

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 28, 2014

NEW ISSUE—FULL BOOK ENTRY

RATINGS:
S&P: "AA" (AGM-Insured)
S&P: "A-" (Underlying)
See "RATINGS" herein

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.



\$17,000,000*
Sanger Financing Authority
(Fresno County, California)
Wastewater Refunding Revenue Bonds, Series 2014

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The \$17,000,000* Sanger Financing Authority Wastewater Refunding Revenue Bonds, Series 2014 (the "Bonds"), will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by MUFG Union Bank, N.A., San Francisco, California, as trustee (the "Trustee"). Principal is payable on the dates set forth below. Interest is payable semiannually on each June 15 and December 15, commencing December 15, 2014. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein.

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

The Bonds are special obligations of the Sanger Financing Authority (the "Authority") payable from the revenues pledged under the Indenture of Trust, dated as of September 1, 2014, by and between the Authority and the Trustee, consisting primarily of installment payments (the "Installment Payments") to be made by the City of Sanger (the "City") under an installment sale agreement, dated as of September 1, 2014, by and between the Authority and the City (the "Installment Sale Agreement"). The Installment Payments are secured by a pledge of and lien on the net revenues of the City's municipal wastewater enterprise (the "Wastewater System"). The Bonds are being issued to (a) refund, on a current basis, the outstanding Sanger Public Financing Authority Lease Revenue Refunding Bonds (Wastewater Treatment Facilities) Series 2006A (the "2006 Bonds"); (b) purchase a reserve fund surety bond in lieu of cash funding a reserve fund for the Bonds, and (c) pay the costs of issuance of the Bonds.

The City is legally required under the Installment Sale Agreement to make Installment Payments from a first and prior lien on the Net Revenues of the Wastewater System. "Net Revenues" are the gross revenues of the Wastewater System, less operating and maintenance expenses of the Wastewater System. The Installment Payments are scheduled in an amount sufficient to pay, when due, the principal of and interest on the Bonds. The City's obligation to make Installment Payments will be on a parity with its obligation to make installment payments under an installment sale agreement, dated as of November 1, 2013, by and between the Authority and the City (the "2013 Installment Payments"), which 2013 Installment Payments secure the Authority's Sanger Financing Authority Subordinate Wastewater Revenue Bonds, Series 2013 (the "2013 Bonds"). When the 2013 Bonds were issued, the 2013 Installment Payments had a subordinate lien on Net Revenues. By virtue of the refunding of the 2006 Bonds, the 2013 Installment Payments will no longer be subordinate obligations.

The City has covenanted under the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Wastewater System which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.20 times the aggregate of obligations of the City with respect to the Installment Payments, 2013 Installment Payment and payments with respect to any additional parity obligations hereafter issued or incurred by the City in such Fiscal Year. The City will covenant in the Installment Sale Agreement that it will not issue any obligations senior to the 2013 Installment Payments and the Installment Payments. The Installment Payments are not subject to abatement.

NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES AN OBLIGATION OF THE CITY OR THE AUTHORITY 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 AUTHORITY HAS NO TAXING POWER. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT SALE AGREEMENT CONSTITUTES A DEBT OF THE CITY, THE COUNTY OF SANGER, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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



MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

SEE THE INSIDE COVER

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

The Bonds will be offered when, as and if issued, and received by the Underwriters, subject to the approval as to their validity by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City and the Authority by the City Attorney, and by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York, on or about September 30, 2014.

WULFF, HANSEN & CO.

GATES CAPITAL CORPORATION

Dated: September __, 2014

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$17,000,000*
Sanger Financing Authority
(Fresno County, California)
Wastewater Refunding Revenue Bonds, Series 2014

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

\$ _____ **Serial Bonds**
 CUSIP† Prefix: 80083T

<u>Maturity</u> <u>June 15</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u> <u>Suffix</u>
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\$ _____ % Term Bonds maturing June 15, _____; Price: _____%, to yield _____%; CUSIP† 80083T _____

\$ _____ % Term Bonds maturing June 15, _____; Price: _____%, to yield _____%; CUSIP† 80083T _____

\$ _____ % Term Bonds maturing June 15, _____; Price: _____%, to yield _____%; CUSIP† 80083T _____

*Preliminary, subject to change.

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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 Authority with respect to the Bonds that has been deemed “final” by the Authority 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 by the Authority, the City or the Underwriters to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement that 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 in this Official Statement has been obtained from official sources and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Underwriters. 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 Authority or the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. 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 Authority’s or the City’s forecasts in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “CONTINUING DISCLOSURE” herein.

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

The execution, sale and delivery of the Bonds 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 Bonds or the advisability of investing in the Bonds. 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” and “APPENDIX H--SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

The City maintains a website, however, the information presented therein is not a part of this Official Statement and should not be relied on in making an investment decision with respect to the Bonds.

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SANGER FINANCING AUTHORITY

CITY OF SANGER

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Authority Board of Directors and City Council

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Rodney Nielson, *Authority Vice President/Mayor Pro Tem*
Raul Cantu *Authority/Council Member*
Eli Ontiveros, *Authority/Council Member*
Tony Pacheco, *Authority/Council Member*

Authority/City Staff

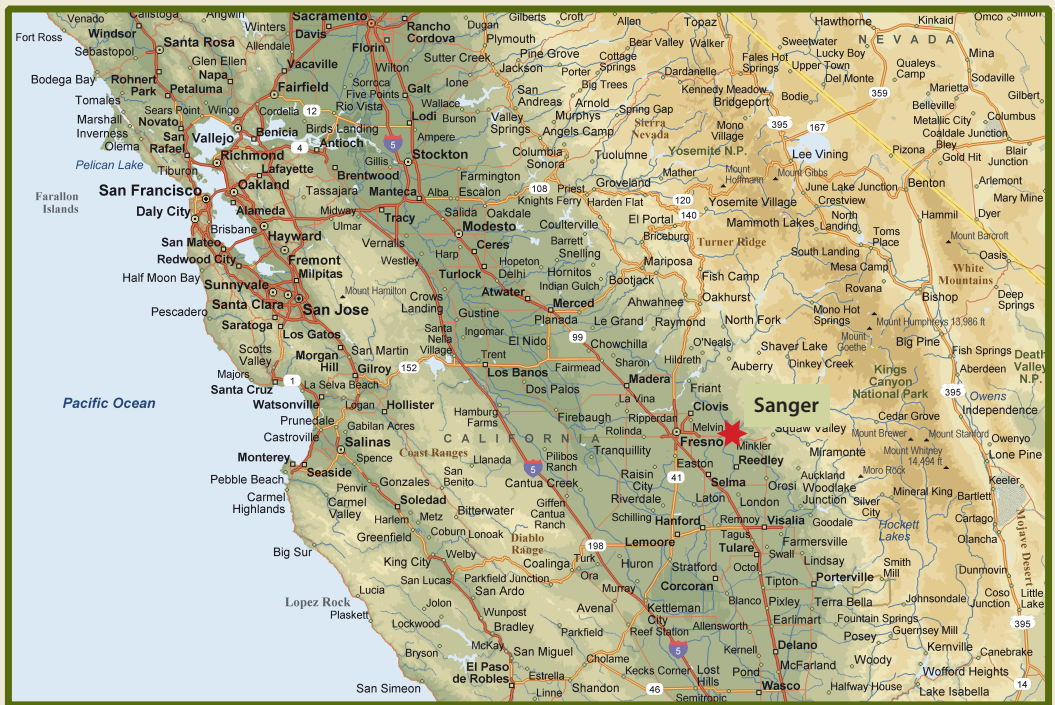
Brian Haddix *Executive Director/City Manager*
Deborah G. Sultan, *Treasurer/Finance Director*
Rebeca Hernandez *Secretary/City Clerk*
John F. Mulligan, *Public Works Director*
Lozano Smith, *Authority Counsel and City Attorneys*

Special Services

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

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

SANGER • CALIFORNIA



\$17,000,000*
SANGER FINANCING AUTHORITY
(Fresno County, California)
Wastewater Refunding Revenue Bonds, Series 2014

INTRODUCTION

The following introduction presents a brief description of certain information in connection with the Bonds (as defined below) and is qualified in its entirety by reference to the entire Official Statement and the documents summarized or described herein. References to, and summaries of, provisions of the Constitution and the laws of the State of California (the “State”) and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms in the Indenture. See APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions.

General

The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery by the Sanger Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California (the “Authority”), of its Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014 (the “Bonds”), in the aggregate principal amount of \$17,000,000.* The Bonds are special obligations of the Authority payable from the revenues (the “Revenues”) pledged under an indenture of trust, dated as of September 1, 2014 (the “Indenture”), by and between the Authority and MUFG Union Bank, N.A., as trustee (the “Trustee”), consisting primarily of installment payments (the “Installment Payments”) to be made by the City of Sanger (the “City”) under an installment sale agreement, dated as of September 1, 2014 (the “Installment Sale Agreement”), by and between the Authority and the City, as the purchase price for certain improvements (the “2006 Project”) to the City’s municipal water enterprise (the “Wastewater System”) finance with the proceeds of the 2006 Bonds (hereinafter defined). The Installment Payments are secured by a pledge of and lien on the net revenues of the Wastewater System (the “Net Revenues”).

The Authority

The Authority is a California joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of September 20, 2013, by and between the City and the California Municipal Finance Authority to provide for the financing of public capital improvements by the City. See “THE AUTHORITY.”

The City

The City is a municipal corporation and general law city incorporated in 1911. The City is located in Fresno County (the “County”), a region in the central portion of the State of California. The City serves approximately 24,500 residents in a land area of 5.52 square miles. The City operates as a general law city under the council-manager form of government. policy-making and legislative authority are vested

* Preliminary, subject to change.

in the City Council consisting of a Mayor and four other elected City Council members. See “THE CITY,” “CITY FINANCIAL INFORMATION” and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

The Wastewater System

The City owns and operates two wastewater treatment plants that run in parallel (a domestic wastewater treatment plant and an industrial wastewater treatment plant). The original plant was constructed in 1947, followed in 1963 by the addition of a primary clarifier, a 21-inch industrial sewer line and digester gas heating. A second upgrade occurred in 1971, expanding the domestic plant to 1.8 million gallons per day (MGD) and the industrial plant to 1.5 MGD. The expansion included new headworks, primary clarifier, aeration basins, secondary clarifiers, thickener, a second digester, and sludge drying beds. In 1998, the domestic plant was expanded to 3.0 MGD and the industrial plant was expanded and rerated to 1.3 MGD.

The current domestic plant consists of a headworks, a grit chamber, primary clarifiers, an activated sludge unit, secondary clarifiers, a sodium hypochlorite disinfection system, a sludge thickener, an anaerobic sludge digester and solids dewatering consisting of a sludge holding tank, centrifuge and solar drying beds. The effluent is then pumped to three rapid infiltration ponds approximately three miles south of the plant site to a site known as “Lincoln Ponds” on Lincoln Avenue.

The industrial plant involved the construction of separate aerated lagoons and effluent disposal facilities with a portion used to irrigate feed and fodder crops on City-owned land adjacent to the plant. The current industrial Plant consists of a headworks, an aerated grit chamber, primary clarifier(s), a biofilter, an intermediate pump station for biofilter recirculation and a pump station to transport the effluent to the treatment train. The treatment train consists of a fully mechanically aerated treatment pond, an aerated storage pond, three non-aerated storage ponds and six pump stations.

See “THE WASTEWATER SYSTEM.”

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, the Indenture and resolutions of the governing body of the Authority and of the City Council of the City adopted on July 17, 2014.

Purpose of the Bonds

The Bonds are being issued to (a) refund, on a current basis, the outstanding Sanger Public Financing Authority Lease Revenue Refunding Bonds (Wastewater Treatment Facilities) Series 2006A (the “2006 Bonds”); (b) purchase a reserve fund surety bond in lieu of cash funding a reserve fund for the Bonds, and (c) pay the costs of issuance of the Bonds. See “FINANCING PLAN.”

Security and Source of Repayment

In accordance with the Installment Sale Agreement, the City is required to make Installment Payments to the Trustee for the account of the Authority. The Installment Payments are designed to be

sufficient, in both time and amount, to pay, when due, the principal of, and interest on the Bonds. The City is also required to make additional payments in the amount of any taxes, assessments, insurance premiums, expenses of the Authority and the Trustee incidental to the sale and delivery of the Bonds, administrative costs or charges of the Authority and costs and expenses which the Authority may incur as a consequence of a default by the City. See APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Installment Sale Agreement.

The City is legally required under the Installment Sale Agreement to make Installment Payments from a first and prior lien on the Net Revenues of the Wastewater System. The City's obligation to make Installment Payments will be on a parity with its obligation to make installment payments under an installment sale agreement, dated as of November 1, 2013, by and between the Authority and the City (the "2013 Installment Payments"), which 2013 Installment Payments secure the Authority's Sanger Financing Authority Subordinate Wastewater Revenue Bonds, Series 2013 (the "2013 Bonds"). When the 2013 Bonds were issued, the 2013 Installment Payments had a subordinate lien on Net Revenues. By virtue of the refunding of the 2006 Bonds, the 2013 Installment Payments will no longer be subordinate obligations.

The City's obligations with respect to the Installment Sale Agreement, the 2013 Installment Sale Agreement and any additional obligations hereafter issued and incurred on a parity as to payment and security with the Installment Payments (collectively, the "Parity Obligations") are secured by a first lien on the Net Revenues.

The City has covenanted in the Installment Sale Agreement that it will not issue any obligations senior to the Installment Sale Agreement, the 2013 Installment Sale Agreement and future Parity Obligations and, specifically.

THE OBLIGATION OF THE CITY TO MAKE THE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE AUTHORITY, THE CITY, THE COUNTY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY, THE CITY, THE COUNTY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

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

"*Gross Revenues*" means all user fee charges derived by the City from, the ownership and operation of the Wastewater System, including but not limited to investment earnings thereon.

"*Maintenance and Operation Costs*" means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Wastewater System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Wastewater System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (c) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater System; but in all cases excluding (i) debt service payable on all other obligations incurred by the City with respect to the Wastewater System

including but not limited to the Installment Sale Agreement, the 2013 Installment Sale Agreement and any future Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

See “SECURITY FOR THE BONDS.”

Municipal Bond Insurance Policy; Reserve Account Insurance Policy

The scheduled payment of the principal and interest on the Bonds 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 issuance of the Bonds. See “MUNICIPAL BOND INSURANCE.” In addition, AGM has made a commitment to issue a municipal bond insurance policy for the Reserve Account (the “Reserve Account Insurance Policy”) in an amount equal to the Reserve Requirement. See “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account.”

Redemption of the Bonds

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

Book-Entry Form

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Principal, premium, if any, and interest are payable directly to DTC by the Trustee. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated to remit such principal, premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Continuing Disclosure

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Wastewater System by not later than nine months following the end of the City’s Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Tax Matters

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the Authority and the City with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS.”

Professionals Involved in the Offering

The proceedings of the Authority and the City in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by Lozano Smith., Fresno, California, Authority Counsel and City Attorney. MUFG Union Bank, N.A., San Francisco, California, will act as the Trustee under the Indenture. The fees of Bond Counsel, Disclosure Counsel and the Trustee are contingent upon the sale and delivery of the Bonds.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled “FINANCING PLAN,” “THE WASTEWATER SYSTEM,” “RISK FACTORS RELATING TO THE BONDS” and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY, contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 2000. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “RISK FACTORS RELATING TO THE BONDS” and “TAX MATTERS.”

Other Matters

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

Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee.

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

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

Other Information

The descriptions herein of the Indenture, the Installment Sale Agreement and any other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by the forms thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS. Copies of the documents are on file and, upon request and payment to the City of a charge for copying, mailing and handling, from the Finance Director, City of Sanger, 1700 7th Street, Sanger CA 93657, Telephone: (559) 876-6300.

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

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City or the Authority. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

FINANCING PLAN

The Bonds are being issued to (a) refund the 2006 Bonds; (b) purchase the Reserve Account Insurance Policy, and (c) pay the costs of issuance of the Bonds.

Pursuant to an escrow deposit and trust agreement (the “Escrow Agreement”), by and between the City and MUFG Union Bank, N.A., as escrow bank (the “Escrow Bank”), a portion of the proceeds of the Bonds, moneys on deposit in the reserve fund for the 2006 Bonds will be transferred to the Escrow Bank for deposit in the escrow fund established under the Escrow Agreement (the “Escrow Fund”).

The Escrow Bank will hold amounts deposited in the Escrow Fund uninvested. From the moneys on deposit in the Escrow Fund, the Escrow Bank will, on September 15, 2014, redeem all outstanding 2006 Bonds at a redemption price equal to 102% of the principal amount thereof plus accrued interest thereon to the redemption date

The amounts held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of amounts due and payable with respect to the 2006 Bonds. The moneys deposited in the Escrow Fund will not be available for the payment of debt service on the Bonds.

ESTIMATED SOURCES AND USES OF PROCEEDS

SOURCES

Par Amount of Bonds	
Less/Plus: Original Issue Discount/Premium	_____
Total Sources	=====

USES

Deposit to Escrow Fund ⁽¹⁾	
Costs of Issuance ⁽²⁾	_____
Total Uses	=====

⁽¹⁾ Represents the amount required to refund the 2006 Bonds on December 15, 2014. See “FINANCING PLAN.”

⁽²⁾ Includes the Underwriters’ discount, legal and financing costs, printing costs, fees of the rating agency, initial fees of the Trustee, the premiums for the Municipal Bond Insurance Policy and the Reserve Account Insurance Policy and other costs related to the issuance of the Bonds.

DEBT SERVICE REQUIREMENTS

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

Year Ending June 15	Principal ⁽¹⁾	Interest	Total
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
TOTALS			

⁽¹⁾ Includes mandatory sinking fund installments.

THE BONDS

General Provisions

The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds will mature on June 15 in each of the years and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside cover page hereof.

Interest on the Bonds will be payable semiannually on each June 15 and December 15, commencing December 15, 2014 (each, an “Interest Payment Date”), to the person whose name appears on the Registration Books as the Owner thereof as of the first calendar day of the month immediately preceding each such Interest Payment Date (each, a “Record Date”), such interest to be paid by check of the Trustee mailed by first-class mail to the Owners at the respective addresses of such Owners as they appear on the Registration Books; provided, however, that payment of interest may be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of

Bonds in the aggregate principal amount of \$1,000,000 or more who furnishes written wire instructions to the Trustee at least five days before the applicable Record Date. Principal of any Bond and any premium upon redemption will be paid by check of the Trustee upon presentation and surrender thereof at the corporate trust office of the Trustee, except as provided in APPENDIX G—BOOK-ENTRY ONLY SYSTEM. Principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America.

Each Bond will be dated as of its date of delivery and will bear interest from the Interest Payment Date next preceding such date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) it is authenticated on or before December 1, 2014, in which event it will bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Interest payable on the Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date.

Transfer and Exchange

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Terms of Redemption

Optional Redemption. The Bonds maturing on or prior to June 15, _____, are non-callable. The Bonds maturing on and after June 15, _____, are subject to redemption, at the option of the City, on any date on or after June 15, _____, as a whole or in part, by such maturities as shall be determined by the City, and by lot within a maturity, from prepayments of the Installment Payments made at the option of the City pursuant to the Installment Sale Agreement, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on June 15, _____ (the “_____ Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on June 15, _____, and on June 15 in each year thereafter to and including June 15, _____ at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date (<u>June 15</u>)	Principal <u>Amount</u>
---------------------------------------	----------------------------

† Maturity.

The Bonds maturing on June 15, _____ (the “_____ Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on June 15, _____, and on June 15 in each year thereafter to and including June 15, _____ at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the _____ Term Bonds have been optionally redeemed as described below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the _____ Term Bonds so redeemed by reducing each such future Sinking Account payment as shall be determined by the City and, in lieu of such determination, on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Redemption Date
(June 15)

Principal
Amount

† Maturity.

Selection of Bonds for Redemption. The Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption by lot within a maturity. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond. No Bonds selected for redemption may be transferred.

Notice of Redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

Notice of any optional redemption of Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Bonds to be redeemed is on deposit in the applicable fund or account.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due

and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of the Indenture shall be canceled by the Trustee upon surrender thereof and destroyed.

SECURITY FOR THE BONDS

Revenues

The Bonds are special obligations of the Authority payable from and secured by a pledge of the Revenues, consisting primarily of Installment Payments to be made by the City under the Installment Sale Agreement, and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture.

The Installment Payments payable to the Trustee are calculated to be sufficient to pay, when due, the principal of and interest on the Bonds.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Net Revenues, as the purchase price of the 2006 Project, an amount equal to the aggregate principal amount of the Bonds, together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable on each Installment Payment Date. The Installment Payments will be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture.

The City's obligations under the Installment Sale Agreement are secured by a pledge of and lien on Net Revenues.

Effect of Prepayment. In the event that the City prepays all remaining Installment Payments in full, the City's obligations under the Installment Sale Agreement will thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments; *provided, however*, that the City's obligations to compensate and indemnify the Trustee shall survive such prepayment. In the event that the City prepays the Installment Payments in part but not in whole, the principal component of each succeeding Installment Payment will be reduced and the interest component of each remaining Installment Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed.

Rate on Overdue Payments. In the event the City fails to make any of the payments required in the Installment Sale Agreement, the payment in default will continue as an obligation of the City until the amount in default is fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Assignment. The City agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment.

