file with the Corporation, the Trustee and AGM an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(iv) If a substitution of the Facility, the City shall file with the Corporation, the Trustee and AGM an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(v) The City shall certify in writing to the Corporation, the Trustee and AGM that such Substitute Site and/or Substitute Facility serve the purposes of the City, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the City is permitted to lease under the laws of the State;

(vi) The City delivers to the Corporation, the Trustee and AGM evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property following such substitution is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee that the indemnification provided pursuant to the Trust Agreement applies with respect to the Substitute Site and/or Substitute Facility;

(vii) The Substitute Site and/or Substitute Facility shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement;

(viii) The City shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site;

(ix) The City shall certify that the Substitute Site and/or the Substitute Facility is of the same or greater essentiality to the City as was the Former Site and/or the Former Facility;

(x) The City shall provide notice of the substitution to any rating agency then rating the Certificates which rating was provided at the request of the City or the Corporation;

(xi) The City shall furnish the Corporation, the Trustee and AGM with a written opinion of Bond Counsel, which shall be an Independent Counsel, stating that such substitution does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes; and

(xii) AGM shall provide written consent to such substitution.

(b) *Release of Site*. The City shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the City shall satisfy all of the following requirements which are declared to be conditions precedent to such release:

(i) The City shall file with the Corporation, the Trustee and AGM an amendment to the Site and Facility Lease which describes the Site, as revised by such release;

(ii) The City delivers to the Corporation, the Trustee and AGM evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Site, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Corporation that the indemnification provided pursuant to the Trust Agreement applies with respect to the Site, as revised by such release;

(iii) Such release shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement;

(iv) The City shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the City or the Corporation; and

(v) AGM shall provide written consent to such release.

(c) *Generally*. The Corporation and the City may at any time amend or modify any of the provisions of the Lease Agreement, but only (i) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Certificates and AGM, or (ii) without the consent of any of the Owners, but with the prior written consent of AGM, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Corporation and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners; or

(iii) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest with respect to the Certificates under the Code, in the opinion of Bond Counsel.

Events of Default and Remedies

Events of Default. The following shall be "events of default" under the Lease Agreement and the terms "Events of Default" and "Default" shall mean, whenever they are used in the Lease Agreement, any one or more of the following events:

(a) Failure by the City to pay any Lease Payment or other payment required to be paid at the time specified.

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement or under the Trust Agreement, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; *provided, however*, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. AGM shall have the right to control all remedies for default under both this Lease Agreement and the Trust Agreement. The Trustee shall have the right to re-enter and re-let the Property and to terminate the Lease Agreement.

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant in the Lease Agreement to be kept and performed by the City is expressly made a condition and upon the breach thereof, the Corporation may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner expressly provided in the Lease Agreement. In the event of such default and notwithstanding any re-entry by the Corporation, the City shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as provided in the Lease Agreement, to wit:

(a) In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for below, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Corporation. The City irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to enter upon and re-lease the Property in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place within Riverside City, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Property. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in paragraph (b) below.

(b) In an Event of Default, the Corporation at its option may terminate the Lease Agreement and re-lease all or any portion of the Property. In the event of the termination of the Lease Agreement by the Corporation at its option and in the manner provided in the Lease Agreement on account of default by the City (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the City of the election on the part of the Corporation to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Property and/or of the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

No Remedy Exclusive. No remedy is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Lease Agreement now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the Lease Agreement, it shall not be necessary to give any notice, other than such notice as may be required in the Lease Agreement or by law.

Security Deposit

Notwithstanding any other provision of the Lease Agreement, the City may, on any date, secure the payment of all or a portion of the Lease Payments remaining due by an irrevocable deposit with the Trustee or an escrow holder under an escrow deposit and trust agreement as referenced in the Trust Agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) cash in an amount which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in the Lease Agreement, or (ii) Defeasance Obligations in such amount as will, in the written opinion of an independent certified public accountant or other firm of recognized experts in such matters (addressed to AGM), together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Obligations or cash then on deposit and interest earnings thereon in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates; or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by a City Representative designating the portion of the Lease Payments to which the deposit pertains, and either (i) cash in an amount which is sufficient to pay the portion of the Lease Payments designated in such City Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations in such amount as will, together with interest to be received thereon, if any, in the written opinion of an independent certified public accountant or other firm of recognized experts in such matters (addressed to AGM), be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid City Representative's certificate.

In the event of a deposit pursuant as to all Lease Payments and the payment of all fees, expenses and indemnifications owed to the Trustee, all obligations of the City under the Lease Agreement shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all payments from the deposit made by the City and the obligations of the City pursuant to the Lease Agreement and title to the Property shall vest in the City on the date of said deposit automatically and without further action by the City or the Corporation. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments and said obligation shall thereafter be deemed to be and shall constitute the installment purchase obligation of the City for the Property. Upon said deposit, the Corporation will execute or cause to be executed any and all documents as may be necessary to confirm title to the Property in accordance with the provisions of the Lease Agreement. In addition, the Corporation appoints the City as its agent to prepare, execute and file or record, in appropriate offices, such documents as may be necessary to place record title to the Property in the City.

Prepayment

Optional Prepayment. The Corporation grants an option to the City to prepay the principal component of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments, or in part, in a prepayment amount equal to the principal amount of Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Said option may be exercised with respect to Lease Payments due on and after November 15, 2025, in whole or in part on any date, commencing September 15, _____. Said option shall be exercised by the City by giving written notice to the Corporation, the Trustee and AGM of the exercise of such option at least forty-five (45) days prior to said prepayment date. In the event of prepayment in part, the partial prepayment shall be applied against Lease Payments in such order of payment date as shall be selected by the City. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment. The Trustee agrees to notify the Corporation in the event of any prepayment of Lease Payments, as provided in the Trust Agreement.

Notwithstanding the foregoing, the City shall not be permitted to prepay any Lease Payments if any amounts are owed to AGM with respect to the Municipal Bond Insurance Policy.

Mandatory Prepayment From Net Proceeds of Insurance, Title Insurance or Eminent Domain. The City shall be obligated to prepay the Lease Payments, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance, title insurance or condemnation award with respect to the Property theretofore deposited in the Lease Payment Fund for such purpose. The City and the Corporation agree that such Net Proceeds shall be applied first to the payment of any delinquent Lease Payments, and thereafter shall be credited towards the City's obligations under the Lease Agreement. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the City to the Trustee and which shall represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment.

ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Corporation and the Trustee, pursuant to which the Corporation assigns and transfers to the Trustee, for the benefit of the Owners, certain of the rights of the Corporation under the Lease Agreement, including the right to receive Lease Payments under the Lease Agreement and the rights and remedies of the Corporation under the Lease Agreement to enforce payment of Lease Payments or otherwise to protect and enforce the Lease Agreement in the event of default by the City. Certain rights of the Corporation to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

TRUST AGREEMENT

Delivery Costs Fund; Payment of Delivery Costs

There shall be deposited in the Delivery Costs Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement and any other funds from time to time deposited with the Trustee for such purpose and identified in writing to the Trustee.

The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay the Delivery Costs. Disbursements from the Delivery Costs Fund shall be made by the Trustee on receipt of a sequentially numbered requisition, signed by a City Representative.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Delivery Costs Fund and the payment thereof in accordance with the Trust Agreement, but the Trustee shall not be responsible for the truth or accuracy of such requisitions, may rely conclusively thereon and shall be under no duty to investigate or verify any statements made therein.

Upon written notice from a City Representative that all Delivery Costs have been paid, the Trustee shall transfer any moneys then remaining in the Delivery Costs Fund to the Lease Payment Fund and applied for the purposes of such fund, the Delivery Costs Fund shall be closed, the Trustee shall no longer be obligated to make payments for Delivery Costs and all further Delivery Costs shall be paid by the City.