Special Obligation of the City; Obligations Absolute

The City's obligation to pay the Installment Payments, the Additional Payments, any other amounts coming due and payable under the Installment Sale Agreement, the 2013 Installment Payments and payments with respect to future Parity Obligations is a special obligation of the City limited solely to the Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments, the 2013 Installment Payments, the Additional Payments or payments with respect to future Parity Obligations, nor will any other funds or property of the City be liable for the payment of the Installment Payments, the 2013 Installment Payments, the Additional Payments or payments with respect to future Parity Obligations and any other amounts coming due and payable under the Installment Sale Agreement.

The obligations of the City to make the Installment Payments, the 2013 Installment Payments, the Additional Payments and payments with respect to future Parity Obligations from Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement and under agreements with respect to future Parity Obligations are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Wastewater System, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Installment Payments, all of the 2013 Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement and payments with respect to future Parity Obligations shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, any 2013 Installment Payments, Additional Payments, payments with respect to future Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement and under any agreements with respect to future Parity Obligations, and (c) will not terminate the Installment Sale Agreement or agreements with respect to future Parity Obligations for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater System, sale of the Wastewater System, the taking by eminent domain of title to or temporary use of any component of the Wastewater System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, the Installment Sale Agreement, the 2013 Installment Sale Agreement or agreements with respect to future Parity Obligations.

Nothing contained in the Installment Sale Agreement shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained in the Installment Sale Agreement or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights under, the Installment Sale Agreement and in such event the Authority hereby

agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Pledge and Application of Net Revenues

Pledge of Net Revenues. The City agrees that the payment of the Installment Payments shall be secured by a pledge, charge and first and prior lien upon Net Revenues, and Net Revenues sufficient to pay the Installment Payments as they become due and payable are hereby pledged, charged, assigned, transferred and set over by the City to the Authority and its assigns for the purpose of securing payment of the Installment Payments. The Net Revenues shall constitute a trust fund for the security and payment of the Installment Payments.

Deposit to and Transfer from Wastewater Fund. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Wastewater Fund.

The City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay all Maintenance and Operation Costs as they come due and payable.

The City covenants and agrees that all Gross Revenues will be held by the City in the Wastewater Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder), the Owners, the owners of the 2013 Bonds, the owners of any future Parity Obligations and the owners of any Subordinate Obligations.

On or before each Installment Payment Date, the City shall withdraw from the Wastewater Fund and transfer to the Trustee, for deposit into the Bond Fund, amounts which, together with the balance then on deposit in the Bond Fund (other than amounts resulting from the prepayment of the Installment Payments and other than amounts required for payment of the principal or interest with respect to any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay (i) the principal of and interest on any future Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any future Parity Obligations; and (ii) pay all other amounts when and as due and payable hereunder.

Release from Lien. Following the transfers with respect to the June 15 Interest Payment Date, Net Revenues in excess of amounts required for the payment of the Installment Payments, the 2013 Installment Payments, and any future Parity Obligations in that Fiscal Year shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the City.

Rates, Fees and Charges

The City will, at all times while any of the Installment Sale Agreement, the 2013 Installment Sale Agreement, any future Parity Obligations and any Subordinate Obligations remain Outstanding, fix, prescribe and collect rates, fees and charges for the Water Service for each Fiscal Year so as to yield Gross Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year in the order below set forth:

(i) All current Maintenance and Operation Costs.

(ii) The Installment Payments, the 2013 Installment Payments and all payments required with respect to the any future Parity Obligations.

(iii) Payments required with respect to the any Subordinate Obligations.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Net Revenues.

(v) Any other lawful purposes of the City, including, but not limited to, deposits to the Rate Stabilization Fund.

In addition, the City shall fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are sufficient to yield Net Revenues at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding paragraphs (ii) and (iii) above in such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues

No Obligations Superior to Installment Payments. In order to protect further the availability of the Net Revenues and the security for the Installment Payments, the 2013 Installment Payments and any future Parity Obligations, the City hereby agrees that the City shall not, so long as any Installment Payments, the 2013 Installment Payments or any future Parity Obligations are outstanding, issue or incur any obligations payable from Gross Revenues, Net Revenues or Net Revenues superior to the Installment Payments, the 2013 Installment Payments or any future Parity Obligations.

Parity Obligations. The City further covenants that it will not issue or incur any future Parity Obligations unless among other things, the requirements of either clause (i) or (ii) below are satisfied:

(i) Test Period Net Revenues (as defined below) are at least equal to 120% of the Debt Service for each of the five Fiscal Years commencing with the first full Fiscal Year following the period of capitalized interest (if any) for the Parity Obligations, as evidenced by a Certificate of the City;

or

(ii) Projected Net Revenues (as described below) are at least equal to 120% of Debt Service for each of the five Fiscal Years commencing with the first full Fiscal Year following the period of capitalized interest, if any, for the Parity Obligations, as evidenced by a Certificate of the City.

The projections described in (ii) above may take into account (A) only increases in the charges made for service from the Wastewater System adopted by the City prior to the date of issuance or incurrence of such Parity Obligations and which are scheduled to be effective within 36 months following the date of issuance or incurrence of such Parity Obligations, and (ii) an allowance for Net Revenues from any additions or connections to or improvements or extensions of the Wastewater System, all in an

amount equal to the estimated additional average annual Net Revenues to be derived from such additions, connections, improvements or extensions.

Notwithstanding the requirements described above, Parity Obligations may be issued or incurred to refund outstanding Parity Obligations if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Parity Obligations (outstanding on the date of issuance or incurrence of such refunding Parity Obligations, but excluding such refunding Parity Obligations) not being refunded are outstanding.

“Test Period Net Revenues” means, with respect to the issuance of any Parity Obligations, the maximum amount of Net Revenues for either the prior Fiscal Year or any consecutive twelve month period during the eighteen months immediately preceding the issuance of such Parity Obligations.

The City may but shall not be required to fund a reserve fund or obtain a Qualified Reserve Account Credit Instrument with respect to any Parity Obligations. If a reserve fund is funded for any Parity Obligations or a Qualified Reserve Account Credit Instrument is obtained with respect to any Parity Obligations, such funded reserve fund or Qualified Reserve Account Credit Instrument shall secure only the related Parity Obligations and shall not support the Installment Sale Agreement or any other Parity Obligations.

Subordinate Obligations. The City further covenants that the City shall not issue or incur any Subordinate Obligations unless Test Period Net Revenues or projected Net Revenues, calculated in the same manner as described in paragraph (b) above, are equal to at least 100% of the sum of the Debt Service and debt service obligations on all Subordinate Obligations outstanding immediately subsequent to the incurring of such additional obligations.

Additional Payments

In addition to the Installment Payments, the City shall pay, from Net Revenues, when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture and the Installment Sale Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Indenture, compensation due to the Authority for its fees, costs and expenses incurred under the Indenture and all costs and expenses of attorneys, auditors, engineers and accountants.

Payment of Rebatable Amounts

The City agrees to furnish all information to, and cooperate fully with, the Authority and its officers, employees, agents and attorneys, in order to assure compliance with the Indenture. In the event that the Authority shall determine, pursuant to the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the Trustee from any source of legally available funds, the amounts determined by the Authority to be due and payable to the United States of America.

Rate Stabilization Fund

From time to time, the City may deposit in the Rate Stabilization Fund from Gross Revenues such amounts as the City may determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred eighty (180) days following the end of such Fiscal Year.

The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Wastewater Fund for inclusion in Gross Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred eighty (180) days after the end of such Fiscal Year, or (ii) for any other lawful purpose of the City.

All interest or other earnings on deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

Notwithstanding the foregoing, (i) no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent that such Gross Revenues were included the calculations of parity test and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from Gross Revenues that would cause noncompliance with the rate covenant and (ii) no deposit of Net Revenues shall be made in the Rate Stabilization Fund to the extent that such deposit would cause noncompliance with the rate covenant in any Fiscal Year.

The Rate Stabilization Fund is not pledged to secure the payment of the Installment Payments, the 2013 Installment Payments, the payments with respect to any future Parity Obligations or the payments with respect to any Subordinate Obligations.

Reserve Account

The Reserve Account is established by the Indenture and is required to be funded in an amount equal to the least of (a) Maximum Annual Debt Service on all Outstanding Bonds, (b) 125% of average annual debt service on all Outstanding Bonds, and (c) 10% of the principal amount of all Outstanding Bonds (the "Reserve Requirement"). The Reserve Requirement as of the date of delivery of the Bonds is \$ _____. Amounts in the Reserve Account are to be used only for the payment of the principal of and interest on Bonds to the extent amounts in the Principal Account and/or the Interest Account are insufficient therefor. AGM will issue the Reserve Account Insurance Policy, effective as of the date of delivery of the Bonds in an amount equal to the Reserve Requirement.

Flow of Funds

No later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee will deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any.

(d) The Trustee will deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, the Municipal Bond Insurer will issue the Municipal Bond Insurance Policy. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as an exhibit 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.

The Municipal Bond Insurer 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 the Municipal Bond Insurer, is obligated to pay any debts of the Municipal Bond Insurer or any claims under any insurance policy issued by the Municipal Bond Insurer.

The Municipal Bond Insurer’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”) 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 the Municipal Bond Insurer in its sole discretion. In addition, the rating agencies may at any time change the Municipal Bond Insurer’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 the Municipal Bond Insurer. The Municipal Bond Insurer only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by the Municipal Bond Insurer 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 July 2, 2014, S&P issued a credit rating report in which it affirmed the Municipal Bond Insurer's financial strength rating of "AA" (stable outlook). The Municipal Bond Insurer 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 the Municipal Bond Insurer's insurance financial strength rating of "A2" (stable outlook). The Municipal Bond Insurer can give no assurance as to any further ratings action that Moody's may take.

For more information regarding the Municipal Bond Insurer'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, 2013.

Capitalization of AGM

At June 30, 2014, the Municipal Bond Insurer's policyholders' surplus and contingency reserve were approximately \$3,654 million and its net unearned premium reserve was approximately \$1,850 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, of the Municipal Bond Insurer's wholly owned subsidiary Assured Guaranty (Europe) Ltd., and 60.7% of the Municipal Bond Insurer's indirect subsidiary Municipal Assurance Corp.; after giving effect to certain intercompany eliminations; 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 documents 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:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014).

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

Miscellaneous Matters

The Municipal Bond Insurer or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. The Municipal Bond Insurer or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

The Municipal Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. 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 the Municipal Bond Insurer supplied by the Municipal Bond Insurer and presented under the heading "MUNICIPAL BOND INSURANCE."

THE AUTHORITY

The Authority is a public agency duly organized and existing pursuant to a Joint Exercise of Powers Agreement (the "JPA Agreement") between the City and CMFA, dated September 20, 2013. The Authority is governed by a board of directors comprised of the five member City Council of the City. The Authority is statutorily authorized by Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and is empowered under the JPA Agreement to issue its bonds for, among other things, the purposes of the plan of financing described herein. For financial reporting purposes the Authority is a component unit of the City. The Authority is administered by the City staff.

THE CITY

The City was incorporated in 1911 and is located in the County, a region in the central portion of the State of California. The City serves approximately 24,500 residents in a land area of 5.52 square miles.

The City was founded in 1888 as Sanger Station, a stop along the newly constructed Southern Pacific Railroad. At that time the area was already thriving with farms, ranches and orange groves. The City's name commemorates Joseph Sanger Jr., secretary-treasurer of the Railroad Yardmasters Association, who visited California in 1887.

The City operates utilizing the Council-Manager form of government. The Mayor is directly elected and serves as a member of the Council for a 2-year term. Four council members are elected from each of the four districts of the City for four-year terms. The City Council is responsible for establishing policies, adopting the annual budget, appointing commissions and committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing the City Council's policies, overseeing the day-to-day operations of the City, and appointing the directors of the City's departments.

Members of the Council and key administrative personnel of the City and the Authority are listed at the front of this Official Statement.

The City provides a full range of municipal services, including police and fire protection; construction and maintenance of City streets, storm drains, bridges and other infrastructure; park maintenance, community recreation activities, including day camps, a summer pool and aquatics programs, and other community programs and events; and water and wastewater services.

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

THE WASTEWATER SYSTEM

History

The original wastewater system was constructed in 1947 and placed in service shortly thereafter. The treatment plant incorporated gravity flow into and through the plant. In 1963, a plant addition was completed, which included the addition of a new primary clarifier, construction of a 21-inch industrial sewer line, and facilities were added for utilizing the sewage gas for heating the sludge in the digester. This plant provided primary treatment of the domestic sewage followed by land disposal.

In 1971, the Wastewater System was expanded to a secondary treatment plant with the addition of a new headworks, the addition of a new primary clarifier, the addition of aeration basins, secondary clarifiers, thickener, digester, and sludge drying beds.

In 1998, the Wastewater System was expanded to 3.0 MGD for the domestic plant with the addition of a 4-mile effluent pipeline to a new percolation disposal site and the industrial plant was expanded to 1.3 MGD.

Existing Facilities

The City owns and operates two wastewater treatment plants that run in parallel (a domestic wastewater treatment plant and an industrial wastewater treatment plant). The original plant was

constructed in 1947, followed in 1963 by the addition of a primary clarifier, a 21-inch industrial sewer line and digester gas heating. A second upgrade occurred in 1971, expanding the domestic plant to 1.8 million gallons per day (MGD) and the industrial plant to 1.5 MGD. The expansion included new headworks, primary clarifier, aeration basins, secondary clarifiers, thickener, a second digester, and sludge drying beds. In 1998, the domestic plant was expanded to 3.0 MGD and the industrial plant was expanded and rerated to 1.3 MGD.

The current domestic plant consists of a headworks, a grit chamber, primary clarifiers, an activated sludge unit, secondary clarifiers, a sodium hypochlorite disinfection system, a sludge thickener, an anaerobic sludge digester and solids dewatering consisting of a sludge holding tank, centrifuge and solar drying beds. The effluent is then pumped to three rapid infiltration ponds approximately three miles south of the plant site to a site known as “Lincoln Ponds” on Lincoln Avenue.

The industrial plant involved the construction of separate aerated lagoons and effluent disposal facilities with a portion used to irrigate feed and fodder crops on City-owned land adjacent to the plant. The current industrial Plant consists of a headworks, an aerated grit chamber, primary clarifier(s), a biofilter, an intermediate pump station for biofilter recirculation and a pump station to transport the effluent to the treatment train. The treatment train consists of a fully mechanically aerated treatment pond, an aerated storage pond, three non-aerated storage ponds and six pump stations.

Management

The Wastewater Division is part of the City’s Public Works Department which is made up of seven divisions. The Water Division is managed as follows:

John F. Mulligan, <i>Public Works Director</i>	Overall responsibility for the Enterprise. Currently certified Grade T2 Water Treatment Plant Operator.
Ron Franz, <i>Wastewater Treatment Plant Manager</i>	Responsible for day-to-day operations. Currently certified Grade III Wastewater Treatment Plant Operator, Grade D2 Water Distribution Operator, Grade T1 Water Treatment Operator, CWEA Grade 2 Collection System Maintenance, and Grade 1 Mechanical Technologist.
Frank Sani, <i>Public Works Supervisor</i>	Responsible for conveyance system repairs and maintenance.

Service Area and Users

The service area for the Wastewater System is defined by the City’s current City limits. The City Municipal Code does not permit connections outside of the City. The City is approximately 5.52 square miles serving a population of approximately 24,500 residents and over 6,200 sewer service connections. Residential users are billed at a flat rate while commercial and industrial are charged based upon the water meter readings.

The majority of the proposed projects are within the boundaries of the existing City Wastewater Treatment Plant (WWTP) site, which is located 1.5 miles southeast of the center of the City and west of the Kings River. The City’s maintenance yard is located west of the WWTP. The remainder of the plant

site is surrounded by agricultural lands and rural single-family residences. The effluent disposal ponds are located three miles south of the WWTP.

Budgetary Process

Prior to July 1 of each calendar year, the City Council adopts a budget for the forthcoming fiscal year covering the anticipated revenues and expenses of the Wastewater System.

Rate Setting Process

The rates for the Wastewater System are set by the City Council and are not subject to review by any state or local government agency. In the past, changes have been enacted by the City Council based upon recommendations of staff and independent consultants. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.”

Rates

**Residential Use
Monthly Rates**

	Fixed Charge
From 0 to 6,000 Gallons	35.88
6,001 Gallons and Above	39.86

Source: City of Sanger.

**Commercial Use
Monthly Rates**

	Per 1,000 Gallons	Minimum Charge
Normal Strength ⁽¹⁾ (0-250 mg/l BOD)	3.63	39.86
Medium Strength ⁽²⁾ (251 mg/l – 500 mg/l BOD)	4.16	39.86
High Strength ⁽³⁾ (501 mg/l or Greater BOD)	4.70	39.86

Source: City of Sanger.

- (1) Typical customers in the “Normal Strength” category are: residential, bars without dining facilities, car washes, department stores, laundromats, professional offices, schools and colleges.
- (2) Typical customers in the “Medium Strength” category are: automotive repair shops, retail bakeries, nursing homes, hospitals, printers, hotels/motels without dining facilities, and shopping centers with more than 4 units.
- (3) Typical customers in the “High Strength” category are: auto steam cleaning facilities, wholesale bakeries, hotels/motels with dining facilities, markets with garbage disposals, mortuaries with embalming, restaurants, and septage facilities.

**Industrial Use
Monthly/Annual Rates**

	Variable Use Rates	Annual Fixed Rates
Per 1,000 Gallons of Water Used	1.241	63.711
Per Average Pound of BOD Contributed	0.048	2.010
Per Average Pound of Suspended Solids Contributed	0.116	6.059

Source: City of Sanger.

School Use⁽¹⁾

	Charge Per Average Daily Attendance ⁽²⁾
Kindergarten or Elementary School <i>without</i> cafeteria	0.839
Kindergarten or Elementary School <i>with</i> cafeteria	1.082
Junior High School or High School	1.448

Source: City of Sanger.

- (1) Schools are charged for sewage services on the basis of average daily attendance provided that premises so charged are used exclusively for school purposes with no other uses thereon.
- (2) Based on the previous year's average daily attendance.

Comparative Rates

The table below compares the City's current sewer service charge to the typical monthly cost for a single family home in area.

**Comparative Rates-Monthly Sewer Charges
as of June 30, 2013**

Agency	Monthly Residential Sewer Charges ⁽¹⁾
Coalinga	\$15.68
Fowler	23.28
Kingsburg	23.28
Selma	23.28
Orange Cove	24.20
Kerman	24.50
Fresno	25.75
Huron	26.00
Clovis	26.44
Parlier	27.50
Mendota	31.00
Sanger	35.88
San Joaquin	37.68
Reedley	39.15
Firebaugh	50.02

Source: City of Sanger.

(1) Bi-Monthly service charge.

Wastewater System Users

During fiscal year 2013-14, the ten largest Wastewater System users accounted for approximately 16.81% of total revenues. The following are the top ten Wastewater System users for the fiscal year ended June 30, 2014.

TEN LARGEST USERS OF THE WASTEWATER SYSTEM Year Ended June 30, 2014

Water Customer	Business or Service	Wastewater Charges	Percent of Total Water Revenues
Pitman Farms	Poultry Processor	\$ 385,166	8.94%
Vista Del Monte	Apartments	54,681	1.27
BAM Investors	Apartments	54,250	1.26
Initiative Foods Inc.	Baby Food Processor	54,059	1.26
DHI Unity Estates	Apartments	35,126	.82
Sanger Unified School District	School District	33,500	.78
Agrusa, Josephine	Apartments	32,593	.76
Gibson Wine Company	Winery	23,104	.54
Country Creek Apartments	Apartments	26,563	.62
Country Creek Apartments	Apartments	24,665	.57
Total Wastewater Sales		\$ 723,707	16.81%

Source: City of Sanger.

The City has four new subdivisions that are actively under construction. Two of these subdivisions are located in the northwest part of the City, one is in the west part of the City, and one is in the south part of the City. The total number of homes to be built in these four subdivisions is 362. Of the four subdivisions, one is considered affordable to first time home buyers, one is affordable to moderate income families, and two are considered to be affordable to families with above-moderate income. Among all homes in these four subdivisions, 224 would be considered above moderate, 68 would be considered moderate, and 70 homes are considered affordable to first time home buyers. At the City's average household occupancy these homes will add approximately 900 new residents to the community.

In addition to the subdivisions actively engaged in construction, another subdivision, comprising 198 lots, is currently being investigated for construction. This subdivision is substantially developed with roads, curb & gutter, street lights, water, sewer and storm drain facilities. This subdivision is on the eastern edge of the City.

Capital Improvement Program

The City's adopted capital improvement budget for the Wastewater System calls for only minor capital improvements through fiscal year 2017-18, which the City expects to pay with available funds.

Regulatory Compliance

In order to operate the Wastewater System, the City must comply with applicable regulatory requirements. Regulatory requirements applicable to the collection and treatment of wastewater are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended,

and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the California Regional Water Quality Control Board, Central Valley Region (the “Regional Board”).

The City has not experienced any material violations of its waste discharge requirement in the past five fiscal years. The City does not expect regulations to materially increase the costs of operating the Wastewater System in the near future.

Financial Statements

The City’s audited financial statements for the fiscal year ended June 30, 2013, which include the financial results of the Wastewater System, are attached hereto as APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

Risk Management

The City is exposed to various risks and losses related to torts; theft or, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Risk of loss is primarily handled through the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of fifty-four (54) cities in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. Central San Joaquin Valley Risk Management Authority is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA. It is not a component unit of the City.