Assignment of Rights in Lease Agreement

The Corporation has, in the Assignment Agreement, transferred, assigned and set over to the Trustee certain of its rights but none of its obligations set forth in the Lease Agreement, including but not limited to all of the Corporation's rights to receive and collect Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement or pursuant to the Trust Agreement. All Lease Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee and all of the Lease Payments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Lease Payments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Lease Payment Fund

All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement.

There shall be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement or the Lease Agreement, and any other moneys required to be deposited therein pursuant to the Lease Agreement or the Trust Agreement.

All amounts in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same shall become due and payable in accordance with the provisions of the Trust Agreement.

Any surplus remaining in the Lease Payment Fund after redemption and/or payment of all Certificates, including accrued interest (if any) and payment of any applicable fees and expenses to the Trustee and payment of any amounts owed to AGM, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the City.

Reserve Fund

In lieu of a cash deposit to the Reserve Fund the Reserve Policy shall be delivered to the Trustee on the Closing Date. The prior written consent of AGM shall be a condition precedent to the deposit of any credit instrument (other than the Reserve Policy) provided in lieu of a cash deposit into the Reserve Fund.

Notwithstanding anything to the contrary set forth in the Trust Agreement, amounts on deposit in the Reserve Fund shall be applied solely to the payment of principal and interest due with respect to the Certificates.

The Trustee shall, on or before each March 15 and September 15, value investments in the Reserve Fund at market value and transfer any moneys in the Reserve Fund then in excess of the Reserve Requirement; *provided, however,* that the Trustee shall not liquidate an investment to make such transfer of excess unless so directed in writing by a City Representative.

If, on any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal, interest and redemption premium (if any) with respect to the Certificates then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to make delinquent Lease Payments by transferring the amount necessary for this purpose to the Lease Payment Fund or shall draw on the Reserve Policy and apply amounts received from such draw to make delinquent Lease Payments by transferring the amount necessary for this purpose to the Lease Payment Fund. To the extent there is cash or investments on deposit in the Reserve Fund, such cash or investments shall be applied first before there is any draw on the Reserve Policy or any other credit facility credited to the Reserve Fund in lieu of cash (a "Credit Facility"). Payment of any Reserve Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Reserve Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw. Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Fund or there has been a draw on the Reserve Policy, such Lease Payment shall be deposited in the Reserve Fund to the extent of such advance and first applied to reimburse a draw on the Reserve Policy and then to replenish any cash drawn therefrom.

The Trustee shall ascertain the necessity for a claim upon the Reserve Policy and to provide notice to AGM in accordance with the terms of the Reserve Policy at least five (5) business days prior to each date upon which interest or principal is due with respect to the Certificates.

The City agrees to repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by AGM. Interest shall accrue and be payable on such draws and expenses from the date of payment by AGM at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Certificates and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Reserve Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Reserve Policy Costs related to such draw.

Amounts in respect of Reserve Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

If the City shall fail to pay any Reserve Policy Costs in accordance with the requirements of the Trust Agreement, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement, other than (i) acceleration of the maturity of the Certificates, or (ii) remedies which would adversely affect Owners.

Neither the Trust Agreement nor the Lease Agreement shall be discharged until all amounts due to AGM shall have been paid in full. The City's obligation to pay such amounts shall expressly survive payment in full of the Certificates.

If, on any Interest Payment Date, the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal and interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal and interest, the Trustee shall transfer all amounts then on deposit in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments, and such moneys shall be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and all amounts due AGM and the Trustee under the Trust Agreement, or upon provision for such payment as provided in the Trust Agreement, shall be withdrawn by the Trustee and paid to the City.

Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award

(a) Any Net Proceeds of insurance against damage to or destruction of any part of the Property collected by the City in the event of any such damage or destruction shall be paid to the Trustee by the City pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the "Insurance and Condemnation Fund" to be established by the Trustee when deposits are required to be made therein.

(b) Within ninety (90) days following the date of such deposit, the City shall determine and notify the Trustee in writing of its determination either (i) that the replacement, repair, restoration, modification or improvement of the Property is not economically feasible or in the best interest of the City, or (ii) that all or a portion of such Net Proceeds are to be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property.