General Liability Insurance. Annual deposits are paid by member cities and are adjusted retroactively to cover costs. Each member city has a specific retention level. The City has a retention level of \$50,000 and pays 100% of all losses incurred under \$50,000. The City does not share or pay for losses of other cities under \$50,000. Losses of \$50,000 to \$500,000 are prorated among all participating cities on a payroll basis. Losses in excess of \$500,000 are covered by excess insurance purchased by the participating cities, as a part of the pool, to a limit of \$5 million. This cost is also prorated on a payroll basis.

Workers' Compensation. Annual deposits are paid by member cities and are adjusted retroactively to cover costs. Each member city has a specific retention level. The City has a retention level of \$50,000 and pays 100% of all losses incurred under \$50,000. The City does not share or pay for losses of other cities under \$50,000. Losses of \$50,000 to \$500,000 are prorated among all participating cities on a payroll basis. Losses in excess of \$500,000 are covered by excess insurance purchased by the participating cities, as a part of the pool, to a limit of \$5 million. This cost is also prorated on a payroll basis.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. The following provides a reconciliation of claims and judgments:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Claims Payable- Worker's compensation:		
Beginning balance	485,654	587,462
Incurred	23,368	(74,882)
Paid	(7,184)	(17,926)
Ending Balance	<u>501,838</u>	<u>485,654</u>

Source: City of Sanger 2013 CAFR.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2013—Notes to Basic Financial Statements—NOTE 7.

Employee Retirement Plans

Plan Description. The City participates in the Miscellaneous 2.5%@55 Risk Pool (for miscellaneous employees), the Safety 3%@55 Risk Pool (for fire employees) and 2.0%@50 Risk Pool (for police employees) of the California Public Employee Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employee's Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy. Active plan members in Miscellaneous and Safety Plans are required to contribute 8% for miscellaneous employees and 9% for safety employees of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-13 was 19.401% for miscellaneous employees, 27.184% for police employees, 242.202% for first tier fire employees, and 24.66% for second tier fire employees of annual payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost. For fiscal year 2012-2013, the City's annual pension cost of \$1,470,344 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases range from 3.55% to 14.45% for miscellaneous employees, police and fire employees depending on age, service, and type of employment; and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. CalPERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2009 was 15 years for miscellaneous employees, police and fire employees, for prior and current service unfunded liability.

Three-Year Trend Information for CalPERS:

Miscellaneous Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
FY11	\$455,078	100%	—
FY12	\$492,728	100%	—
FY13	\$515,286	100%	—

Police Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
FY11	\$322,748	100%	—
FY12	\$565,206	100%	—
FY13	\$579,689	100%	—

Fire Plan			
Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
FY11	\$352,695	100%	—
FY12	\$395,360	100%	—
FY13	\$375,369	100%	—

Source: City of Sanger 2013 CAFR.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2013—Notes to Basic Financial Statements—NOTE 9.

Other Post Employment Benefits

The City provides does not provide other post employment benefits to its employees.

Financial Statements

The City’s audited financial statements for the fiscal year ended June 30, 2013, which include the financial results of the Wastewater System, are attached hereto as APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

The following table shows the balance sheet of the Wastewater System for the last five fiscal years:

HISTORICAL BALANCE SHEET
Fiscal Years Ended June 30, 2010 through June 30, 2014

	2010	2011	2012	2013	2014
ASSETS					
CURRENT ASSETS					
Cash & Cash equivalents	\$ 658,686	\$ 913,394	\$ 1,194,415	\$ 1,198,992	\$ 1,129,916
Accounts Receivables, net of allowance	666,528	596,963	593,083	611,404	566,446
Interfund advance receivable	—	—	—	—	—
Restricted Assets:					
Restricted cash, cash equivalents & investment ⁽¹⁾	2,133,962	2,087,995	2,088,021	2,088,112	4,429,016
Total current assets	<u>3,459,176</u>	<u>3,598,352</u>	<u>3,875,519</u>	<u>3,898,508</u>	<u>6,125,378</u>
NONCURRENT ASSETS					
Bond issuance costs	639,979	615,365	590,751		330,129
Capital Assets:					
Land	1,308,257	1,308,257	1,308,257	1,308,257	1,308,257
General property and equipment	26,566,797	15,684,804	15,104,433	14,494,551	13,913,187
Construction in Progress	—	—	—	10,625	3,628,668
Less accumulated depreciation	(10,208,133)	—	—	—	—
Total capital assets (net of accum. depr.)	<u>17,666,921</u>	<u>16,993,061</u>	<u>16,412,690</u>	<u>15,813,433</u>	<u>18,850,112</u>
Total noncurrent assets	<u>18,306,900</u>	<u>17,608,426</u>	<u>17,003,441</u>	<u>15,813,433</u>	<u>19,180,241</u>
Total assets	<u>21,766,076</u>	<u>21,206,778</u>	<u>20,878,960</u>	<u>19,711,941</u>	<u>25,305,619</u>
LIABILITIES					
CURRENT LIABILITIES:					
Accounts payable	170,619	116,624	69,798	72,434	78,565
Interest payable	—	7,401	39,628	37,162	—
Compensated absences	—	—	45,073	43,342	35,526
Bonds Payable	—	395,000	515,000	530,000	550,000
Unearned revenue	613	—	—	—	—
Due in one year or less	280,000	—	—	—	—
Total current liabilities	<u>451,232</u>	<u>519,025</u>	<u>669,499</u>	<u>682,938</u>	<u>664,091</u>
NONCURRENT LIABILITIES:					
Interfund advances payable	882,909	662,032	437,877	213,354	—
Compensated absences	—	121,510	67,609	65,012	53,290
Bonds payable	—	—	18,960,070	18,667,972	24,491,321
Due in more than one year	19,995,445	19,461,948	—	—	—
Total non-current liabilities	<u>20,878,354</u>	<u>20,245,490</u>	<u>19,465,556</u>	<u>18,946,338</u>	<u>24,544,611</u>
Total liabilities	<u>21,329,586</u>	<u>20,764,515</u>	<u>20,135,055</u>	<u>19,629,276</u>	<u>25,208,701</u>
NET ASSETS (DEFICIT)					
Invested in capital assets, net related debt	(2,456,905)	(2,863,887)	(974,359)	(1,296,427)	(1,762,194)
Unrestricted	2,893,395	3,306,150	1,717,264	1,379,092	1,859,110
Total net assets (deficit)	<u>436,490</u>	<u>442,263</u>	<u>742,905</u>	<u>82,655</u>	<u>96,916</u>

Source: City of Sanger Audited Financial Statements. Data for 2014 is unaudited.

(1) Restricted cash, cash equivalents investments in 2014 include \$1,339,084.11 in the 2006 Bonds reserve fund, \$756,658.23 in the 2006 project fund and \$2,333,274 in the 2013 project fund.

Historical Revenues and Expenditures

The following table presents Wastewater System revenues, expenditures and Net Revenues for each of the five fiscal years ended June 30, 2014:

HISTORICAL REVENUES AND EXPENDITURES Fiscal Years Ended June 30, 2010 through June 30, 2014

	2010	2011*	2012*	2013	2014
Gross Revenues					
Charges for Services	\$3,874,238	\$4,170,216	\$4,116,051	\$4,082,706	\$4,305,975
Other Revenues	54,250	36,701	29,476	102,595	13,270
Interest Income	—	5,605	3,918	—	—
Total Gross Revenues	<u>3,928,488</u>	<u>4,212,522</u>	<u>4,149,445</u>	<u>4,185,301</u>	<u>4,319,245</u>
Operating Expenses					
Salaries and Benefits	1,033,677	863,193	779,245	819,557	808,304
Supplies and Services	942,117	914,859	909,456	966,650	1,184,135
Vehicle Operations	—	—	—	9,964	6,446
General and Admin Expenses	709,060	853,287	713,893	749,355	723,104
Total Operating Expenses ⁽¹⁾	<u>2,684,854</u>	<u>2,631,339</u>	<u>2,402,594</u>	<u>2,545,526</u>	<u>2,721,989</u>
Revenues Available for Debt Service	<u>1,243,634</u>	<u>1,581,183</u>	<u>1,746,851</u>	<u>1,639,775</u>	<u>1,597,256</u>
2006 Bonds Debt Service	<u>1,033,313</u>	<u>1,124,313</u>	<u>1,225,313</u>	<u>1,331,488</u>	<u>1,328,463</u>
2006 Bonds Debt Service Coverage Ratio	1.20x	1.41x	1.43x	1.23x	1.20x
Revenues Remaining after 2006 Bonds Debt Service	<u>210,321</u>	<u>456,870</u>	<u>521,538</u>	<u>308,288</u>	<u>268,794</u>
2013 Bonds Debt Service ⁽²⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>84,697</u>
2013 Bonds Debt Service Coverage Ratio	—	—	—	—	3.17x
Revenues Remaining after 2013 Bonds Debt Service	<u>210,321</u>	<u>456,870</u>	<u>521,538</u>	<u>308,288</u>	<u>184,097</u>

Source: City of Sanger Audited Financial Statements. Data for 2014 is unaudited.

*Certain of the data shown for Fiscal Years 2011 and 2012 differ from the audited financial statements which incorrectly credited certain revenues and debited certain expenses. In the audited income statements, the following adjustments have been made: (i) the "Other Revenues" for Fiscal Year 2011 have been adjusted to reflect reduction of \$844,313, which was a debt service interest payment incorrectly treated as revenue; (ii) "Other revenues" for Fiscal Year 2012 have been adjusted to reflect a reduction of \$1,225,313, which was a debt service interest and principal payment incorrectly treated as revenue; and (iii) "General & Admin. Expenses" for Fiscal Year 2012 have been adjusted from to reflect reduction of \$395,000, which was a debt service principal payment incorrectly treated as an expense.

⁽¹⁾ Excludes depreciation and amortization.

⁽²⁾ Net of capitalized interest.

Projection of Revenues, Expenditures and Debt Service Coverage

The following table presents Wastewater System revenues, expenditures, Net Revenues and debt service coverage for each of the fiscal years ended June 30, 2015, through June 30, 2019:

PROJECTION OF REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE Fiscal Years Ended June 30, 2015 through June 30, 2019

	2015	2016	2017	2018	2019
Gross Revenues					
Charges for Services ⁽¹⁾	\$4,350,000	\$4,416,000	\$4,483,000	\$4,551,000	\$4,620,000
Other Revenues	50,000	50,000	50,000	50,000	50,000
Interest Income	2,000	2,000	2,000	2,000	2,000
Total Gross Revenues	<u>4,402,000</u>	<u>4,468,000</u>	<u>4,535,000</u>	<u>4,603,000</u>	<u>4,672,000</u>
Operating Expenses					
Salaries and Benefits ⁽²⁾	825,000	854,000	884,000	915,000	948,000
Supplies and Services ⁽³⁾	775,000	803,000	832,000	862,000	893,000
General and Admin Expenses	725,000	725,000	725,000	725,000	725,000
Total Operating Expenses ⁽⁴⁾	<u>2,325,000</u>	<u>2,382,000</u>	<u>2,441,000</u>	<u>2,502,000</u>	<u>2,566,000</u>
Revenues Available for Debt Service	<u>2,077,000</u>	<u>2,086,000</u>	<u>2,094,000</u>	<u>2,101,000</u>	<u>2,106,000</u>
2013 Bonds Debt Service	306,443	306,443	306,443	306,443	306,443
2014 Bonds Debt Service ⁽⁵⁾	<u>1,190,000</u>	<u>1,190,000</u>	<u>1,190,000</u>	<u>1,190,000</u>	<u>1,190,000</u>
Total Debt Service ⁽⁵⁾	<u>1,496,443</u>	<u>1,496,443</u>	<u>1,496,443</u>	<u>1,496,443</u>	<u>1,496,443</u>
Debt Service Coverage Ratio ⁽⁶⁾	1.39x	1.39x	1.40x	1.40x	1.41x
Net Revenues Remaining after Debt Service	<u>580,558</u>	<u>589,558</u>	<u>597,558</u>	<u>604,558</u>	<u>609,558</u>

Source: City of Sanger.

⁽¹⁾ Assumes a 1.5% average increase in charges for services and Fees and other revenues.

⁽²⁾ Assumes a 3.5% increase in salaries and benefits.

⁽³⁾ Assumes a 3.5% increase in expenses. However, beginning in Fiscal Year 2015, the projected expenses for this category are reduced by Total Project Benefits specified in the City's Performance Contract with JCI (90% of the first five years of Measured Utility Savings are guaranteed for the gross value by JCI).

⁽⁴⁾ Excludes depreciation and amortization.

⁽⁵⁾ Preliminary, subject to change.

No assurances are provided by the City as to the certainty of the projected Wastewater System revenues and expenses shown on the foregoing table. Actual revenues and expenses may be higher or lower than what has been projected.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture.

Funds held by the City, including Wastewater System moneys, are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the Finance Director as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. 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.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. In the past, the voters have exercised this power from time to time, including through the adoption of Propositions 13 and 218.

From time to time other State and local initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the County Assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial sources for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the

parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIC provides that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (39 Cal. 4th 205), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate’s initiative power is subject

to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The City's practice has been to provide public notice of proposed water rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The most recent rate increase was enacted by the City in strict compliance with the procedures mandated by Proposition 218 and *Bighorn*.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.

Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.

The general financial condition of the City may be affected by provisions of Article XIIC and Article XIID. In particular, provisions of Article XIIC (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIID that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, the principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIIC or Article XIID by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Installment Sale Agreement, the rights and obligations under the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting

creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Sale Agreement, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C. The proposition attempts to define "tax" as used within Article XIII C as "any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (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; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D." The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City's ability to make debt service payments on the Bonds. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

Articles XIII C, XIII D and Proposition 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City's ability to increase its rates for water service. See "Proposition 218" above. The California constitution, Article XIII D, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIII D) shall be exempt from the procedures and approval process set forth in Article 4, to wit: "... (c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States."

RISK FACTORS RELATING TO THE BONDS

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

Limited Obligations

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

The City is obligated under the Installment Sale Agreement to make Installment Payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Wastewater System such that the Net Revenues in the future will be sufficient for that purpose.

Maintenance and Operation Costs

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

Limited Recourse on Default

Failure by the City to make Installment Payments constitutes an event of default under the Installment Sale Agreement and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, of principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement are in

many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Bonds. See CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES— Proposition 218.”

Bankruptcy

The rights and remedies provided in the Installment Sale Agreement and the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors’ rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds, the Installment Sale Agreement and the Indenture, including the opinion of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

Tax Exemption

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

Additional Obligations

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

Seismic Considerations

The City, like much of California, is subject to seismic activity that could result in interference with operation of the Wastewater System. There are several major active fault zones transecting the County that could cause “strong ground motion” at the site of the various facilities constituting the Wastewater System during their useful life. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Wastewater System resulting in a temporary reduction in the amount of Net Revenues available to pay the Installment Payments and, therefore, the principal of and interest on the Bonds when due.

Secondary Market

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

LEGAL MATTERS

All legal matters in connection with the issuance, sale and delivery of the Bonds are subject to the approval of Quint & Thimmig LLP, Larkspur, California, Bond Counsel. Bond Counsel's opinion with respect to the Bonds will be substantially in the form set forth in APPENDIX E—PROPOSED FORM OF BOND COUNSEL OPINION. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the City by Lozano Smith, Fresno, California, the City Attorney. The fees and expenses of Special Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Bonds, the City and the Authority will certify that there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City and the Authority, threatened against the City or the Authority affecting the existence of the City or the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or the Installment Sale Agreement or any action of the City or the Authority 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 Authority with respect to the Bonds or any action of the City or the Authority contemplated by any of said documents, nor to the knowledge of the City or the Authority, is there any basis therefor.

RATINGS

S&P is expected to assign the rating of "AA" (stable outlook) to the Bonds based on the issuance of the Municipal Bond Insurance Policy by the Municipal Bond Insurer at the time of delivery of the Bonds. See "MUNICIPAL BOND INSURANCE." In addition, S&P has assigned the underlying rating of "A-" to the Bonds 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 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Bond Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Wastewater System by not later than nine months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2013, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

The City and its related entities previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations.

The City did not provide, in a timely manner, all of the annual financial and operating data in its annual filings for the fiscal years ending June 30, 2009, through June 30, 2012, as required under the continuing disclosure certificate for the 2006 Bonds. The City did not file in a timely manner the notices regarding the downgrade in rating changes, by Moody's and S&P, respectively, to the municipal bond insurer that insured the 2006 Bonds. The City did not file in a timely manner a material event notice in 2009 regarding its failure to meet its rate covenant for the Wastewater System. As of the date of this Official Statement, the City has completed necessary filings to comply with the Rule and the City's continuing disclosure certificate for the 2006 Bonds.

The successor agency to the former Redevelopment Agency of the City of Sanger (the "Agency") has continuing disclosure obligations with respect bonds it issued in 2006 which have not been completely filed.

The City has retained an independent dissemination agent to assist the Agency in making its past required filings and to assist the City and the Agency in preparing and filing future annual reports.

TAX MATTERS

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

Subject to the Authority's and the City's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and

corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

The 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, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's 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 include certain tax exempt interest, including interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

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

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

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

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor

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

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

The Internal Revenue Service (the "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 Bonds. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the 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 Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

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

UNDERWRITING

The Bonds are being purchased by Wulff, Hansen & Co. and Gates Capital Corporation (the "Underwriters") at a price of \$_____ (consisting of the \$_____ aggregate principal

amount of the Bonds, less/plus \$ _____ of original issue discount/premium, less \$ _____ of Underwriters' discount). The Underwriters may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

FINANCIAL STATEMENTS

The City's financial statements for the fiscal year ended June 30, 2013, included in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013, have been audited by the City's Auditor, as stated in its reports appearing in such appendix. The City's auditor has not undertaken to update its reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the City's Auditor with respect to any event subsequent to its report.

OTHER INFORMATION

All summaries and explanations of the Act, the Indenture, the Installment Sale Agreement and the other documents referred to herein are qualified in their entirety by reference to the Act and such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of the Bonds.

Copies of the Indenture and the Installment Sale Agreement are available for inspection at the Principal Corporate Trust Office of the Trustee.

MISCELLANEOUS

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

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them

for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2013, are contained in Appendix B.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

SANGER FINANCING AUTHORITY

By _____
Executive Director

CITY OF SANGER

By _____
City Manager

APPENDIX A

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

The City

The City was incorporated in 1911 and is located in Fresno County, a region in the central portion of the State of California. The City has a staff of 118 Full-Time City employees and serves approximately 24,500 residents in a land area of 5.52 square miles.

The city operates utilizing the Council-Manager form of government. The Mayor is directly elected and serves as a member of the Council for a 2-year term. Four council members are elected from each of the four districts of the City for four-year terms. The City Council is responsible for establishing policies, adopting the annual budget, appointing commissions and committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing the Council's policies, overseeing the day-to-day operations of the City, and appointing the directors of the City's departments.

Population

The following table shows a historical comparison of the respective populations of the City, the County and the State of California since 2001.

Population Comparison

Year	City of Sanger	Percent Change	Fresno County	Percent Change	State of California	Percent Change
2001	19,094	-	808,611	-	34,256,789	-
2002	19,287	1.01%	821,809	1.63%	34,725,516	1.37%
2003	19,574	1.49%	837,256	1.88%	35,163,609	1.26%
2004	19,991	2.13%	853,057	1.89%	35,570,847	1.16%
2005	21,297	6.53%	866,058	1.52%	35,869,173	0.84%
2006	22,352	4.95%	879,128	1.51%	36,116,202	0.69%
2007	23,713	6.09%	893,088	1.59%	36,399,676	0.78%
2008	24,187	2.00%	906,521	1.50%	36,704,375	0.84%
2009	24,118	-0.29%	918,560	1.33%	36,966,713	0.71%
2010	24,286	0.70%	929,758	1.22%	37,223,900	0.70%
2011	24,391	0.43%	936,089	0.68%	37,427,946	0.55%
2012	24,580	0.77%	943,493	0.79%	37,668,804	0.64%
2013	24,703	0.50%	952,166	0.92%	37,966,471	0.79%
2014	24,908	0.83%	964,040	1.24%	38,340,074	0.98%

Sources: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2014, with 2000 & 2010 Census Counts (as of January 1). Benchmark. Sacramento, California, May 2014.

Early History

The City was founded in 1888 as Sanger Station, a stop along the newly constructed Southern Pacific Railroad. At that time the area was already thriving with farms, ranches and orange groves. The City's name commemorates Joseph Sanger Jr., secretary-treasurer of the Railroad Yardmasters Association, who visited California in 1887.

Budgetary Policies and Processes

Each year, departments work with the City Manager and Finance departments to submit operating budget requests for the next fiscal year. The City Manager and Assistant City Manager then make recommendations to the City Council regarding the budget for the next fiscal year. After public discussion and evaluation of their recommendations, the City Council adopts the budget for the next fiscal year.

Expenditures are controlled at the fund level for all budgeted departments within the City. At this level, expenditures may not legally exceed appropriations. The City Manager or his designee is authorized to transfer funds between departments within the same fund, and to limit expenditures in response to lower than expected revenues whenever necessary. The budgets are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Any amendments to the total level of appropriations for a fund or transfers between funds must be approved by the City Council.

Employment

The largest employers in the City as of June 30, 2013 are as follows:

City of Sanger Ten Largest Employers 2012-13

Employer	Product/Service	Number of Employees
Sanger Unified School District	Public Education	1,097
Walmart	Retail	339
Pittman Farms (Sanger Poultry)	Poultry Processor	325
ADCO	Machinery Designing and Manufacturing	150
Weyhaeuser (International Paper)	Corrugated Products Manufacturing	145
Del Monte Fresh Produce	Fresh-cut Fruit & Vegetable Packaging	115
Initiative Foods	Baby Food Processing	110
City of Sanger	Municipal Government	99
California Truss Frame (MC Truss)	Roof Truss Manufacturing	70
Gong's Market	Retail Grocery	50

Source: City of Sanger 2013 CAFR

The following table presents the annual average wage and salary employment figures by industry classification for the Fresno MSA for the years 2009 through 2013.

**Fresno MSA (Fresno County)
Industry Employment & Labor Force - by Annual Average
March 2013 Benchmark**

	2009	2010	2011	2012	2013
Civilian Labor Force	434,800	444,600	447,600	445,900	448,100
Civilian Employment	369,600	370,300	374,000	378,900	390,400
Civilian Unemployment	65,200	74,300	73,600	67,000	57,700
Unemployment Rate	15.0%	16.7%	16.4%	15.0%	12.9%
Total Farm	45,100	46,000	47,900	48,900	49,200
Mining and Logging	200	200	200	300	300
Construction	13,700	12,000	11,500	12,200	13,100
Manufacturing	25,100	24,100	23,800	23,600	22,900
Trade, Transportation & Utilities	55,600	55,200	57,300	58,100	61,100
Information	4,200	3,600	3,500	3,800	3,800
Financial Activities	13,800	13,400	13,000	12,800	12,900
Professional & Business Services	28,200	26,700	27,100	28,000	31,400
Educational & Health Services	49,100	49,100	49,400	51,100	55,700
Leisure & Hospitality	26,600	26,800	27,100	28,000	28,900
Other Services	10,200	10,000	10,100	10,600	11,000
Government	68,700	67,100	65,700	64,100	64,200
Total All Industries	340,300	334,100	336,600	341,500	354,500

Source: California Employment Development Department, Labor Market Information Division. March 2013 Benchmark

The following table sets forth certain information regarding employment in the City from calendar year 2009 through 2013.

**City of Sanger
Average Annual Civilian Labor Force
Employment and Unemployment
Calendar Years 2009-2013**

Year	Labor Force	Employment	Unemployment Number	Rate
2009	10,600	8,100	2,500	23.7%
2010	11,000	8,100	2,900	26.1%
2011	11,000	8,200	2,800	25.7%
2012	10,900	8,300	2,600	23.7%
2013	10,800	8,600	2,200	20.6%

Source: California Employment Development Department, Monthly Labor Force Data for Cities and Census Designated Places (CDP) Annual Averages 2009-2013.

Construction Activity

“Single Family Housing” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line

construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial” includes manufacturing plants and affiliated buildings. “Other New Nonresidential” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions” means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

**City of Sanger
Building Permits and Valuation
(Dollars in Thousands)**

	2008	2009	2010	2011	2012
Permit Valuation:					
New Single-family	\$ 895.4	\$ 5,701.7	\$ 11,323.1	\$ 522.0	\$ 2,055.0
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	953.7	1,213.3	703.1	570.6	138.6
Total Residential	1,849.1	6,915.0	12,026.2	1,092.6	2,193.6
Total Nonresidential	6,730.4	4,125.6	4,609.0	565.9	679.7
Total All Building	<u>\$ 8,579.5</u>	<u>\$ 11,040.6</u>	<u>\$ 16,635.2</u>	<u>\$ 1,658.5</u>	<u>\$ 2,873.3</u>
New Dwelling Units:					
Single Family	9	31	66	3	15
Multiple Family	0	0	0	0	0
Total	<u>9</u>	<u>31</u>	<u>66</u>	<u>3</u>	<u>15</u>

Sources: Construction Industry Research Board: “Building Permit Summary.”

Note: Totals may not add due to independent rounding.

Income

The following table summarizes the median household effective buying income for the City, the County of Fresno, the State of California and the nation for the years 2007 through 2013.

Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2007	City of Sanger	\$ 252,715	\$34,896
	County of Fresno	13,269,213	36,593
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Sanger	\$ 280,705	\$35,799
	County of Fresno	14,198,130	37,897
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Sanger	\$ 312,655	37,576
	County of Fresno	14,889,953	39,348
	California	844,823,318	49,736
	United States	6,571,536,767	43,252
2010	City of Sanger	\$ 294,463	\$36,462
	County of Fresno	14,754,158	38,851
	California	801,393,027	47,177
	United States	6,365,020,076	41,368
2011	City of Sanger	\$ 276,878	\$33,443
	County of Fresno	13,899,398	36,456
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Sanger	\$ 231,485	\$32,912
	County of Fresno	14,294,385	36,444
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Sanger	\$ 263,823	\$32,787
	County of Fresno	14,652,155	37,735
	California	864,088,827	47,307
	United States	6,737,867,730	41,358

Source: Nielsen, Inc.

Commercial Activity

In early 2007 the Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System (NAICS) codes. This process is now complete; over one million permit holders were converted from the previous business coding system to the NAICS codes. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years. The latest full-year data available from the State is for calendar year 2012.

The following summary shows the annual volume of taxable sales within Fresno County since 2008.

**Fresno County
Taxable Transactions
(Dollars in Thousands)**

	2008
Apparel stores	\$ 346,690
General merchandise	1,438,144
Foods stores	588,893
Eating and drinking places	941,913
Home furnishings and appliances	300,073
Building materials	576,858
Automotive Group	1,417,983
Service stations	1,024,473
All other retail stores	1,237,756
Total Retail Outlets	7,872,783
All other outlets	3,479,246
Total All Outlets	11,729,171

	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽¹⁾	2012 ⁽¹⁾⁽²⁾
Retail Store and Food Services				
Motor Vehicle and Parts Dealers	\$ 1,115,948	\$ 1,142,537	\$ 1,281,978	\$ 1,509,475
Home Furnishings and Appliance Stores	170,479	171,523	176,244	195,988
Electronics and Appliance Stores	184,453	183,908	185,188	195,302
Bldg. Matrl. and Garden Equip. and Supplies	582,911	569,721	622,837	658,996
Food and Beverage Stores	575,885	585,024	597,389	613,061
Health and Personal Care Stores	181,736	187,743	199,305	207,262
Gasoline Stations	846,900	1,009,651	1,262,498	1,344,674
Clothing and Clothing Accessories Stores	399,631	412,759	455,681	496,625
Sporting Goods, Hobby, Book, and Music Stores	216,240	218,468	218,932	213,067
General Merchandise Stores	1,196,947	1,209,618	1,241,775	1,286,415
Miscellaneous Store Retailers	314,749	320,283	334,722	347,723
Nonstore Retailers	44,228	45,397	54,010	64,736
Food Service and Drinking Places	905,513	917,336	971,754	1,031,595
Total Retail and Food Services	6,735,619	6,973,970	7,602,313	8,164,919
All Other Outlets	3,230,829	3,180,296	3,577,165	3,855,710
Total All Outlets ⁽³⁾	9,966,448	10,154,265	11,179,478	12,020,630

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Starting in 2009, categories were revised from prior years.

(2) Most recent annual data available.

(3) Totals may not add up due to independent rounding.

Education

Public primary and secondary education in the City is the responsibility of the Sanger Unified School District, which is legally separate from the City government (as is common throughout California). The City has numerous private primary schools, and one public high school, Sanger High School.

APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2013**

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CITY OF SANGER, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2013

CITY OF SANGER, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
FOR THE YEAR ENDED JUNE 30, 2013

Prepared By: Department of Administrative Services

CITY OF SANGER

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CTY OF SANGER

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INTRODUCTORY SECTION



City of Sanger, California

Finance Department

1700 7th Street
Sanger, California 93657
(559) 876-6300
FAX (559) 875-8770

December 23, 2013

Honorable Mayor, City Council Members and
Citizens of the City of Sanger

The Comprehensive Annual Financial Report (CAFR) for the City of Sanger for the fiscal year ended June 30, 2013 is hereby submitted. The responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material aspects and that it is presented in a manner to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. This transmittal letter is intended to be read in conjunction with the Management Discussion and Analysis (MD&A) and the Financial Statements. These statements have been audited by the City's independent auditor White Nelson Diehl and Evans LLP, who have issued an unmodified opinion thereon. The Auditor's report is also included.

REPORTING ENTITY AND SERVICES PROVIDED

Sanger was founded in 1888 as Sanger Station, a stop along the newly constructed Southern Pacific Railroad. At that time the area was already thriving with farms, ranches and orange groves. The City of Sanger was incorporated in 1911 as a general law city. The City operates under a council/manager form of government. The Mayor is directly elected by the people and serves as a member of the Council for a 2-year term. Four council members are elected from each of the four districts of the City for four year terms.

Sanger is the gateway city into two of America's greatest National Parks, and is the last incorporated city before passing through the west gate of both Sequoia National Park and Kings Canyon National Park. Kings Canyon is home to the world-renowned General Grant Sequoia Tree, "The Nation's Christmas Tree". President Calvin Coolidge designated this great tree as The Nation's Christmas Tree and as a result Sanger has long been recognized by the U.S. Government as "The Nation's Christmas Tree City".

Sanger ranks as Fresno County's third largest city with a 2011 population of 24,638. Sanger is a full service city that provides its residents with police, fire, ambulance and paramedic services, parks and recreation, planning, building inspection, engineering, construction and maintenance of streets, public buildings and other infrastructure as well as water, wastewater and disposal utility services.

The City's CAFR includes all funds of the City and reports all activities considered to be part of, controlled by, and dependent on the City. GASB Statement No. 14, "*The Financial Reporting Entity*" requires the disclosure of blended and discretely blended component units. As such, the financial activities of the Sanger Public Financing Authority and the Sanger Housing Authority have been "blended" into the financial statements.

As part of the Governmental Accounting Standards Board (GASB) Statement No. 34 Financial Reporting Model the CAFR includes government-side financial statements. These statements include the Statement of Net Position that provides the total net equity of the City including infrastructure assets and the Statement of Activities that shows the cost of providing government services by function. The Statement of Net Position and Statement of Activities have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements.

A reconciliation report is provided as a key to understanding the differences between the two reporting methods. The reports under GASB Statement No. 34 retain the short-term focus in the governmental in the governmental fund financial statements while providing a long-term perspective on these same activities in the accrual base government-wide statements. The statements combined with other information are further analyzed in the narrative sections called Management's Discussion and Analysis (MDA). The MDA provides the financial highlights and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data.

The accounts of the City are organized on the basis of funds with each fund considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the accompanying financial statements into two broad fund categories and five generic fund types as follows:

Governmental Funds
General Fund
Special Revenue Funds
Capital Improvement Funds

Proprietary Funds
Enterprise Funds
Internal Service Funds

LOCAL ECONOMY

Economic forecasts for the Central Valley and Fresno County continue to indicate growth but at a slower pace as compared to the rest of the California and the nation. The economic outlook for the California economy is slightly worse than the national outlook with as predicted sluggish long-term recovery. California's unemployment rate is currently 9.8% for November 2012 above the national rate of 7.7%. It is currently estimated that jobs in California will not recover their pre-recession peak until midway through 2015. Unemployment in Fresno County remains high at over 12% while Sanger is currently at 19.3%.

The City will continue to promote several major development programs to stimulate job creation by providing fee incentives to promote the development of industrial and office construction and a program designed to revitalize underperforming retail facilities by providing a sales tax rebate to retailers that move into currently vacant properties.

The City is actively pursuing hospitality opportunities that capitalize on the commercial demand for accommodating corporate visitors, the need by churches and community groups to lodge visitors and the anticipated growth in tourism from visitors to Sequoia and Kings Canyon National Parks. The City is working in cooperation with the Fresno Council of Governments to design a business plan for a bus transit system to the National Parks. In addition, the San Joaquin Valley Air Quality Control District has promised to assist in providing clean fuel busses and maintenance costs providing that the busses contribute less automobile traffic into the Parks. The City continues to work closely with these entities as well as the Superintendent of Sequoia and Kings National Parks to bring this program to fruition.

MAJOR INITIATIVES

During 2012/2013, the City accomplished the following:

- Approved a contract with Johnson Controls for energy efficient improvements to city facilities.
- Approved development of a 81-unit gated apartment community
- Increased general fund reserves to approximately 9% of expenditures
- Adopted an ordinance waiving development impact fees for developers that complete abandoned housing subdivisions
- Adopted an ordinance waiving all permit fees in the downtown area to promote revitalization of the downtown businesses.

LONG TERM FINANCIAL PLANNING

The economic forecasts for the Central Valley and Fresno County continue to indicate growth, but still at a slower rate than the State of California and the Nation. Economic recovery offers a good opportunity to plan for better times and to adjust programs for the changes that have occurred. City Council is determined to create and maintain a structurally balanced and fiscally sustainable budget. To that end, City management began discussions with employee bargaining units to address the increasing personnel expenditures. One of the key areas addressed with all bargaining units is the increasing cost of retirement benefits and the unfunded liabilities created by employee leave balances.

FINANCIAL INFORMATION

Internal Control: City Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived from the control, and 2) the valuation of costs and benefits require estimates and judgments by management.

Single Audit: The City is subject to an annual single audit in compliance with provisions of the Single Audit Act as amended in 1996 and the United States of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. The auditor's reports related specifically to the Single Audit Act are included in a separate Single Audit Report.

AWARDS

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 Sanger for its comprehensive annual report for the fiscal year ended June 30, 2012. This is the first year that the government achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

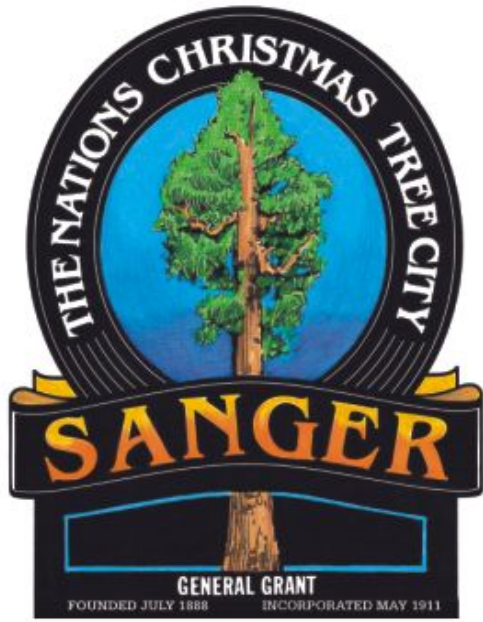
The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Finance Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report. Appreciation is also expressed to the management team of the City and the staff at White Nelson Diehl Evans LLP, who made this report possible.

In closing, I would like to thank the Mayor and City Council members for their leadership and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Deborah Sultan
Finance Director



CITY OF SANGER, CALIFORNIA

Fiscal Year 2012-2013

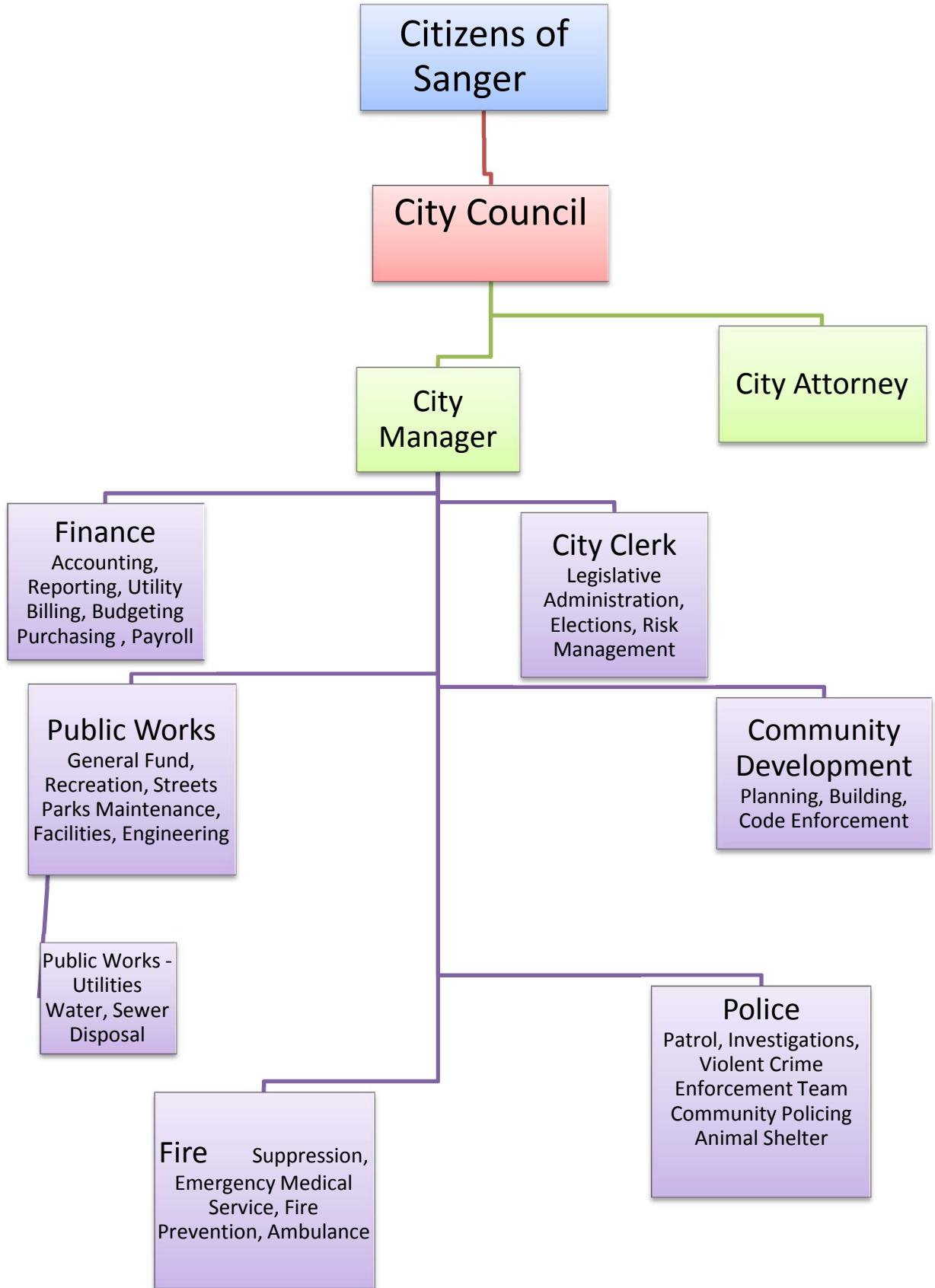
CITY COUNCIL

*Mayor – Joshua Mitchell
Mayor Pro Tem – Rodney Nielson
Council Member – Eli Ontiveros
Council Member – Raul Cantu
Council Member – Tony Pacheco*

DIRECTORY OF CITY OFFICIALS

*Brian Haddix – City Manager
Rebecca Hernandez - City Clerk/Deputy Personnel Officer
Deborah Sultan – Finance Director
Silver Rodriguez – Police Chief
John Mulligan – Public Works Director
Greg Tarascou – Fire Chief
Josh Rogers – City Engineer
Jenell Van Bindsbergen – City Attorney*

Cover photo by Cheryl Senn





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Sanger
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

City Council Members
City of Sanger
Sanger, 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 Sanger (the City), as of and for the year ended June 30, 2013, and the related notes to the basic 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matters

As discussed in Note 1C to the basic financial statements, the City incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1C to the basic financial statements, the City has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in \$825,304 and \$77,222 reductions of previously reported net position of Sewer Enterprise Fund business-type activity and Successor Agency to the Sanger Redevelopment Agency Private Purpose Trust Fund, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules, 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 management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on it. The budgetary comparison schedules have 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 of the City 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 budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 23, 2013, 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.

White Nelson Diehl Evans LLP

Irvine, California
December 23, 2013

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CITY OF SANGER

Management's Discussion and Analysis

June 30, 2013

The Management's Discussion and Analysis (MD&A) will provide an overview and analysis of the City's financial performance and activities for the fiscal year ended June 30, 2013. The City's financial statements reflect the transactions, events and conditions that are set forth in this discussion and analysis by the financial managers of the City of Sanger. This document has been prepared in the format prescribed by the provision of Governmental Accounting Standards Board Statement 34 (GASB 34). GASB 34 requires the City to provide this overview of its financial activities for the fiscal year and should be read in conjunction with the City's financial statements, which follow this section.

I. Financial Highlights

- a. The assets of the City of Sanger exceeded its liabilities at the close of the fiscal year by \$56,471,977 (net position). Of this amount \$34,452,907 was the net investment in capital assets. The remaining balance was restricted in the amount of \$12,040,809 including debt service and special projects and unrestricted \$9,978,261.
- b. The City's total net position increased by \$2,229,026 representing a \$1,326,875 increase in governmental and \$902,151 increase in business-type activities.
- c. As of the close of the fiscal year, the City's governmental funds, including the general, special revenue and debt service funds, reported combined ending fund balances of \$12,584,896 an increase of \$1,186,844 from the prior year. \$1,259,544 is non-spendable, \$10,075,406 is subject to restrictions related to various funding sources, \$467,404 is assigned and \$782,542 is unassigned.
- d. At the end of the current fiscal year, unassigned fund balance for the general fund was \$960,381 compared to \$512,726 from fiscal year 2011/2012.
- e. The total bonded debt decreased by \$511,651 during the fiscal year. This decrease was due to the annual repayment of bonded debt and cost of issuance amortization

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sanger's basic financial statements. The City of Sanger's basic financial statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

II. Overview of the Financial Statements (Continued)

Government-Wide Financial Statements

The Government-wide Financial Statements consist of a statement of net position and a statement of activities and are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the City's assets and liabilities, with the difference between the two 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 is improving or deteriorating. The Statement of Activities presents information showing how the government'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 the 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 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, public works, and community services. The business-type activities of the City include Water, Sewer and Disposal operations.