(c) In the event the City's determination is as set forth in clause (i) of paragraph (b) above, such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund, applied to the prepayment of Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates as provided in the Trust Agreement; *provided, however*, that in the event of damage or destruction of the Property in full, such Net Proceeds may be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Lease Payments pursuant to the Lease Agreement, otherwise such Net Proceeds shall be applied to the replacement, repair, restoration, modification or improvement of the Property; *provided further, however*, that in the event of damage or destruction of the Property in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments only if the resulting Lease Payments represent fair consideration for the remaining portions of the Property, evidenced by a certificate signed by a City Representative and an Corporation Representative.

(d) In the event the City's determination is as set forth in clause (ii) of paragraph (b) above, Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property by the City, and disbursed by the Trustee upon receipt of requisitions signed by a City Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the City.

Application of Net Proceeds of Eminent Domain Award

If all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the City has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the City to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are not needed for repair or rehabilitation of the Property, the City shall so certify to the Trustee and the Trustee, at the City's written request, shall transfer such proceeds to the Lease Payment Fund to be credited towards the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

(b) If the City has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the City to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the Property, the City shall so certify to the Trustee and the Trustee, at the City's written request, shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of the City Representative in the form and containing the provisions set forth in the Trust Agreement. The Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein.

(c) If (i) less than all of the Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Property or the ability of the City to meet any of its obligations with respect to the Property under the Lease Agreement or (ii) all of the Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

Application of Net Proceeds of Title Insurance Award

The Net Proceeds from a title insurance award shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be transferred to the Lease Payment Fund to be credited towards the prepayment of Lease Payments required to be paid pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates and for the purposes specified in the Trust Agreement and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement and shall not be subject to levy, attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the City or any Owner of Certificates.

Investments Authorized. Moneys held by the Trustee under the Trust Agreement shall, upon written order of a City Representative, be invested and reinvested by the Trustee in Permitted Investments. The Trustee may deem all investments directed by a City Representative as Permitted Investments without independent investigation thereof. If a City Representative shall fail to so direct investments, the Trustee shall invest the affected moneys in Permitted Investments described in paragraph (g) of the definition thereof. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as principal or agent in the making or disposing of any investment and make or dispose of any investment through its investment department or that of an affiliate and shall be entitled to its customary fees therefor. The Trustee is authorized, in making or disposing of any investment permitted by the Trust Agreement, to deal with itself (in its individual capacity) or with one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

Unless otherwise consented to by AGM, so long as any Certificates remain outstanding or any amounts are owed to AGM by the City, the City shall not enter into any interest rate exchange agreement, cap, collar, floor, ceiling or other agreement or instrument involving reciprocal payment obligations between the City and a counterparty based on interest rates applied to a notional amount of principal.

Allocation of Earnings. Unless and until otherwise directed by the City to the Trustee in writing, all interest or income received by the Trustee on investment of the Lease Payment Fund shall be retained in the Lease Payment Fund. Amounts retained or deposited in the Lease Payment Fund pursuant to the Trust Agreement shall be applied as a credit against the Lease Payment due by the City pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. All interest received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the Reserve Requirement. Reserve Fund investments may not have maturities extending beyond five years. In the event that amounts then on deposit in the Reserve Fund on the valuation date described in the Trust Agreement equal or exceed the Reserve Requirement, such excess shall be transferred to the Lease Payment Fund. Transfers to the Lease Payment Fund from the Reserve Fund shall be made by the Trustee on or prior to each January 1 and July 1. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed pursuant to the Trust Agreement.

Such investments shall be valued by the Trustee not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date. Investments purchased with funds on deposit in the Reserve Fund shall have a term to maturity of not greater than five years.

Amendments

The Trust Agreement and the rights and obligations of the Owners of the Certificates, the Lease Agreement and the rights and obligations of the parties thereto, the Site and Facility Lease and the rights and obligations of the parties thereto and the Assignment Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of a Lease Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the City, (2) to cure, correct or supplement any ambiguous or defective provision contained therein and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, materially adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate in the opinion of bond counsel to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto, as the case may be.