The Government-wide Financial Statements include the Sanger Public Financing Authority and the Sanger Housing Authority. Financial information for these component units is blended with the financial statements of the primary government itself. The Sanger Public Financing Authority and Sanger Housing Authority, although separate legal entities, function for all practical purposes as departments of the City, and therefore are included as an integral part of the primary government.

The Government-wide Financial Statements can be found on pages 21-23 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of the City can be divided into three categories, governmental funds, proprietary funds and fiduciary funds.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

II. Overview of the Financial Statements (Continued)

Fund Financial Statements (Continued)

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 resources available to spend, as well as on balances of 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 governmental funds comprise 34 individual 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 and the Measure S District Sales Tax special revenue fund, 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 other (non-major) governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for the funds that have an adopted budget to demonstrate compliance with the budget.

The Governmental Fund Financial Statements can be found on pages 26-29 of this report.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

II. Overview of the Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary Funds

The City 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 its Water, Sewer and Disposal. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Sanger's various functions. The City uses internal service funds to account for its City Administration, Administrative Services and Risk Management Activities.

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 Major Proprietary Funds, Water, Sewer and Disposal. Internal Service Funds are presented separately in proprietary fund financial statements.

The Proprietary Fund Financial Statements can be found on pages 32-39 of this report

Notes to the Basic 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 Basic Financial Statements can be found on pages 45-80 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's progress in funding its obligation to provide pension benefits to its employees and the budgetary comparison schedules for the major funds. Required supplementary information can be found on pages 81-86 of this report.

The statements referred to earlier in connection with other governmental funds and internal service funds are presented immediately following the required supplementary information. Statements and schedules can be found on pages 87-134 of this report.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

III. Government-wide Financial Analysis

Net position may serve over time as an indicator of a government's financial position. For the City, assets exceeded liabilities by \$56,471,977 at June 30, 2013 a 4.1% increase from the prior fiscal year. The government-wide financial statements provide long-term and short-term information about the City' overall financial condition.

Summary of Net Position

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 14,041,406	\$ 12,541,783	\$ 13,162,337	\$ 11,407,568	\$ 27,203,743	\$ 23,949,351
Capital assets, net of depreciation	23,860,533	23,939,277	27,702,234	28,765,791	51,562,767	52,705,068
Total assets	37,901,939	36,481,060	40,864,571	40,173,359	78,766,510	76,654,419
Long term liabilities outstanding	1,503,007	1,553,086	19,380,807	19,803,992	20,883,814	21,357,078
Other liabilities	523,453	379,370	887,266	675,020	1,410,719	1,054,390
Total liabilities	2,026,460	1,932,456	20,268,073	20,479,012	22,294,533	22,411,468
Net Position:						
Net investment in capital assets	23,860,533	23,934,277	10,592,374	11,378,742	34,452,907	35,313,019
Restricted	12,040,809	11,813,457	-	-	12,040,809	11,813,457
Unrestricted	(25,863)	(1,199,130)	10,004,124	8,315,605	9,978,261	7,116,475
Total net position	\$ 35,875,479	\$ 34,548,604	\$ 20,596,498	\$ 19,694,347	\$ 56,471,977	\$ 54,242,951

Net position represents the difference between the City's resources and its obligations. At June 30, 2013 the largest portion of the City's total net position 61.01% reflects the net investment in capital assets, used to acquire the capital assets. These capital assets are used by the City to provide services to the citizens. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A. Restricted net position represents amounts that may be used in accordance with external restriction. The unrestricted balance of net position may be used at the City's discretion.

Governmental activities increased the City's net position by \$1,326,875 while the business-type activities showed an increase in net position of \$902,151. The charts that follow show the program revenues, general revenues and expenses by function for all City activities, On February 1, 2012 the Redevelopment Agency was dissolved and all the assets, obligations, and activities have been transferred to the Sanger Housing Authority, a special revenue fund in the financial statements of the City and to a fiduciary fund (private purpose trust fund). On July 1, 2012 all the assets, obligations and activities of the Ambulance fund were transferred into the General Fund.

See independent auditors' report.

CITY OF SANGER

**Management's Discussion and Analysis
(Continued)**

June 30, 2013

III. Government-wide Financial Analysis (Continued)

Statement of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for Services	\$ 2,707,533	\$ 304,325	\$ 10,862,040	\$ 12,436,005	\$ 13,569,573	\$ 12,740,330
Operating grants & contributions	4,907,531	3,768,876	-	765,877	4,907,531	4,534,753
Taxes	7,169,204	9,232,074	-	-	7,169,204	9,232,074
Investment earnings	57,695	45,000	69,507	75,683	127,202	120,683
Fees & other revenues	545,838	479,067	-	-	545,838	479,067
Transfers	291,307	(73,632)	(291,307)	73,632	-	-
Total Revenues	15,679,108	13,755,710	10,640,240	13,351,197	26,319,348	27,106,907
Expenses:						
City Council	500,333	494,602	-	-	500,333	494,602
Administrative Services	-	229,954	-	-	-	229,954
Community Services	1,034,818	831,453	-	-	1,034,818	831,453
Police Department	5,352,024	5,134,256	-	-	5,352,024	5,134,256
Fire & Emergency Services	3,806,380	1,896,003	-	-	3,806,380	1,896,003
Development Services	173,818	193,920	-	-	173,818	193,920
Public Works	1,264,081	1,184,573	-	-	1,264,081	1,184,573
Non Departmental	345,051	262,707	-	-	345,051	262,707
Interest on long-term debt (unallocated)	-	77,130	-	-	-	77,130
Depreciation expense (unallocated)	2,109,603	2,430,434	-	-	2,109,603	2,430,434
Water	-	-	2,673,355	2,398,390	2,673,355	2,398,390
Sewer	-	-	4,025,368	5,048,806	4,025,368	5,048,806
Disposal	-	-	2,805,491	2,384,687	2,805,491	2,384,687
Emergency Services	-	-	-	1,538,641	-	1,538,641
Total Expenses	14,586,108	12,735,032	9,504,214	11,370,524	24,090,322	24,105,556
Extraordinary gain on transfer to Successor Agency	-	1,336,376	-	-	-	1,336,376
Extraordinary gain (loss) on transfer of advance	233,875	-	(233,875)	-	-	-
Total Extraordinary Items	233,875	1,336,376	(233,875)	-	-	1,336,376
Increase in net position	1,326,875	2,357,054	902,151	1,980,673	2,229,026	4,337,727
Net Position:						
Beginning net position	34,548,604	32,191,550	19,694,347	17,713,674	54,242,951	49,905,224
Ending net position	<u>\$ 35,875,479</u>	<u>\$ 34,548,604</u>	<u>\$ 20,596,498</u>	<u>\$ 19,694,347</u>	<u>\$ 56,471,977</u>	<u>\$ 54,242,951</u>

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

III. Government-wide Financial Analysis (Continued)

Charges for services are primarily fees for recreation, building, planning, engineering, water, sewer, disposal and emergency services

- Operating and capital grants and contributions include impact fees, Federal and State grants
- Property taxes include the general property taxes.
- Other taxes include business license and gas taxes
- Development services include engineering, planning, building, low/moderate income housing programs, code enforcement and economic development. .
- Public Works expenses are for streets, streetlights and traffic signal operations and facility maintenance
- Community Services expenses cover the Community Center, the Senior Center and recreation services

Revenue

The City's total revenue was \$26,319,348 for the fiscal year ended June 30, 2013 compared to \$28,443,283 for fiscal year ended June 30, 2012. The major reason for the decrease in revenue is the extraordinary gain on transfer to the Successor Agency in 2011/2012 of \$1,336,376. Revenue from governmental activities totaled \$15,912,983 and revenue from business-type activities totaled \$10,640,240. At the beginning of fiscal year 2012/2013 the assets, obligations and activities of the Ambulance fund was transferred from a proprietary fund to a department in the general fund. The result of this change was a shift of \$1.5 million in charges for services from proprietary funds to governmental funds. Taxes provided 27.24% of the total revenue for the City. Charges for services, operating and capital grants and contributions provided 70.20% of the total revenue received during 2013 with interest earnings and miscellaneous revenues making up the remainder 2.56%.

Expenses

Expenses of the City for the year totaled \$24,090,322 compared to \$24,105,556 in fiscal year 2011/2012. The increase in expenses can be attributed to the transfer of the activities of the Ambulance Fund of \$1.5 offset by a tight control of expenditures and salary savings from vacant positions. Governmental activities expenses total \$14,586,108 or 60.55% of total expenses. Business-type expenses total \$9,504,214 or 39.45% of total expenses.

See independent auditors' report.

CITY OF SANGER

**Management's Discussion and Analysis
(Continued)**

June 30, 2013

III. Government-wide Financial Analysis (Continued)

Governmental Activities

The following table shows the cost of each of the City's major programs and the net cost of the programs. The net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of these programs.

**City of Sanger
Net Cost of Governmental Activities
As of June 30,**

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
City Council	\$ 500,333	\$ 494,602	\$ 500,333	\$ 494,602
Administrative Services	-	229,954	-	(188,006)
Community Services	1,034,818	831,453	784,266	693,768
Police Department	5,352,024	5,134,256	3,745,975	4,705,749
Fire & Emergency Services	3,806,380	1,896,003	1,296,448	1,853,656
Development Services	173,818	193,920	27,066	117,597
Public Works	1,264,081	1,184,573	(1,288,477)	348,195
Economic Development	-	-	-	-
Non Departmental	345,051	262,707	(204,170)	(1,871,294)
Interest on long term debt	-	77,130	-	77,130
Depreciation	2,109,603	2,430,434	2,109,603	2,430,434
Total	\$ 14,586,108	\$ 12,735,032	\$ 6,971,044	\$ 8,661,831

The cost of all governmental activities for fiscal year 2013 was \$14,586,108. The City's taxpayers paid for approximately 47.79% of these costs \$6,971,044. Fees, grants and contributions funded the balance of the costs of governmental activities. The cost of capital assets is not presented as a cost in determining the net cost of governmental activities, but is reflected as an asset in the statement of net position.

Business-type Activities

Program revenue of the City's business-type activities totaled \$10,862,040. Expenses of business-type activities were \$9,504,214. The cost of capital improvements are reported as capital assets in the statement of net position, rather than as expenses in the statement of activities.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

IV. Financial Analysis of the Government's Funds

The City uses fund accounting to assure and demonstrate compliance with finance-related, legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

Governmental Funds

The focus of the City of Sanger governmental funds is to provide information on near-term inflows, outflows, and balances of available 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 spending at the end of the fiscal year. It should, however, be noted that most of the unassigned amounts have been designated by the City Council for specific uses.

As of the end of the current fiscal year, the City of Sanger's governmental funds reported combined ending fund balances of \$12,584,896 an increase of \$1,186,844 in comparison with the balance prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year unassigned fund balance of the general fund was \$960,381 compared to \$512,726 in fiscal year 2011/2012. During the current fiscal year, the City of Sanger's general fund balance increased by \$915,059. The key factor in this increase is the tight control of expenditures, the transfer of assets, obligations and revenues of the ambulance fund continuing to delay capital outlay.

The Measure S District Sales Tax fund is a special revenue fund that is for a ¾ cent District Sales tax imposed by the City to fund Police, Fire, 9-1-1 Emergency and Gang/Drug Prevention services. As of the end of the current fiscal year the Measure S fund balance was \$2,333,523 compared to \$1,797,087 in fiscal year 2011/2012. The reason for the large increase in the fund balance is the decrease in capital outlay from \$174,016 in the prior fiscal year to \$35,758 in 2012/2013 and the increase in sales tax revenue from increased economic activity in the City.

Proprietary Funds

The City of Sanger proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Fund at the end of the year amount to \$5,739,235. \$4.34 million is the balance held in the Water Fund for DBCP monitoring and maintenance.

See independent auditors' report.

CITY OF SANGER

**Management's Discussion and Analysis
(Continued)**

June 30, 2013

V. General Fund Budgetary Highlights

Total revenues were \$665,194 (6.93%) over budget. The variance can be attributed to property taxes received from the City electing to participate in the Teeter Program, increased charges for ambulance charges and an increase in abandoned vehicle abatement.

On the expenditure side, the General Fund was over budget by \$431,459 or 3.90%. The major difference was a remediation payment for infrastructure from the settlement in the case of Sanger v Sanger II LLC that was received in fiscal year 2011/2012.

VI. Capital Asset and Debt Administration

Capital Assets

The City of Sanger's investment in capital assets for its Governmental and Business Type activities as of June 30, 2013 amounts to \$51,562,767 (net of accumulated depreciation).

**Capital Assets
(net of depreciation)**

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Non-depreciable assets						
Land	\$ 434,923	\$ 434,923	\$ 1,325,542	\$ 1,325,542	\$ 1,760,465	\$ 1,760,465
Construction in Progress	1,667,837	1,245,941	21,250	1,185,761	1,689,087	2,431,702
Total non depreciable assets	2,102,760	1,680,864	1,346,792	2,511,303	3,449,552	4,192,167
Depreciable assets (net of accumulated depreciation)						
Building & improvements	3,796,953	3,796,953	2,870,238	2,870,238	6,667,191	6,667,191
Treatment plant & transmission	7,804,528	7,804,528	43,096,833	41,791,174	50,901,361	49,595,702
Machinery & equipment	4,880,439	5,660,505	2,124,936	5,269,581	7,005,375	10,930,086
Infrastructure	51,752,679	50,153,513	-	-	51,752,679	50,153,513
Total depreciable assets at cost	68,234,599	67,415,499	48,092,007	49,930,993	116,326,606	117,346,492
Less accumulated depreciation	(46,476,826)	(45,157,086)	(21,736,565)	(23,676,505)	(68,213,391)	(68,833,591)
Total depreciable assets	21,757,773	22,258,413	26,355,442	26,254,488	48,113,215	48,512,901
Total Capital assets net of accumulated depreciation	\$ 23,860,533	\$ 23,939,277	\$ 27,702,234	\$ 28,765,791	\$ 51,562,767	\$ 52,705,068

Additional information on the City of Sanger's capital assets can be found in Note 5 on pages 63-64 of this report.

See independent auditors' report.

CITY OF SANGER

**Management's Discussion and Analysis
(Continued)**

June 30, 2013

VI. Capital Asset and Debt Administration (Continued)

Long-Term Debt

The City has total bonded debt outstanding of \$19.20 million. Of this amount zero debt is backed by the full faith and credit of the government. The City of Sanger debt represents bonds secured solely by specified revenue sources; i.e., Utility enterprise revenues. The debt of the former redevelopment agency is accounted for in the private purpose trust fund.

**Outstanding Debt
General Obligation and Revenue Bond
(Including Redevelopment)**

	Governmental		Business Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Notes Payable	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
2006 Lease Revenue Refunding Bond	-	-	19,197,972	19,709,623	19,197,972	19,709,623
Compensated absences	1,001,169	1,062,432	182,835	328,922	1,184,004	1,391,354
Claims Payable	501,838	485,654	-	-	501,838	485,654
Total	\$1,503,007	\$1,553,086	\$19,380,807	\$20,038,545	\$20,883,814	\$21,591,631

Long-term obligations decreased \$707,817 due to scheduled annual payments of existing debt. The City did not issue any new bonded debt in fiscal year 2012-2013. State statues limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The current debt limitation for the City is \$134.5 million at June 30, 2013. The City was a 0% of its legal debt limit. Additional information on the City of Sanger long-term debt can be found in Note 6 on pages 65- 67 of this report.

See independent auditors' report.

CITY OF SANGER

Management's Discussion and Analysis (Continued)

June 30, 2013

VII. Economic Factors and Next Year's Budget

In March, 2004 voters approved Proposition 57 (Prop 57), the California Economic Recovery Bond Act, which allowed the state to purchase bonds to reduce the state budget deficit. As a result, the legislature enacted provisions that changed how sales tax is distributed to local governments. Under the new provisions, the City's portion of statewide sales tax was decreased by .25%. This loss of funds is being offset by an increase by the same amount of property tax allocated by Fresno County. However, the amount of the property tax payment made under Prop 57 is adjusted from one fiscal year to the next to reflect actual sales tax receipts. This has resulted in a reduction in City revenues for prior fiscal years due to the estimating process used by the state and the lag time in sales tax payments.

The City experienced significant growth in sales taxes during the prior fiscal years ending in fiscal year 2006/2007. Since fiscal year 2006/2007 sales tax revenues have dropped substantially through fiscal year 2010/2011. Fiscal year 2012/2013 saw an increase in sales tax revenue of approximately 8.4% and projections for 2013/14 anticipate the increase to be approximately 3%.

The economic decline at the local, state and national levels has also negatively impacted property tax revenues. The City continued a development impact fee waiver program to jump start the unfinished housing developments in the City. One of the criteria for a developer to qualify for the program was a percentage of the materials must be purchased from businesses located in the City. The response to the program has been very favorable and the City has seen an increase in the development of single family homes. Currently, there are approximately 182 homes scheduled to be built in the unfinished developments. The City elected in 2012/2013 to follow the California alternate method of apportionment (Teeter Plan) for property taxes. As a result property tax revenue increased 13.2% from fiscal 2011/2012. The City anticipates only a 2% increase in property tax in fiscal year 2013/2014 due to continued economic conditions and the lag in increased property values from the new developments.

Economic forecasts for the Central Valley and Fresno County continue to indicate growth but still at a slower pace as compared to all of California particularly the coastal areas. The economic outlook for the California economy is slightly worse than the nation outlook with a sluggish long-term recovery. Unemployment in Fresno County remains high at 12% while Sanger is currently at 19.3% according to the October 2013 statistics compiled by the California Employment Development Department. The City has also continued other major economic development programs designed to stimulate job creation by providing fee incentives to promote the development of industrial and office construction, and a program designed to revitalize underperforming retail facilities by providing a sales tax rebate to retailers that move into currently vacant properties. The sales tax rebate program (Vacant Building Program) has seen positive results, most recently in number of retail entities that anticipate hiring 53 new employees. The City is projecting 14 new business starts in the near future. As the economy begins to rebound, the City is in a great position to attract office and industrial developers and retailers that are looking to expand.

See independent auditors' report.

CITY OF SANGER

**Management's Discussion and Analysis
(Continued)**

June 30, 2013

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in our finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sanger Finance Department, 1700 7th Street, Sanger, CA. 93657 (559) 876-6300.

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**BASIC FINANCIAL STATEMENTS
(GOVERNMENT-WIDE)**

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CITY OF SANGER

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 11,142,402	\$ 7,864,530	\$ 19,006,932
Receivables, net of allowance for uncollectibles:			
Accounts	1,612,231	1,481,839	3,094,070
Intergovernmental	88,210	-	88,210
Internal balances	(792,358)	792,358	-
Land held for development	712,000	-	712,000
Inventory	17,289	-	17,289
Prepaid items	8,229	-	8,229
Advance to Successor Agency	547,544	935,498	1,483,042
Notes receivable	705,859	-	705,859
Restricted assets:			
Cash and investments	-	2,088,112	2,088,112
Capital assets:			
Nondepreciable	2,102,760	1,346,792	3,449,552
Depreciable, net of accumulated depreciation	21,757,773	26,355,442	48,113,215
TOTAL ASSETS	37,901,939	40,864,571	78,766,510
LIABILITIES:			
Accounts payable	417,693	680,427	1,098,120
Retention payable	53,610	-	53,610
Accrued interest payable	-	37,162	37,162
Deposits	1,284	169,677	170,961
Unearned revenues	50,866	-	50,866
Long-term liabilities:			
Due within one year	551,502	603,135	1,154,637
Due in more than one year	951,505	18,777,672	19,729,177
TOTAL LIABILITIES	2,026,460	20,268,073	22,294,533
NET POSITION:			
Net investment in capital assets	23,860,533	10,592,374	34,452,907
Restricted for:			
Capital projects	7,056,914	-	7,056,914
Public safety	2,875,156	-	2,875,156
Community services	12,213	-	12,213
Affordable housing	2,096,526	-	2,096,526
Unrestricted	(25,863)	10,004,124	9,978,261
TOTAL NET POSITION	\$ 35,875,479	\$ 20,596,498	\$ 56,471,977

See independent auditors' report and notes to basic financial statements.

CITY OF SANGER

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
City council	\$ 500,333	\$ -	\$ -	\$ -
Community services	1,034,818	236,836	13,716	-
Police department	5,352,024	291,329	1,314,720	-
Fire and emergency services	3,806,380	1,712,966	796,966	-
Development services	173,818	142,877	3,875	-
Public works	1,264,081	320,891	2,231,667	-
Nondepartmental	345,051	2,634	546,587	-
Unallocated depreciation expense	2,109,603	-	-	-
Total governmental activities	14,586,108	2,707,533	4,907,531	-
Business-type activities:				
Water	2,673,355	2,660,254	-	-
Sewer	4,025,368	4,185,301	-	-
Disposal	2,805,491	4,016,485	-	-
Total business-type activities	9,504,214	10,862,040	-	-
Total	\$ 24,090,322	\$ 13,569,573	\$ 4,907,531	\$ -

General revenues:

- Taxes
 - Property
 - Sales
 - Franchise
 - Transient occupancy
 - Utility users tax
 - Business license tax
- Motor vehicle in lieu
- Investment income
- Fees and other revenues

Transfers

Total general revenues and transfers

Change in net position before extraordinary item

Extraordinary item - Gain (loss) on transfer of advance

Change in net position

Net position - Beginning of Year, as Restated

Net position - End of Year

See independent auditors' report and notes to basic financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (500,333)	\$ -	\$ (500,333)
(784,266)	-	(784,266)
(3,745,975)	-	(3,745,975)
(1,296,448)	-	(1,296,448)
(27,066)	-	(27,066)
1,288,477	-	1,288,477
204,170	-	204,170
(2,109,603)	-	(2,109,603)
(6,971,044)	-	(6,971,044)
-	(13,101)	(13,101)
-	159,933	159,933
-	1,210,994	1,210,994
-	1,357,826	1,357,826
(6,971,044)	1,357,826	(5,613,218)
2,128,783	-	2,128,783
1,346,690	-	1,346,690
713,861	-	713,861
6,371	-	6,371
1,252,053	-	1,252,053
116,264	-	116,264
1,605,182	-	1,605,182
57,695	69,507	127,202
545,838	-	545,838
291,307	(291,307)	-
8,064,044	(221,800)	7,842,244
1,093,000	1,136,026	2,229,026
233,875	(233,875)	-
1,326,875	902,151	2,229,026
34,548,604	19,694,347	54,242,951
<u>\$ 35,875,479</u>	<u>\$ 20,596,498</u>	<u>\$ 56,471,977</u>

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**FUND FINANCIAL STATEMENTS
(GOVERNMENTAL FUNDS)**

CITY OF SANGER

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013

	General	Special Revenue Fund Measure S District Sales Tax	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,677,841	\$ 2,064,115	\$ 7,113,005	\$ 10,854,961
Receivables:				
Accounts	781,958	272,600	395,007	1,449,565
Intergovernmental	-	-	88,210	88,210
Land held for development	-	-	712,000	712,000
Due from other funds	-	-	523,217	523,217
Advance to Successor Agency	-	-	547,544	547,544
Notes receivable	-	-	705,859	705,859
TOTAL ASSETS	\$ 2,459,799	\$ 2,336,715	\$ 10,084,842	\$ 14,881,356
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 188,790	\$ 3,192	\$ 164,638	\$ 356,620
Retention payable	-	-	53,610	53,610
Interfund advances payable	792,358	-	-	792,358
Due to other funds	-	-	337,147	337,147
Unearned revenue	50,866	-	-	50,866
TOTAL LIABILITIES	1,032,014	3,192	555,395	1,590,601
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - notes	-	-	705,859	705,859
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	705,859	705,859
FUND BALANCES:				
Nonspendable	-	-	1,259,544	1,259,544
Restricted	-	2,333,523	7,741,883	10,075,406
Assigned	467,404	-	-	467,404
Unassigned	960,381	-	(177,839)	782,542
TOTAL FUND BALANCES	1,427,785	2,333,523	8,823,588	12,584,896
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,459,799	\$ 2,336,715	\$ 10,084,842	\$ 14,881,356

See independent auditors' report and notes to basic financial statements.

CITY OF SANGER

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2013

Fund balances for governmental funds	\$ 12,584,896
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities were not financial resources and, therefore, were not reported in the governmental funds balance sheet	23,854,496
Long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the fund financial statements.	705,859
Internal service funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the internal service funds were included in governmental activities in the government-wide Statement of Net Position.	(268,603)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Also, bond issuance costs are not recorded as assets under the modified accrual basis of accounting. All liabilities, both current and long-term, are reported in the Statement of Net Position.	
Balances at June 30, 2013 are:	
Compensated absences	<u>(1,001,169)</u>
Net position of governmental activities	<u><u>\$ 35,875,479</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF SANGER

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

For the year ended June 30, 2013

	General	Special Revenue Fund Measure S District Sales Tax	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 5,543,704	\$ 1,545,683	\$ 1,430,190	\$ 8,519,577
Licenses and permits	94,123	-	-	94,123
Fines and penalties	120,258	-	-	120,258
Investment income	36,203	5,026	16,466	57,695
Charges for services	1,630,184	-	-	1,630,184
Intergovernmental revenues	2,349,548	-	1,696,021	4,045,569
Fees and other revenues	490,283	-	472,683	962,966
TOTAL REVENUES	10,264,303	1,550,709	3,615,360	15,430,372
EXPENDITURES:				
Current:				
City council	500,333	-	-	500,333
Community services	1,034,818	-	-	1,034,818
Police department	4,758,666	535,898	57,460	5,352,024
Fire and emergency services	3,290,347	442,617	73,416	3,806,380
Development services	173,818	-	-	173,818
Public works	1,128,384	-	135,697	1,264,081
Nondepartmental	585,302	-	-	585,302
Capital outlay	10,709	35,758	1,996,170	2,042,637
Debt service:				
Principal	5,000	-	-	5,000
TOTAL EXPENDITURES	11,487,377	1,014,273	2,262,743	14,764,393
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,223,074)	536,436	1,352,617	665,979
OTHER FINANCING SOURCES (USES):				
Transfers in	2,138,133	-	-	2,138,133
Transfers out	-	-	(1,851,143)	(1,851,143)
TOTAL OTHER FINANCING SOURCES (USES)	2,138,133	-	(1,851,143)	286,990
CHANGES IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	915,059	536,436	(498,526)	952,969
EXTRAORDINARY ITEM:				
Gain on transfer of advance	-	-	233,875	233,875
NET CHANGE IN FUND BALANCES	915,059	536,436	(264,651)	1,186,844
FUND BALANCES - BEGINNING OF YEAR	512,726	1,797,087	9,088,239	11,398,052
FUND BALANCES - END OF YEAR	\$ 1,427,785	\$ 2,333,523	\$ 8,823,588	\$ 12,584,896

See independent auditors' report and notes to basic financial statements.

CITY OF SANGER

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

For the year ended June 30, 2013

Net change in fund balances - total governmental funds		\$ 1,186,844
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as an expenditure in the full amount as current financial resources are used. However, in the Statement of Activities the cost of these assets is allocated over the estimated useful life as depreciation expense.</p>		
Capital outlay	\$ 2,026,542	
Transfer of capital assets	4,317	
Depreciation expense	<u>(2,106,920)</u>	(76,061)
<p>Internal service funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net expenditure of the internal service funds was reported with governmental activities.</p>		
		192,401
<p>Compensated absences reported in the Statement of Activities that do not require the use of current financial resources are not reported on the fund statements, but are reported as an expense in the government-wide statements.</p>		
		61,263
<p>Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the government-wide Statement of Net Position.</p>		
Principal payments		5,000
<p>Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds:</p>		
Net change in unavailable revenues		<u>(42,572)</u>
Change in net position of governmental activities		<u><u>\$ 1,326,875</u></u>

See independent auditors' report and notes to basic financial statements.

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PROPRIETARY FUNDS FINANCIAL STATEMENTS

CITY OF SANGER

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS

June 30, 2013

	Business-type Activities Enterprise Funds	
	Water	Sewer
ASSETS:		
CURRENT ASSETS:		
Cash and investments	\$ 3,616,196	\$ 1,198,992
Accounts receivable, net of allowances	470,890	611,404
Inventory	-	-
Prepaid items	-	-
Restricted assets:		
Cash and investments	-	2,088,112
TOTAL CURRENT ASSETS	<u>4,087,086</u>	<u>3,898,508</u>
NONCURRENT ASSETS:		
Interfund advances receivable	1,005,712	-
Advance to Successor Agency	935,498	-
Capital assets (net of accumulated depreciation):		
Land	17,285	1,308,257
Construction in progress	10,625	10,625
General property and equipment	11,857,702	14,494,551
TOTAL NONCURRENT ASSETS	<u>13,826,822</u>	<u>15,813,433</u>
TOTAL ASSETS	<u>17,913,908</u>	<u>19,711,941</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	73,422	72,434
Interest payable	-	37,162
Deposits	169,677	-
Due to other funds	-	-
Compensated absences	18,385	43,342
Claims payable	-	-
Bonds payable	-	530,000
TOTAL CURRENT LIABILITIES	<u>261,484</u>	<u>682,938</u>
NONCURRENT LIABILITIES:		
Interfund advances payable	-	213,354
Compensated absences	27,577	65,012
Bonds payable	-	18,667,972
Claims payable	-	-
TOTAL NONCURRENT LIABILITIES	<u>27,577</u>	<u>18,946,338</u>
TOTAL LIABILITIES	<u>289,061</u>	<u>19,629,276</u>
NET POSITION:		
Net investment in capital assets	11,885,612	(1,296,427)
Unrestricted	5,739,235	1,379,092
TOTAL NET POSITION	<u>\$ 17,624,847</u>	<u>\$ 82,665</u>

See independent auditors' report and notes to basic financial statements.

Business-type Activities Enterprise Funds (Continued)			Governmental Activities -
Disposal	Ambulance	Totals Enterprise Funds	Internal Service Funds
\$ 3,049,342	\$ -	\$ 7,864,530	\$ 287,441
399,545	-	1,481,839	162,666
-	-	-	17,289
-	-	-	8,229
-	-	2,088,112	-
<u>3,448,887</u>	<u>-</u>	<u>11,434,481</u>	<u>475,625</u>
-	-	1,005,712	-
-	-	935,498	-
-	-	1,325,542	-
-	-	21,250	-
3,189	-	26,355,442	6,037
<u>3,189</u>	<u>-</u>	<u>29,643,444</u>	<u>6,037</u>
<u>3,452,076</u>	<u>-</u>	<u>41,077,925</u>	<u>481,662</u>
534,571	-	680,427	61,073
-	-	37,162	-
-	-	169,677	1,284
-	-	-	186,070
11,408	-	73,135	-
-	-	-	151,034
-	-	530,000	-
<u>545,979</u>	<u>-</u>	<u>1,490,401</u>	<u>399,461</u>
-	-	213,354	-
17,111	-	109,700	-
-	-	18,667,972	-
-	-	-	350,804
<u>17,111</u>	<u>-</u>	<u>18,991,026</u>	<u>350,804</u>
<u>563,090</u>	<u>-</u>	<u>20,481,427</u>	<u>750,265</u>
3,189	-	10,592,374	6,037
<u>2,885,797</u>	<u>-</u>	<u>10,004,124</u>	<u>(274,640)</u>
<u>\$ 2,888,986</u>	<u>\$ -</u>	<u>\$ 20,596,498</u>	<u>\$ (268,603)</u>

CITY OF SANGER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS

For the year ended June 30, 2013

	Business-type Activities Enterprise Funds	
	Water	Sewer
OPERATING REVENUES:		
Charges for services	\$ 2,655,700	\$ 4,082,706
Fees and other revenues	4,554	102,595
TOTAL OPERATING REVENUES	<u>2,660,254</u>	<u>4,185,301</u>
OPERATING EXPENSES:		
Salaries and benefits	467,680	819,557
Vehicle operations	2,574	9,964
Supplies and services	883,074	966,650
General and administrative expense	759,758	749,355
Depreciation and amortization expense	560,269	659,815
TOTAL OPERATING EXPENSES	<u>2,673,355</u>	<u>3,205,341</u>
OPERATING INCOME (LOSS)	<u>(13,101)</u>	<u>979,960</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	57,339	5,131
Interest expense	-	(820,027)
Gain (loss) on disposal of capital assets	-	-
TOTAL NONOPERATING REVEUES (EXPENSES)	<u>57,339</u>	<u>(814,896)</u>
INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY ITEM	44,238	165,064
TRANSFERS OUT	(36,291)	-
EXTRAORDINARY ITEM - LOSS ON TRANSFER OF ADVANCE	<u>(233,875)</u>	<u>-</u>
CHANGE IN NET POSITION	(225,928)	165,064
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>17,850,775</u>	<u>(82,399)</u>
NET POSITION - END OF YEAR	<u>\$ 17,624,847</u>	<u>\$ 82,665</u>

See independent auditors' report and notes to basic financial statements.

Business-type Activities Enterprise Funds (Continued)		Totals Enterprise Funds	Governmental Activities - Internal Service Funds
Disposal	Ambulance		
\$ 3,036,553	\$ -	\$ 9,774,959	\$ 4,354,285
10,496	-	117,645	538
<u>3,047,049</u>	<u>-</u>	<u>9,892,604</u>	<u>4,354,823</u>
303,397	-	1,590,634	849,913
14,875	-	27,413	-
1,732,701	-	3,582,425	3,293,252
744,845	-	2,253,958	16,574
9,673	-	1,229,757	2,683
<u>2,805,491</u>	<u>-</u>	<u>8,684,187</u>	<u>4,162,422</u>
<u>241,558</u>	<u>-</u>	<u>1,208,417</u>	<u>192,401</u>
7,037	-	69,507	-
-	-	(820,027)	-
969,436	(4,317)	965,119	-
<u>976,473</u>	<u>(4,317)</u>	<u>214,599</u>	<u>-</u>
1,218,031	(4,317)	1,423,016	192,401
-	(250,699)	(286,990)	-
-	-	(233,875)	-
<u>1,218,031</u>	<u>(255,016)</u>	<u>902,151</u>	<u>192,401</u>
<u>1,670,955</u>	<u>255,016</u>	<u>19,694,347</u>	<u>(461,004)</u>
<u>\$ 2,888,986</u>	<u>\$ -</u>	<u>\$ 20,596,498</u>	<u>\$ (268,603)</u>

CITY OF SANGER

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the year ended June 30, 2013

	Business-type Activities Enterprise Funds	
	<u>Water</u>	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Charges for services	\$ 2,663,157	\$ 4,166,980
Payments to employees	(458,868)	(815,229)
Payments for maintenance and operations	<u>(1,904,142)</u>	<u>(1,731,989)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>300,147</u>	 <u>1,619,762</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received on interfund advances	344,084	-
Cash paid to other funds	<u>(36,291)</u>	<u>(225,523)</u>
 NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	 <u>307,793</u>	 <u>(225,523)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(130,523)	(57,209)
Proceeds from sale of capital assets	-	-
Interest expense	-	(822,493)
Payments on long-term debt	<u>-</u>	<u>(515,000)</u>
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(130,523)</u>	 <u>(1,394,702)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>57,339</u>	<u>5,131</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>57,339</u>	 <u>5,131</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 534,756	 4,668
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,081,440</u>	<u>3,282,436</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 3,616,196</u></u>	<u><u>\$ 3,287,104</u></u>

See independent auditors' report and notes to basic financial statements.

Business-type Activities Enterprise Funds (Continued)		Totals Enterprise Funds	Governmental Activities - Internal Service Funds
Disposal	Ambulance		
\$ 3,047,815	\$ -	\$ 9,877,952	\$ 4,304,375
(256,815)	-	(1,530,912)	(849,913)
<u>(2,111,704)</u>	<u>-</u>	<u>(5,747,835)</u>	<u>(3,192,233)</u>
<u>679,296</u>	<u>-</u>	<u>2,599,205</u>	<u>262,229</u>
-	-	344,084	-
<u>-</u>	<u>-</u>	<u>(261,814)</u>	<u>(235,185)</u>
<u>-</u>	<u>-</u>	<u>82,270</u>	<u>(235,185)</u>
-	-	(187,732)	-
990,000	-	990,000	-
-	-	(822,493)	-
<u>-</u>	<u>-</u>	<u>(515,000)</u>	<u>-</u>
<u>990,000</u>	<u>-</u>	<u>(535,225)</u>	<u>-</u>
<u>7,037</u>	<u>-</u>	<u>69,507</u>	<u>-</u>
<u>7,037</u>	<u>-</u>	<u>69,507</u>	<u>-</u>
1,676,333	-	2,215,757	27,044
<u>1,373,009</u>	<u>-</u>	<u>7,736,885</u>	<u>260,397</u>
<u>\$ 3,049,342</u>	<u>\$ -</u>	<u>\$ 9,952,642</u>	<u>\$ 287,441</u>

CITY OF SANGER

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 (CONTINUED)

For the year ended June 30, 2013

	Business-type Activities Enterprise Funds	
	Water	Sewer
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (13,101)	\$ 979,960
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	560,269	659,815
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivables	1,173	(18,321)
(Increase) decrease in inventory	-	-
(Increase) decrease in prepaid items	-	-
Increase (decrease) in accounts payable	(222,659)	2,636
Increase (decrease) in retentions payable	(79,064)	-
Increase (decrease) in claims payable	-	-
Increase (decrease) in deposits	44,717	-
Increase (decrease) in deferred revenues	-	-
Increase (decrease) in compensated absences	8,812	(4,328)
 TOTAL ADJUSTMENTS	 313,248	 639,802
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 300,147	 \$ 1,619,762

See independent auditors' report and notes to basic financial statements.

Business-type Activities Enterprise Funds (Continued)			Governmental Activities -
Disposal	Ambulance	Totals Enterprise Funds	Internal Service Funds
\$ 241,558	\$ -	\$ 1,208,417	\$ 192,401
9,673	-	1,229,757	2,683
766	-	(16,382)	(50,448)
-	-	-	(4,017)
-	-	-	129,153
476,764	-	256,741	(23,171)
-	-	(79,064)	-
-	-	-	16,184
-	-	44,717	(556)
(2,883)	-	(2,883)	-
(46,582)	-	(42,098)	-
437,738	-	1,390,788	69,828
\$ 679,296	\$ -	\$ 2,599,205	\$ 262,229

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

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CITY OF SANGER

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2013

	Successor Agency to the Sanger Redevelopment Agency Private-Purpose Trust Fund	Total Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and investments	\$ 478,768	\$ 809,458
Cash and investments with fiscal agents	395,005	-
Receivables, net of allowances	831	26,024
Land held for resale	1,698,848	-
Notes receivable	164,448	-
Capital assets:		
Depreciable, net of accumulated depreciation	5,899	-
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>2,743,799</u>	<u>\$ 835,482</u>
CURRENT LIABILITIES:		
Accounts payable	125	\$ 3,462
Accrued wages	-	377,604
Interest payable	44,484	-
Deposits	-	451,974
Other liabilities	-	2,442
Current portion of bonds payable	345,000	-
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	<u>389,609</u>	<u>835,482</u>
LONG-TERM LIABILITIES:		
Advance from City of Sanger Housing Authority	547,544	-
Advance from City of Sanger Water Fund	935,498	-
Bonds payable, net of current portion	1,707,575	-
	<u> </u>	<u> </u>
TOTAL LONG-TERM LIABILITIES	<u>3,190,617</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,580,226</u>	<u>\$ 835,482</u>
NET POSITION:		
Restricted for private purpose	<u>(836,427)</u>	
TOTAL NET POSITION	<u>\$ (836,427)</u>	

See independent auditors' report and notes to basic financial statements.

CITY OF SANGER

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the year ended June 30, 2013

	Successor Agency to the Sanger Redevelopment Agency Private-Purpose Trust Fund
ADDITIONS:	
Taxes	\$ 935,430
Investment income	7,845
	<hr/>
TOTAL ADDITIONS	943,275
	<hr/>
DEDUCTIONS:	
Program expenses	371,111
Depreciation	676
Interest	99,614
Payment to County Auditor-Controller	132,262
	<hr/>
TOTAL DEDUCTIONS	603,663
	<hr/>
CHANGE IN NET POSITION	339,612
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<hr/> (1,176,039)
NET POSITION - END OF YEAR	<hr/> <u>\$ (836,427)</u>

See independent auditors' report and notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

A. Description of the Reporting Entity:

The basic financial statements of the City of Sanger (the City) include the financial activities of the City and its component units, the Sanger Housing Authority (the Housing Authority) and the Sanger Public Financing Authority (the Financing Authority).

The City of Sanger was incorporated in 1911 under the General Laws of the State of California. The City operates under a Council-Manager form of government governed by a five-member council and provides the following services: public safety (police, fire, paramedic and ambulance), community services, street construction and maintenance, planning and zoning, street cleaning, transit, sanitation, and general administrative

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board Statement. The City of Sanger is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The City has accounted for the Financing Authority and Housing Authority as "blended" component units. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, these basic financial statements present the City and its component units, the Sanger Public Financing Authority and the Sanger Housing Authority.

The Sanger Public Financing Authority (the Financing Authority) was established in 1995 pursuant to California Government Code, Section 6500. The Financing Authority was established to provide a financing mechanism for the City's and Agency's various public projects. A separate fund is not maintained for the Financing Authority as principal and interest payments on debt issued by the Financing Authority is paid directly by the City and Agency. The payments are reported in the Special Revenue and Enterprise Funds. Separate Basic Financial Statements prepared for the Authority may be obtained from the City of Sanger, 1700 7th Street, Sanger, California 93657.

The Sanger Housing Authority (the Housing Authority) was reactivated on February 3, 2011 in accordance with California Housing Authority Law (Health and Safety Code Sections 34200). Certain assets of the former Redevelopment Agency's Low and Moderate Income Housing Funds were transferred to the Housing Authority on February 1, 2012. The activity of the Housing Authority is reported in the Special Revenue Funds. There are no separate Basic Financial Statements prepared for the Housing Authority.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Description of the Reporting Entity (Continued):

The accounting policies of the City of Sanger, the Sanger Public Financing Authority and the Sanger Housing Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

B. Basis of Accounting and Measurement Focus:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the reporting government as a whole, except for its fiduciary activities. 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. Likewise, the primary government (including its blended component units) is reported separately from discretely presented component units for which the primary government is financially accountable. The City has no discretely presented component units.

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

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.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements for the government's governmental, proprietary, and fiduciary funds are presented after the Government-wide Financial Statements. These statements display information about major funds individually and other governmental funds in the aggregate for governmental and enterprise funds. Fiduciary statements, even though excluded from the government-wide financial statements represent a Private Purpose Trust Fund and Agency Funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements for the private-purpose trust fund. Under the economic resources measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on their balance sheets. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets appraised on June 30, 2006 and acquired after July 1, 2006, and long-term liabilities, are included in the accompanying statement of net position. Operating statements present increases (revenues) and decreases (expenses) in total net position. Under 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is unavailable until they become current receivables. Noncurrent portions of other long-term receivables are offset by nonspendable or restricted fund balances.