The Trust Agreement and the Lease Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

Certain Covenants

Compliance With and Enforcement of Lease Agreement. The City covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement.

The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of their respective Lease Agreement by the Corporation thereunder. The Corporation and the City, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Property, which may or can in any manner affect such estate of the City or the Corporation, will deliver the same, or a copy thereof, to the Trustee.

Observance of Laws and Regulations. The City and the Corporation will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City or the Corporation, respectively, including its right to exist and carry on business as a public entity, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Budgets. The City shall supply to the Trustee as soon as practicable, but not later than September 15 in each year, a written determination by a City Representative that the City has made adequate provision in its annual budget for the payment of Lease Payments due under the Lease Agreement in the Fiscal Year covered by such budget. The determination given by the City to the Trustee shall be that the amounts so budgeted are fully adequate for the payment of all Lease Payments and Additional Payments due under the Lease Agreement in the annual period covered by such budget.

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 Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee may, upon payment of its fees and expenses, including counsel fees, and receipt of indemnity satisfactory to it, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall or any holder or beneficial owner of the Certificates may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Limitation of Liability

Limited Liability of City. Except for the payment of Lease Payments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the City contained in the Lease Agreement and the Trust Agreement, the City shall have no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee, except as expressly set forth in the Trust Agreement.

No Liability of City or Corporation for Trustee Performance. Neither the City nor the Corporation shall have any obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Indemnification of Trustee. The City shall to the extent permitted by law indemnify and save the Trustee, its officers, employees, directors, affiliates and agents harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses (including allocated costs of internal counsel), arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property by the Corporation or the City; (ii) any breach or default on the part of the Corporation or the City the performance of any of their respective obligations under the Lease Agreement, the Assignment Agreement, the Trust Agreement and any other agreement made and entered into for purposes of the Property; (iii) any act of the Corporation or the City or of any of their respective agents, contractors, servants, employees, licensees with respect to the Property; (iv) any act of any assignee of, or purchaser from the Corporation or the City or of any of its or their respective agents, contractors, servants, employees or licensees with respect to the Property; (v) the authorization of payment of Delivery Costs; (vi) the actions of any other party, including but not limited to the ownership, operation or use of the Property by the Corporation or the City including, without limitation, the use, storage, presence, disposal or release of any Hazardous Substances on or about the Property; (vii) the Trustee's exercise and performance of its powers and duties under the Trust Agreement or as assigned to it under the Assignment Agreement; (viii) the offering and sale of the Certificates; (ix) the presence under or about or release from the Property, or any portion thereof, of any substance, material or waste which is or becomes regulated or classified as hazardous or toxic under State, local or federal law, or the violation of any such law by the City; or (x) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in any official statement or other offering document utilized in connection with the sale of the Certificates. Such indemnification shall include the costs and expenses of defending against any claim or liability arising under the Trust Agreement. No indemnification will be made under the Trust Agreement for willful misconduct or negligence under the Trust Agreement by the Trustee, its officers, affiliates or employees. The City's obligations under the Trust Agreement shall remain valid and binding notwithstanding maturity and payment of the Certificates or resignation or removal of the Trustee.

Assignment of Rights; Remedies. Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee certain of the Corporation's rights in and to the Lease Agreement, including without limitation all of the Corporation's rights to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee shall, upon request of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, and upon payment of its fees and expenses, including counsel fees, and being indemnified to its satisfaction therefor shall, exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything in the Trust Agreement or in the

Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

Certain Provisions relating to AGM and the Municipal Bond Insurance Policy

Defeasance. In the event that the principal and/or interest due with respect to the Certificates shall be paid by AGM pursuant to the Municipal Bond Insurance Policy, the Certificates shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the City to the Owners shall continue to exist and shall run to the benefit of the municipal bond insurer and the municipal bond insurer shall be subrogated to the rights of such Owners, including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Certificates.