Under the modified accrual basis of accounting, 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 government 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, except for principal and interest on long-term liabilities, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term liabilities are reported as other financing sources.

The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenue and other forms of tax. All other revenue items are considered to be measurable and available only when cash is received by the government.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

The City's Fiduciary Funds consist of a Private Purpose Trust Fund which is reported using the economic resources measurement focus and Agency Funds which have no measurement focus, but utilizes the accrual basis for reporting its assets and liabilities.

All governmental and business-type activities and enterprise funds of the City follow GASB pronouncements.

Fund Classifications

Governmental Fund Financial Statements

The City reports the following major governmental funds:

General Fund - The General Fund is the City's general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue source is an ad valorem specially assessed tax override. These governmental functions are not financed with bonded indebtedness.

Measure S District Sales Tax Special Revenue Fund - A 3/4 cent District Sales Tax imposed in the City to fund Police, Fire, Paramedic, 9-1-1 Emergency, and Gang/Drug Prevention Services.

Proprietary Fund Financial Statements

Proprietary fund financial statements includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows for each major proprietary fund. The City of Sanger reports the following major Proprietary funds:

Water Fund - Accounts for the operations related to the City's water delivery system.

Sewer Fund - Accounts for financial activity relative to construction, maintenance and repair of the sanitary sewer system.

Disposal Fund - Accounts for activities related to refuse collection, street sweeping and City recycling services.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

Fund Structure

The City's fund structure also includes the following fund types:

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable and nonexpendable trusts) that are restricted by law or City Council resolution to expenditure for specific purposes.

The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources and special assessment bond principal and interest from special assessment levies with the government is obligated in some manner for payment.

The Internal Service Funds are used to account for the financing of special activities that provide services within the City. These activities include reprographics and data processing, equipment management, and self-insurance programs.

The Private Purpose Trust Fund is used to account for the activities of the Successor Agency to the Redevelopment Agency of the City of Sanger.

The Agency Funds are used to account for money and property held by the City as trustee or custodian.

C. New Accounting Pronouncements:

Implemented:

In fiscal year 2012-2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. New Accounting Pronouncements (Continued):

Implemented (Continued):

In fiscal year 2012-2013, the City early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard decreased the net position, at July 1, 2012 of the business-type activities and Sewer Fund by \$825,304 and of the Successor Agency to the Sanger Redevelopment Agency Private Purpose Trust Fund by \$77,222 , which was the amount of bond issue costs at July 1, 2012.

Pending Accounting Standards:

GASB has issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

D. Cash and Investments:

Under the City's cash management program, cash in excess of operating requirements from all funds is pooled with the purpose of maximizing interest through investment activities, and is deposited in savings accounts or invested in bank certificates of deposit, bank money market accounts and the State of California Local Agency Investment Fund (LAIF). Interest income on pooled investments is allocated on the end of month balance in each fund included in the pools.

For purposes of the statement of cash flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the enterprise funds are pooled with the City's pooled cash and investments.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Receivables and Payables:

Activity between funds that represents lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund advances receivable/payable" (i.e. the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are reported as nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Enterprise fund receivables are shown net of an allowance for uncollectible accounts. All customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying financial statements.

Property taxes are assessed, collected and allocated by Fresno County throughout the fiscal year according to the following property tax calendar. The property taxes attach as an enforceable lien on property as of January 1st each year, with other dates of significance being:

Levy Date:	January 1 st
Due Dates:	1 st Installment - November 1 st 2 nd Installment - February 1 st
Delinquent Dates:	1 st Installment - December 10 th 2 nd Installment - April 10 th

City property tax revenues are recognized when received in cash except at year-end when available taxes, or those collected within 60 days of fiscal year end, are accrued pursuant to the modified accrual basis of accounting. Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end.

Grant and entitlement revenues are recorded as receivables in the funds when all eligibility requirements have been met. The corresponding governmental fund revenues are recorded in governmental funds when they become available, with the differences recorded as unavailable revenue. Enterprise fund revenues are recorded as operating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Capital Assets:

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000 and an estimated useful life greater than one year. The City has chosen not to capitalize infrastructure in place prior to the adoption of GASB 34. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Vehicles	5 years
Machinery and equipment	5 - 20 years
Buildings and improvements	15 - 40 years
Infrastructure	35 - 50 years

The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, sewer collection and treatment system, park and recreation improvements, storm water conveyance system, and permanent monuments and signage.

G. Compensated Absences Payable:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and related fund liability of the governmental fund responsible for payment. Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available resources are reported in the non-current portion of the obligations reported in the government-wide statement of net position with corresponding changes in account balances reported as expenses in the statement of activities. Vested or accumulated enterprise fund vacation leave and benefits are expensed with a corresponding fund liability for these unpaid accrued employee benefits. Vacation pay accruals generally do not exceed the amount earned for one year; however, an employee may accumulate up to a maximum of 320 hours of earned vacation time after which no further vacation accrues to the employee.

H. Long-Term Liabilities:

In the government-wide and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Classification of Net Position:

In the government-wide financial statements, net position are classified in the following categories:

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the category of capital projects, and specific projects and programs as established by the City Council.

Unrestricted net position - This category represents the remaining net position of the City, which is not restricted for any project or other purpose.

J. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments

The City's investment policy is consistent with guidelines set forth under State of California Government Code Section 53601 and serves to maximize investment income consistent with safe and prudent investment practices. All surplus funds are managed by the Administrative Services Director in compliance with the Statement of Investment Policy adopted by the City Council which delegates to the Administrative Services Director the authority to invest City funds and to deposit securities.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments (Continued)

The City follows the practice of pooling cash and investments of all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances.

The City's cash and investments at June 30, 2013 are classified in the accompanying financial statements as follows:

	<u>Government-Wide Statement of Net Position</u>		Fiduciary Funds	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Statement of Net Position</u>	
Unrestricted assets:				
Cash and investments	\$ 11,142,402	\$ 7,864,530	\$ 1,288,226	\$ 20,295,158
Cash and investments with fiscal agents	-	-	395,005	395,005
Restricted assets:				
Cash and investments	-	<u>2,088,112</u>	-	<u>2,088,112</u>
 Totals	 <u>\$ 11,142,402</u>	 <u>\$ 9,952,642</u>	 <u>\$ 1,683,231</u>	 <u>\$ 22,778,275</u>

The City's cash, cash equivalents, and investments consist of the following at June 30, 2013:

Petty cash	\$ 4,810
Deposits	11,283,158
Investments	<u>11,490,307</u>
 Totals	 <u>\$ 22,778,275</u>

Deposits

The City maintains a cash investment pool that is available for all funds. Each fund type balance in the pool is reflected on the statement of net position as cash and cash equivalents at June 30, 2013. The carrying amount of the City's deposits was \$11,283,158 and the bank balance was \$11,573,027 which was either insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Deposits (Continued)

The California Government Code requires California banks and savings and loan associations to secure the City's deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus collateral for cash deposits is considered to be held in the City's name. The market value of the pledged securities must equal at least 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investments in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). As of June 30, 2013, the balance is \$6,769,536. The balance available for withdrawals is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Authorized Investments

Under provision of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Certificates of Deposit or Time Deposits	5 years	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million
Medium-Term Corporate Notes	5 years	30%	None

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

N/A - Not Applicable

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Authorized Investments (Continued)

The City's investments by the investments manager are as follows at June 30, 2013:

Administrative Services Director	\$ 9,007,190
Fiscal Agents (Bond trustees for the City and its component units)	<u>2,483,117</u>
Totals	<u>\$ 11,490,307</u>

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 36 Months	37 - 60 Months	
Local Agency Investment Fund	\$ 6,769,536	\$ -	\$ -	\$ 6,769,536
U.S. Government Sponsored Agency Securities	-	-	497,755	497,755
Negotiable Certificates of Deposits	1,434	755,010	763,455	1,519,899
Investment in City Bonds	70,000	150,000	-	220,000
Cash held by fiscal agents				
Money Market Mutual Fund	1,258,117	-	-	1,258,117
Negotiable Certificates of Deposit	<u>1,225,000</u>	<u>-</u>	<u>-</u>	<u>1,225,000</u>
	<u>\$ 9,324,087</u>	<u>\$ 905,010</u>	<u>\$ 1,261,210</u>	<u>\$ 11,490,307</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

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

Investment Type	Minimum Legal Rating	Total as of June 30, 2013	AAA	AA+	Not Rated
Local Agency Investment Fund	N/A	\$ 6,769,536	\$ -	\$ -	\$ 6,769,536
U.S. Government Sponsored					
Agency Securities	N/A	497,755	-	497,755	-
Negotiable Certificates of Deposits	N/A	1,519,899	-	-	1,519,899
Investment in City Bonds	N/A	220,000	-	-	220,000
Cash Held By Fiscal Agents					
Money Market Mutual Fund	A	1,258,117	1,258,117	-	-
Negotiable Certificates of Deposit	N/A	<u>1,225,000</u>	<u>-</u>	<u>-</u>	<u>1,225,000</u>
		<u>\$ 11,490,307</u>	<u>\$ 1,258,117</u>	<u>\$ 497,755</u>	<u>\$ 9,734,435</u>

N/A - Not Applicable

3. NOTES RECEIVABLE:

Governmental activities notes receivable are not recognized into revenue until collected and are reflected in the governmental fund financial statements as unavailable revenue. In the statement of net position, they are netted to reflect their net realizable value at zero until collected.

At June 30, 2013, notes receivable consist of the following:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Funds:				
Other Governmental Funds:				
Low income housing loans	\$ 369,707	\$ -	\$ (26,466)	\$ 343,241
Down payment assistance loan program	<u>378,724</u>	<u>-</u>	<u>(16,106)</u>	<u>362,618</u>
Total	<u>\$ 748,431</u>	<u>\$ -</u>	<u>\$ (42,572)</u>	<u>\$ 705,859</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

3. NOTES RECEIVABLE (CONTINUED):

At June 30, 2013, the City was owed \$343,241 from various non-interest and low interest bearing low income housing loans, secured by deeds of trust. Maturities vary according to terms and disposition of property.

At June 30, 2013, the City was owed \$362,618 under the provisions of the Down Payment Assistance Loan Program, which provides non-interest loans to low and moderate income first-time home buyers for down payments required to purchase a new or existing home in the City. The loans are secured by deeds of trust and liens are recorded against the subjected property.

4. INTERFUND ACTIVITIES:

Due To/From Other Funds

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year.

	<u>Due To</u>	<u>Due From</u>
Governmental Funds:		
Other Governmental Funds	\$ 337,147	\$ 523,217
Proprietary Funds:		
Internal Service Funds	<u>186,070</u>	<u>-</u>
Totals	<u>\$ 523,217</u>	<u>\$ 523,217</u>

Interfund Advances Receivable and Payable

As of June 30, 2013, balances of interfunds advances receivable/advances payable were as follows:

	<u>Advances Receivable</u>	<u>Advances Payable</u>
Governmental Funds:		
General Fund	\$ -	\$ 792,358
Proprietary Funds:		
Water Fund	1,005,712	-
Sewer Fund	<u>-</u>	<u>213,354</u>
Totals	<u>\$ 1,005,712</u>	<u>\$ 1,005,712</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. INTERFUND ACTIVITIES (CONTINUED):

Interfund Advances Receivable and Payable (Continued)

At June 30, 2013, the City's Water Enterprise Fund was owed \$1,005,712 under terms of the loan agreements as described below:

General Fund

During 2008-09, the General Fund borrowed money in the amount of \$1,199,200 from the Water Fund for the purchase of a new Sanger Youth Center Building. The outstanding balance as of June 30, 2013 was \$792,358.

The annual requirements to amortize the note receivable are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 122,223	\$ 24,475	\$ 146,698
2015	125,998	20,700	146,698
2016	129,891	16,807	146,698
2017	133,903	12,795	146,698
2018	138,039	8,659	146,698
2019	<u>142,304</u>	<u>4,395</u>	<u>146,699</u>
Totals	<u>\$ 792,358</u>	<u>\$ 87,831</u>	<u>\$ 880,189</u>

Sewer Fund

During 2005-06, the Sewer Enterprise Fund borrowed money in the amount of \$1,216,000 from the Water Fund for the Wastewater Treatment Plant Expansion Project. The outstanding balance as of June 30, 2013 was \$150,365.

The annual requirements to amortize the note receivable are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	<u>\$ 150,365</u>	<u>\$ 643</u>	<u>\$ 151,008</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. INTERFUND ACTIVITIES (CONTINUED):

Interfund Advances Receivable and Payable (Continued)

Sewer Fund (Continued)

During 2008-09, the Sewer Enterprise Fund borrowed money in the amount of \$261,399 from the Water Fund for the purchase of Solar Bee Circulators. The outstanding balance as of June 30, 2013 was \$62,989.

The annual requirements to amortize the note receivable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 62,989	\$ 2,566	\$ 65,555

Transfers between Funds

With Council approval, resources may be transferred from one City fund to another. The Other Governmental Funds and Water Enterprise Fund transferred funds to the General Fund to reimburse the General Fund for expenditures paid by the General Fund on behalf of these funds.

The transfer from the Ambulance Enterprise Fund to the General Fund represents transfers of all assets and liabilities to combine the Ambulance Enterprise Fund with the General Fund.

Transfers in and out consisted of the following as of June 30, 2013:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 2,138,133	\$ -
Other Governmental Funds	-	1,851,143
Proprietary Funds:		
Water Enterprise Fund		36,291
Ambulance Enterprise Fund	-	<u>250,699</u>
 Totals	 <u>\$ 2,138,133</u>	 <u>\$ 2,138,133</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. CAPITAL ASSETS:

A summary of changes in the Governmental Activities capital assets at June 30, 2013 is as follows:

Governmental Activities:	Balance at July 1, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 434,923	\$ -	\$ -	\$ -	\$ 434,923
Construction in progress	<u>1,245,941</u>	<u>1,952,406</u>	<u>(1,530,510)</u>	<u>-</u>	<u>1,667,837</u>
Total capital assets, not being depreciated	<u>1,680,864</u>	<u>1,952,406</u>	<u>(1,530,510)</u>	<u>-</u>	<u>2,102,760</u>
Capital assets, being depreciated:					
Buildings	3,796,953	-	-	-	3,796,953
Improvements	7,804,528	-	-	-	7,804,528
Machinery and equipment	5,660,505	5,480	(1,148,620)	363,074	4,880,439
Infrastructure	<u>50,153,513</u>	<u>1,599,166</u>	<u>-</u>	<u>-</u>	<u>51,752,679</u>
Total capital assets, being depreciated	<u>67,415,499</u>	<u>1,604,646</u>	<u>(1,148,620)</u>	<u>363,074</u>	<u>68,234,599</u>
Less accumulated depreciation for:					
Buildings	(2,327,078)	(65,829)	-	-	(2,392,907)
Improvements	(3,899,091)	(375,443)	-	-	(4,274,534)
Machinery and equipment	(4,498,219)	(352,765)	1,148,620	(358,757)	(4,061,121)
Infrastructure	<u>(34,432,698)</u>	<u>(1,315,566)</u>	<u>-</u>	<u>-</u>	<u>(35,748,264)</u>
Total accumulated depreciation	<u>(45,157,086)</u>	<u>(2,109,603)</u>	<u>1,148,620</u>	<u>(358,757)</u>	<u>(46,476,826)</u>
Total capital assets, being depreciated, net	<u>22,258,413</u>	<u>(504,957)</u>	<u>-</u>	<u>4,317</u>	<u>21,757,773</u>
Total governmental activities capital assets, net	<u>\$ 23,939,277</u>	<u>\$ 1,447,449</u>	<u>\$ (1,530,510)</u>	<u>\$ 4,317</u>	<u>\$ 23,860,533</u>

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2013 was \$2,109,603. The City did not allocate the depreciation expense to departments or functions.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. CAPITAL ASSETS (CONTINUED):

A summary of changes in the Business-type Activities capital assets at June 30, 2013 is as follows:

Governmental Activities:	Balance at July 1, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 1,325,542	\$ -	\$ -	\$ -	\$ 1,325,542
Construction in progress	<u>1,185,761</u>	<u>21,250</u>	<u>(1,185,761)</u>	<u>-</u>	<u>21,250</u>
Total capital assets, not being depreciated	<u>2,511,303</u>	<u>21,250</u>	<u>(1,185,761)</u>	<u>-</u>	<u>1,346,792</u>
Capital assets, being depreciated:					
Buildings	2,870,238	-	-	-	2,870,238
Improvements	41,791,174	1,305,659	-	-	43,096,833
Machinery and equipment	<u>5,269,581</u>	<u>46,584</u>	<u>(2,828,155)</u>	<u>(363,074)</u>	<u>2,124,936</u>
Total capital assets, being depreciated	<u>49,930,993</u>	<u>1,352,243</u>	<u>(2,828,155)</u>	<u>(363,074)</u>	<u>48,092,007</u>
Less accumulated depreciation for:					
Buildings	(2,469,130)	(72,566)	-	-	(2,541,696)
Improvements	(16,245,402)	(1,102,691)	-	-	(17,348,093)
Machinery and equipment	<u>(4,961,973)</u>	<u>(51,151)</u>	<u>2,807,591</u>	<u>358,757</u>	<u>(1,846,776)</u>
Total accumulated depreciation	<u>(23,676,505)</u>	<u>(1,226,408)</u>	<u>2,807,591</u>	<u>358,757</u>	<u>(21,736,565)</u>
Total capital assets, being depreciated, net	<u>26,254,488</u>	<u>125,835</u>	<u>(20,564)</u>	<u>(4,317)</u>	<u>26,355,442</u>
Total governmental activities capital assets, net	<u>\$ 28,765,791</u>	<u>\$ 147,085</u>	<u>\$ (1,206,325)</u>	<u>\$ (4,317)</u>	<u>\$ 27,702,234</u>

For the year ended June 30, 2013, depreciation expense on capital assets was charged to the governmental functions as follows:

Business-type Activities:	
Water	\$ 560,269
Sewer	656,466
Disposal	<u>9,673</u>
Total depreciation expense	<u>\$ 1,226,408</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. LONG-TERM LIABILITIES:

Governmental Activities

The following is a summary of Governmental Activities long-term obligation transactions of the City for the year ended June 30, 2013:

	Balance June 30, 2012	Incurred or Issued	Satisfied or Matured	Balance June 30, 2013	Due Within One Year	Due in More Than One Year
Notes Payable:						
Hideki Otani	\$ 5,000	\$ -	\$ (5,000)	\$ -	\$ -	\$ -
Compensated absences	1,062,432	104,386	(165,649)	1,001,169	400,468	600,701
Claims payable	<u>485,654</u>	<u>23,368</u>	<u>(7,184)</u>	<u>501,838</u>	<u>151,034</u>	<u>350,804</u>
 Total	 <u>\$ 1,553,086</u>	 <u>\$ 127,754</u>	 <u>\$ (177,833)</u>	 <u>\$ 1,503,007</u>	 <u>\$ 551,502</u>	 <u>\$ 951,505</u>

Note Payable - Hideki Otani

On July 2, 2003 The City entered into an agreement with Hideki Otani in the amount of \$50,000 for the acquisition of the real property located at 818 "L" Street, 1119 8th Street and the northwest corner of 9th Street and "K" Street. The City is making annual installment of \$5,000 to Otani Enterprise. The note was paid off during fiscal year ended June 30, 2013.

Compensated Absences

The City's policy relating to compensated absences is described in Note 1G. This obligation is expected to be paid in future years from then available resources derived from the respective funds to which the employee services are rendered.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. LONG-TERM LIABILITIES (CONTINUED):

Business-Type Activities

The following is a summary of Business-Type Activities long-term obligation transactions of the City for the year ended June 30, 2013:

	Balance June 30, <u>2012</u>	Incurred or <u>Issued</u>	Satisfied or <u>Matured</u>	Balance June 30, <u>2013</u>	Due Within <u>One Year</u>	Due in More Than <u>One Year</u>
Bonds Payable:						
2006 Series A and B Lease Revenue						
Refunding Bonds	\$ 19,790,000	\$ -	\$ (515,000)	\$ 19,275,000	\$ 530,000	\$ 18,745,000
Less deferred amounts:						
For issuance discounts	<u>(80,377)</u>	-	<u>3,349</u>	<u>(77,028)</u>	-	<u>(77,028)</u>
Total Bonds Payable	19,709,623	-	(511,651)	19,197,972	530,000	18,667,972
Compensated absences	<u>328,922</u>	-	<u>(146,087)</u>	<u>182,835</u>	<u>73,135</u>	<u>109,700</u>
Total	<u>\$ 20,038,545</u>	<u>\$ -</u>	<u>\$ (657,738)</u>	<u>\$ 19,380,807</u>	<u>\$ 603,135</u>	<u>\$ 18,777,672</u>

2006 Series A and B Lease Revenue Refunding Bonds

On December 1, 2006, the Authority issued Series A and B Lease Revenue Refunding Bonds with a face value of \$20,735,000. The initial bond discount of \$100,472 is amortized ratably over the average 30 year life of the bond issue on a straight-line basis. The Bonds bear interest ranging 4.0% to 5.0% and are payable semi-annually commencing through June 2036.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. LONG-TERM LIABILITIES (CONTINUED):

Business-Type Activities (Continued)

The annual debt service requirements on these Bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 530,000	\$ 798,463	\$ 1,328,463
2015	550,000	779,913	1,329,913
2016	570,000	760,663	1,330,663
2017	590,000	740,143	1,330,143
2018	610,000	718,755	1,328,755
2019 - 2023	3,425,000	3,221,080	6,646,080
2024 - 2028	4,180,000	2,463,750	6,643,750
2029 - 2033	5,155,000	1,493,919	6,648,919
2034 - 2036	<u>3,665,000</u>	<u>325,281</u>	<u>3,990,281</u>
Totals	<u>\$ 19,275,000</u>	<u>\$ 11,301,967</u>	<u>\$ 30,576,967</u>

Compensated Absences

The City's policy relating to compensated absences is described in Note 1G. This obligation is expected to be paid in future years from then available resources derived from the respective funds to which the employee services are rendered.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

7. RISK MANAGEMENT:

The City is exposed to various risks and losses related to torts; theft or, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Risk of loss is primarily handled through the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of fifty-four (54) cities in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. Central San Joaquin Valley Risk Management Authority is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA. It is not a component unit of the City.