Trustee-Related Provisions. the municipal bond insurer shall receive prior written notice of any name change of the Trustee or the resignation, removal or termination of the Trustee. No resignation, removal or termination of the Trustee shall take effect until a successor, acceptable to AGM, shall be appointed. The Trustee may be removed at any time at the request of AGM for any breach of its obligations under the Trust Agreement.

Amendments and Supplements. With respect to amendments or supplements to the Trust Agreement or the Lease Agreement which do not require the consent of the Owners, AGM must be given prior written notice of any such amendments or supplements.

With respect to amendments or supplements to the Trust Agreement or the Lease Agreement which do require the consent of the Owners, AGM's prior written consent is required.

Copies of any amendments or supplements to the Trust Agreement or the Lease Agreement which are consented to by AGM shall be sent to the rating agencies that have assigned a rating to the Certificates.

Notwithstanding any other provision of the Trust Agreement or the Lease Agreement, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions thereof, the effect on the Owners shall be considered as if there was no Municipal Bond Insurance Policy.

AGM shall be deemed to be the sole holder of the Certificates for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners are entitled to take pursuant the provisions of the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

AGM as Third Party Beneficiary. To the extent that the Trust Agreement or the Lease Agreement confer upon or give or grant to AGM any right, remedy or claim under or by reason of the Trust Agreement or the Lease Agreement, AGM is explicitly recognized as being a third party beneficiary under the Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted under the Trust Agreement.

Control Rights. AGM shall be deemed to be the Owner of all of the Certificates for purposes of (i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default, and (ii) granting any consent, direction or approval (including with respect to amendments under the Trust Agreement) or taking any action permitted by or required under the Trust Agreement or the Lease Agreement, as the case may be, to be granted or taken by the Owners of such Certificates.

Anything in the Trust Agreement or the Lease Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, AGM shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners.

The rights granted to AGM under the Lease Agreement, the Assignment Agreement and/or the Trust Agreement to request, consent to or direct any action are rights granted to AGM in consideration of its issuance of the Municipal Bond Insurance Policy. Any exercise by AGM of such rights is merely an exercise of AGM's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of AGM, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of AGM.

Consent Rights of AGM. Any provision of the Trust Agreement or the Lease Agreement expressly recognizing or granting rights in or to AGM may not be amended in any manner that affect the rights of AGM thereunder without the prior written consent of AGM.

Wherever the Trust Agreement or the Lease Agreement require the consent of Owners, AGM's consent shall also be required.

Any reorganization or liquidation plan with respect to the City must be acceptable to AGM. In the event of any reorganization or liquidation, AGM shall have the right to vote on behalf of all Owners who hold Certificates guaranteed by AGM, absent a default by AGM under the Municipal Bond Insurance Policy.

The rights granted to AGM under the Trust Agreement or the Lease Agreement to request, consent to or direct any action are rights granted to AGM in consideration of its issuance of the Municipal Bond Insurance Policy, and shall not apply if AGM defaults under the Municipal Bond Insurance Policy. Any exercise by AGM of such rights is merely an exercise of AGM's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf, of the Owners and such action does not evidence any position of AGM, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of AGM.

Payment Procedure Under the Municipal Bond Insurance Policy. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Trust Agreement, moneys sufficient to pay the principal and interest with respect to the Certificates due on such Payment Date, the Trustee shall give notice to AGM and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal and interest with respect to the Certificates due on such Payment Date, the Trustee shall make a claim under the Municipal Bond Insurance Policy and give notice to AGM and AGM's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest with respect to the Certificates and the amount required to pay principal with respect to the Certificates, confirmed in writing to AGM and AGM's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Municipal Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal with respect to Certificates paid by AGM, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current Owners, and shall issue a replacement Certificate to AGM, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest payable by the City with respect to any Certificate or the subrogation rights of AGM.

The Trustee shall keep a complete and accurate record of all funds deposited by AGM into the Municipal Bond Insurance Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal with respect to any Certificate. AGM shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Municipal Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners referred to as the "Municipal Bond Insurance Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Municipal Bond Insurance Policy in trust on behalf of Owners and shall deposit any such amount in the Municipal Bond Insurance Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners in the same manner as principal and interest payments are to be made with respect to the Certificates under the sections of the Trust Agreement regarding payment of Certificates. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything in the Trust Agreement to the contrary, the City agrees to pay to AGM (i) a sum equal to the total of all amounts paid by AGM under the Municipal Bond Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by AGM until payment thereof in full, payable to AGM at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest with respect to the Certificates; and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The City covenants and agrees that AGM Reimbursement Amounts are secured on a parity with amounts due under the Lease Agreement.

Funds held in the Municipal Bond Insurance Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Municipal Bond Insurance Policy Payments Account following a Payment Date shall promptly be remitted to AGM.

AGM shall, to the extent it makes any payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy. Each obligation of the City to AGM under the Lease Agreement or the Trust Agreement shall survive discharge or termination of the Lease Agreement or the Trust Agreement.

The City shall pay or reimburse AGM any and all charges, fees, costs and expenses that AGM may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Lease Agreement, the Assignment Agreement or the Trust Agreement; (ii) the pursuit of any remedies under the Lease Agreement, the Assignment Agreement or the Trust Agreement or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Lease Agreement, the Assignment Agreement or the Trust Agreement whether or not executed or completed; or (iv) any litigation or other dispute in connection with the Lease Agreement, the Assignment Agreement or the Trust Agreement or the transactions contemplated thereby, other than costs resulting from the failure of AGM to honor its obligations under the Municipal Bond Insurance Policy. AGM reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Lease Agreement, the Assignment Agreement or the Trust Agreement.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the City or rebate only after the payment of past due and current debt service on the Certificates and amounts required to restore the Reserve Fund to the Reserve Requirement.

AGM shall be entitled to pay principal or interest with respect to the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy), whether or not AGM has received a Notice of Nonpayment (as such terms are defined in the Municipal Bond Insurance Policy) or a claim upon the Municipal Bond Insurance Policy.

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APPENDIX F

DTC'S 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 interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 Certificates (as used in this Appendix E, 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 is rated AA+ by Standard & Poor's. 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.

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF PORTERVILLE (the "City") in connection with the execution and delivery of $20,000,000* City of Porterville, California, Certificates of Participation (2015 Refinancing Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2015, by and among U.S. Bank National Association, as trustee (the "Trustee"), the City and the Porterville Public Improvement Corporation(the "Trust Agreement"). The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Trust Agreement, 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 Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"*Dissemination Agent*" shall mean the City 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.

"*Participating Underwriter*" shall mean any original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"*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 Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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* 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 nine 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 March 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(b), 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 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, as follows:

(i) General Fund Budget;

(ii) General Fund Statement of Actual Revenues, Expenditures and Changes in Fund Balance;

(iii) Historical Taxable Sales and Sales Tax Receipts;

(iv) Assessed Valuation;

(v) Secured Tax Levies and Delinquencies;

(vi) Ten Largest Taxpayers;

(vii) General Fund Long-Term Debt Outstanding;

(viii) Employer Contribution Rates to Retirement System, UAAL and Funded Ratios –Safety Plan; and

(ix) Employer Contribution Rates to Retirement System, UAAL and Funded Ratios –Miscellaneous Plan.

(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 Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Certificates:

(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, fiscal agent 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 Certificates, 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.* 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 City obtains knowledge of any 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 Certificates under the Trust Agreement.

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 Certificates. If such termination occurs prior to the final maturity of the Certificates, 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 Certificate 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 reasonable 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 reasonable 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.

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 Certificates, 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 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate 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 Certificate 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. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 13. 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 Certificates, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF PORTERVILLE

By ____

John D. Lollis
City Manager

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	City of Porterville, California
Name of Issue:	Certificates of Participation (2015 Refinancing Project and 2015 Refinancing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the City of Porterville, as the Rental for Certain Property Pursuant to a Lease Agreement with the Porterville Public Improvement Corporation
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by ____________________.

Date: ____________________

CITY OF PORTERVILLE, Dissemination Agent

By ____
Authorized Officer

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ________________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)