General Liability Insurance

Annual deposits are paid by member cities and are adjusted retroactively to cover costs. Each member city has a specific retention level. The City has a retention level of \$50,000 and pays 100% of all losses incurred under \$50,000. The City does not share or pay for losses of other cities under \$50,000. Losses of \$50,000 to \$500,000 are prorated among all participating cities on a payroll basis. Losses in excess of \$500,000 are covered by excess insurance purchased by the participating cities, as a part of the pool, to a limit of \$5 million. This cost is also prorated on a payroll basis

Workers' Compensation

Annual deposits are paid by member cities and are adjusted retroactively to cover costs. Each member city has a specific retention level. The City has a retention level of \$50,000 and pays 100% of all losses incurred under \$50,000. The City does not share or pay for losses of other cities under \$50,000. Losses of \$50,000 to \$500,000 are prorated among all participating cities on a payroll basis. Losses in excess of \$500,000 are covered by excess insurance purchased by the participating cities, as a part of the pool, to a limit of \$5 million. This cost is also prorated on a payroll basis.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. The following provides a reconciliation of claims and judgments:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Claims Payable - Workers' compensation:		
Beginning balance	\$ 485,654	\$ 578,462
Incurred	23,368	(74,882)
Paid	(7,184)	(17,926)
Ending Balance	<u>\$ 501,838</u>	<u>\$ 485,654</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

8. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS:

The fund balances reported on the fund statements consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to year end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance - This classification includes amounts that are designated or expressed by the City Council, but does not require a formal action with a resolution or ordinance. The Council may delegate the ability to an employee or committee to assign uses of specific funds for specific purposes. Such delegation of authority has not yet been granted to persons or bodies other than the Council.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

8. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS (CONTINUED):

	<u>General Fund</u>	<u>Measure S District Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Advances to				
Successor Agency	\$ -	\$ -	\$ 547,544	\$ 547,544
Land held for				
development	-	-	712,000	712,000
Restricted:				
Public safety	-	2,333,523	541,633	2,875,156
Public works	-	-	7,056,914	7,056,914
Affordable housing	-	-	131,123	131,123
Community services	-	-	12,213	12,213
Assigned to:				
Community services	467,404	-	-	467,404
Unassigned	<u>960,381</u>	<u>-</u>	<u>(177,839)</u>	<u>782,542</u>
	<u>\$ 1,427,785</u>	<u>\$ 2,333,523</u>	<u>\$ 8,823,588</u>	<u>\$ 12,584,896</u>

9. PUBLIC EMPLOYEE RETIREMENT SYSTEM:

A. Plan Description:

The City participates in the Miscellaneous 2.5% @55 Risk Pool (for miscellaneous employees), the Safety 3% @55 Risk Pool (for fire employees) and 2.0% @50 Risk Pool (for police employees) of the California Public Employee Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employee's Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

9. PUBLIC EMPLOYEE RETIREMENT SYSTEM (CONTINUED):

B. Funding Policy:

Active plan members in Miscellaneous and Safety Plans are required to contribute 8% for miscellaneous employees and 9% for safety employees of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-13 was 19.401% for miscellaneous employees, 27.184% for police employees, 242.202% for first tier fire employees, and 24.66% for second tier fire employees of annual payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

C. Annual Pension Cost:

For fiscal year 2012-2013, the City's annual pension cost of \$1,470,344 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases range from 3.55% to 14.45% for miscellaneous employees, police and fire employees depending on age, service, and type of employment; and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. CalPERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2009 was 15 years for miscellaneous employees, police and fire employees, for prior and current service unfunded liability.

D. Three-Year Trend Information for CalPERS:

Fiscal Year	Miscellaneous Plan		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage APC Contributed	
6/30/11	\$ 455,078	100%	\$ -
6/30/12	492,728	100%	-
6/30/13	515,286	100%	-

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

9. PUBLIC EMPLOYEE RETIREMENT SYSTEM (CONTINUED):

D. Three-Year Trend Information for CalPERS (Continued):

Police Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$ 322,748	100%	\$ -
6/30/12	565,206	100%	-
6/30/13	579,689	100%	-

Fire Plan			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$ 352,695	100%	\$ -
6/30/12	395,360	100%	-
6/30/13	375,369	100%	-

10. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES:

Excess of Expenditures over Appropriations

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
General Fund:			
City council	\$ 404,584	\$ 500,333	\$ (95,749)
Police department	4,661,843	4,758,666	(96,823)
Fire and emergency services	3,167,075	3,290,347	(123,272)
Development services	138,100	173,818	(35,718)
Public works	913,193	1,128,384	(215,191)
Measure S District Sales Tax Special Revenue Fund:			
Fire and Emergency Services	403,971	442,617	(38,646)
Other Governmental Special Revenue Funds:			
State Gas Tax	12,200	14,247	(2,047)
Transportation Equity Act 21	45,999	46,703	(704)
Supplemental Law Enforcement Grant	-	10,826	(10,826)
DUI Enforcement and Awareness Grant	-	4,189	(4,189)

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

10. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES (CONTINUED):

Deficit Fund Balances or Net Position

The following funds had a deficit fund balance or net position at June 30, 2013. These deficits are expected to be eliminated through future grant revenues or charges to other funds. These deficits are primarily the result of expenditures (funded by grants) being incurred prior to the funding from respective granting agencies. As projects are completed, reimbursement requests will be submitted.

	<u>Amount</u>
Other Governmental Special Revenue Funds:	
Transportation Equity Act 21	\$ 31,514
Community Development Block Grant	16,660
Sanger Skate Park Grant	70,265
Sanger Youth Center Grant	59,400
Internal Service Funds:	
Equipment maintenance	1,104
Self-insurance program	494,358

11. COMMITMENTS AND CONTINGENCIES:

General Liability

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

Federal Awards and Grants

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

12. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, Assembly Bills x1 26 (the “Dissolution Act”) and x1 27 were enacted as part of the fiscal year 2011-12 state budget package.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

Under the Dissolution Act, each California redevelopment agency (each a “Dissolved RDA”) was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On January 19, 2012, the City elected to serve as the Successor Agency to the Sanger Redevelopment Agency.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA’s housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The Housing Authority elected on January 19, 2012 to serve as the Housing Successor Agency.

After the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Low/Mod Income Housing Special Revenue Fund in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

See independent auditors’ report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

12. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller (the CAC), the California Department of Finance (the "DOF") and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the "RPTTF") for each Successor Agency and depositing into the RPTTF for each six-month period the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. The deposit in the RPTTF fund is to be used to pay to the Successor Agency the amounts due on the Successor Agency's enforceable obligations for the upcoming six-month period.

The Successor Agency is required to prepare a recognized obligation payment schedule (the "ROPS") approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTTF fund based on the ROPS amount approved by the DOF. The ROPS is prepared in advance for the enforceable obligations due over the next six months.

The process of making RPTTF deposits to be used to pay enforceable obligations of the Dissolved RDA will continue until all enforceable obligations have been paid in full and all non-housing assets of the Dissolved RDA have been liquidated.

As part of the dissolution process AB1484 required the Successor Agency to have due diligence reviews of both the low and moderate income housing funds and all other funds to be completed by October 15, 2012 and January 15, 2013 to compute the funds (cash) which were not needed by the Successor Agency to be retained to pay for existing enforceable obligations. These funds were to be remitted to the CAC after the DOF completed its review of the due diligence reviews. The Successor Agency made payments totaling \$132,262 to the CAC as a result of the due diligence reviews.

The DOF issued a Finding of Completion on May 5, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

12. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA 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.

Management believes, in consultation with legal counsel, that the obligations of the Dissolved RDA due to the City are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. 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.

13. SUCCESSOR AGENCY DISCLOSURES:

The City is acting in a fiduciary capacity for the assets and liabilities. Disclosure related to these transactions are as follows:

Notes Receivable:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>
Business improvement loans	\$ 221,230	\$ -	\$ (56,782)	\$ 164,448

At June 30, 2013, the Successor Agency was owed \$164,448 from various development and improvement loans. Development loans are interest bearing ranges from 3.2% to 6.0%, and improvement loans are non-interest bearing and secured by deeds of trust. Maturities vary according to terms.

Advances To/From the City of Sanger:

The composition of advances as of June 30, 2013, was as follows:

<u>Advances From</u>	<u>Advances To</u>	<u>Amount</u>
Sanger Housing Authority		
Special Revenue Fund	Successor Agency	\$ 547,544
Water Enterprise Fund	Successor Agency	935,498
	Total	<u>\$ 1,483,042</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

13. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Advances To/From the City of Sanger (Continued):

During 2006-07, the former Redevelopment Agency borrowed money in the amount of \$1,169,373 from the Water Fund for the purchase of land located in the Sanger Industrial Park which is being held for resale purposes. The Loan is to be repaid as lots in the Sanger Industrial Park are sold or as funds become available. The interest on the loan will be calculated using the LAIF interest rate. The outstanding balance as of June 30, 2013 was \$1,169,373. 80% of the loan balance is reported in Water Enterprise Fund and the remaining 20% of the balance is reported in the Housing Authority Special Revenue Fund.

In 2010, the former Redevelopment Agency made an advance of \$418,226 from the Low and Moderate Income Housing Capital Projects Fund to the Merged Project Area Debt Service Fund to satisfy the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) obligation as required by Assembly Bill ABX4-26. Effective February 1, 2012, the advance was retained by the Housing Authority. The outstanding balance at June 30, 2013 was \$313,669.

AB 1484 specifies the actions to be taken and the method of repayment for advances by the Successor Agency to the various funds of the City. Upon application and approval by the successor agency and approval by the oversight board, loan agreements (advances) entered into by former redevelopment agency and the city shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the advances were for legitimate redevelopment purposes. The accumulated interest on the remaining amount of advances will be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund.

The advances are to be repaid with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by the funds deposited into the Local Agency Investment Fund. The annual advances repayments are subject to certain limitations. Advance repayments shall not be prior to the 2013-2014 fiscal year, are subject to a formula distribution, and have a lower priority for repayment as described in AB 1484 (Health and Safety Code Section 34191.4(2)(A)).

The advances related to the borrowing for the SERAF payment have a priority over repayment of the other advances. 20% of the repayment of the other advances not related to the SERAF advances shall be deducted and transferred to the Low and Moderate Income Housing Fund (Housing Authority).

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

13. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Capital Assets:

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
Capital assets, being depreciated:				
Improvements	\$ 13,519	\$ -	\$ -	\$ 13,519
Less: accumulated depreciation	<u>(6,944)</u>	<u>-</u>	<u>(676)</u>	<u>(7,620)</u>
Total capital assets, being depreciated	<u>\$ 6,575</u>	<u>\$ -</u>	<u>\$ (676)</u>	<u>\$ 5,899</u>

Long-Term Liabilities:

Long-term liabilities activities for the year ended June 30, 2013 was as follows:

	<u>Balance at July 1, 2012</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance at June 30, 2013</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
2006 Tax Allocation Bond	\$ 2,230,000	\$ -	\$ (375,000)	\$ 1,855,000	\$ 275,000	\$ 1,580,000
Less Deferred Amount:						
For Issuance Discounts	<u>(26,909)</u>	<u>-</u>	<u>4,484</u>	<u>(22,425)</u>	<u>-</u>	<u>(22,425)</u>
Net 2006 Tax Allocation Bond	2,203,091	-	(370,516)	1,832,575	275,000	1,557,575
1995 Subordinate Tax Increment						
Revenue Bonds	<u>285,000</u>	<u>-</u>	<u>(65,000)</u>	<u>220,000</u>	<u>70,000</u>	<u>150,000</u>
Total	<u>\$ 2,488,091</u>	<u>\$ -</u>	<u>\$ (435,516)</u>	<u>\$ 2,052,575</u>	<u>\$ 345,000</u>	<u>\$ 1,707,575</u>

2006 Tax Allocation Bonds

On December 1, 2006, the Agency issued Tax Allocation Bonds with a face value of \$3,950,000, at a combined original issue discount and underwriter's discount of \$53,813. Issuance costs of \$161,701 were incurred. The bond discount and issuance costs will be amortized ratably over the average 12 year life of the bond issue on a straight-line basis. The bonds bear interest ranging 3.70% to 4.75% and are payable semi-annually commencing through August, 2018.

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

13. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued):

2006 Tax Allocation Bonds (Continued)

The annual debt service requirements on these Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 275,000	\$ 76,719	\$ 351,719
2015	290,000	64,567	354,567
2016	300,000	51,660	351,660
2017	315,000	37,972	352,972
2018	330,000	23,378	353,378
2019	<u>345,000</u>	<u>465,735</u>	<u>810,735</u>
Totals	<u>\$ 1,855,000</u>	<u>\$ 720,031</u>	<u>\$ 2,575,031</u>

1995 Subordinate Tax Increment Revenue Bonds

During 1994-95, the Authority borrowed money from the Water Enterprise Fund and subsequently loaned the proceeds to the Agency to refund outstanding bonds and finance certain obligations of the Agency relating to the Project Area No.1 and 2. The Bonds bear interest of 5.0% and are payable annually maturing through August, 2015.

The annual debt service requirements on these Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 70,000	\$ 11,000	\$ 81,000
2015	75,000	7,500	82,500
2016	<u>75,000</u>	<u>3,750</u>	<u>78,750</u>
Totals	<u>\$ 220,000</u>	<u>\$ 22,250</u>	<u>\$ 242,250</u>

See independent auditors' report.

CITY OF SANGER

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

14. RESTATEMENT OF NET POSITION:

Note 1C describes the GASB pronouncements the City is adopting for this and the prior fiscal years. There is a financial impact for the adoption of GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Implementation of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", reclassifies certain assets and liabilities to deferred inflows of resources and deferred outflows of resources.

The implementation of GASB Statement No. 65 recognizes cost of issuance and is applied retroactively by restating financial statements, if practical for all periods presented. The implementation of GASB No. 65 resulted in reducing net position of the Sewer Fund and the Successor Agency to the Sanger Redevelopment Agency Private-Purpose Trust Fund in the amount of \$825,304 and \$77,222, respectively as of July 1, 2012, to remove bond issue costs reported as deferred costs.

15. SUBSEQUENT EVENTS:

On September 17, 2013, the City created the Sanger Financing Authority to provide a financing mechanism for the City.

On November 19, 2013 the Sanger Financing Authority issued Series 2013 Lease Revenue Bonds with a face value of \$1,320,000. The Bonds were issued to finance the acquisition, construction and installation of capital improvements throughout the City, purchase reserve fund sure bond in lieu of cash funding a reserve fund for the Bonds and pay costs of issuance of the Bonds. The Bonds bear interest ranging 2.10% to 5.00% and are payable semi-annually commencing June 15, 2014.

On November 19, 2013 the Sanger Financing Authority issued Series 2013 Subordinate Wastewater Revenue Bonds with a face value of \$6,370,000. The Bonds were issued to finance the acquisition, construction and installation of capital improvements and facilities which constitute part of the Wastewater System, purchase reserve fund sure bond in lieu of cash funding a reserve fund for the Bonds and pay costs of issuance of the Bonds. The Bonds bear interest ranging 2.55% to 5.00% and are payable semi-annually commencing June 15, 2014.

On November 19, 2013 the Sanger Financing Authority issued Series 2013 Water Revenue Bonds with a face value of \$4,090,000. The Bonds were issued to finance the acquisition, construction and installation of capital improvements and facilities which constitute part of the Water System, purchase reserve fund sure bond in lieu of cash funding a reserve fund for the Bonds and pay costs of issuance of the Bonds. The Bonds bear interest ranging .40% to 5.00% and are payable semi-annually commencing June 15, 2014.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SANGER

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 5,379,709	\$ 5,379,709	\$ 5,543,704	\$ 163,995
Licenses and permits	68,000	68,000	94,123	26,123
Fines and penalties	91,200	91,200	120,258	29,058
Investment income	500	500	36,203	35,703
Charges for services	1,475,100	1,475,100	1,630,184	155,084
Intergovernmental revenues	2,190,900	2,190,900	2,349,548	158,648
Fees and other revenues	393,700	393,700	490,283	96,583
TOTAL REVENUES	9,599,109	9,599,109	10,264,303	665,194
EXPENDITURES:				
Current:				
City council	404,584	404,584	500,333	(95,749)
Community services	1,089,327	1,089,327	1,034,818	54,509
Police department	4,661,843	4,661,843	4,758,666	(96,823)
Fire and emergency services	3,167,075	3,167,075	3,290,347	(123,272)
Development services	138,100	138,100	173,818	(35,718)
Public works	913,193	913,193	1,128,384	(215,191)
Nondepartmental	623,796	623,796	585,302	38,494
Capital outlay	53,000	53,000	10,709	42,291
Debt service:				
Principal	5,000	5,000	5,000	-
TOTAL EXPENDITURES	11,055,918	11,055,918	11,487,377	(431,459)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,456,809)	(1,456,809)	(1,223,074)	233,735
OTHER FINANCING SOURCES:				
Transfers in	1,575,861	1,575,861	2,138,133	562,272
TOTAL OTHER FINANCING SOURCES	1,575,861	1,575,861	2,138,133	562,272
NET CHANGE IN FUND BALANCE	119,052	119,052	915,059	796,007
FUND BALANCE - BEGINNING OF YEAR	512,726	512,726	512,726	-
FUND BALANCE - END OF YEAR	\$ 631,778	\$ 631,778	\$ 1,427,785	\$ 796,007

See independent auditors' report.

CITY OF SANGER

BUDGETARY COMPARISON SCHEDULE
 MEASURE S DISTRICT SALES TAX SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,570,421	\$ 1,570,421	\$ 1,545,683	\$ (24,738)
Investment income	2,000	2,000	5,026	3,026
TOTAL REVENUES	<u>1,572,421</u>	<u>1,572,421</u>	<u>1,550,709</u>	<u>(21,712)</u>
EXPENDITURES:				
Current:				
Police department	567,256	567,256	535,898	31,358
Fire and emergency services	403,971	403,971	442,617	(38,646)
Capital outlay	<u>279,500</u>	<u>279,500</u>	<u>35,758</u>	<u>243,742</u>
TOTAL EXPENDITURES	<u>1,250,727</u>	<u>1,250,727</u>	<u>1,014,273</u>	<u>236,454</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	321,694	321,694	536,436	214,742
FUND BALANCE - BEGINNING OF YEAR	<u>1,797,087</u>	<u>1,797,087</u>	<u>1,797,087</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,118,781</u>	<u>\$ 2,118,781</u>	<u>\$ 2,333,523</u>	<u>\$ 214,742</u>

See independent auditors' report.

CITY OF SANGER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

BUDGETARY INFORMATION:

The City uses the following procedures annually to establish the budget data reflected in the budgetary comparison schedules:

- 1) The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- 2) The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interest persons.
- 3) Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as Original Budget in the budgetary comparison schedules.
- 4) During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any nondepartmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers which increase salary and benefit appropriations.
 - c. Items delegated to department heads - allocation of departmental appropriations to line item levels.
- 5) Formal budgetary integration is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the General Fund, certain Special Revenue Funds and Enterprise Funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
- 6) Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.

See independent auditors' report.

CITY OF SANGER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
(CONTINUED)

June 30, 2013

BUDGETARY INFORMATION (CONTINUED):

- 7) For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called “department”. A “department” for legal appropriation purposes may be a single organization, or an entire department having multiple organizations within the same fund, or an entire fund.

See independent auditors’ report.

SUPPLEMENTARY INFORMATION

CITY OF SANGER

OTHER GOVERNMENTAL FUNDS

June 30, 2013

SPECIAL REVENUE FUNDS are used to account for the proceeds of specific revenue sources (other than expendable and nonexpendable trusts) that are restricted by law or City Council resolution to expenditure for specific purposes.

State Gas Tax - The funds are used to account for receipts and expenditures of monies apportioned to the City under the Streets and Highways Code Section 2105, 2106, 2107 and 2107.5 of the State of California.

Prop 1B Funding - State bond funds used for major street maintenance and improvements.

Landscape and Lighting - Accounts for maintenance expenditures made with assessment money received from district property owners.

Measure C EXT - Pedestrian - These funds are used for pedestrian facilities including sidewalks, paths, walkways, or equivalent facilities. Funding is provided by the countywide ½ cent transportation sales tax imposed in Fresno County for twenty years.

Measure C EXT - Bicycle - These funds are used for bicycle facilities including accommodations for bicycle travel either by a shared roadway or by bike lane. Funding is provided by the countywide ½ cent transportation sales tax imposed in Fresno County for twenty years.

Measure C EXT - American Disability Act (ADA) - These funds are used for the American Disability Act compliance for street construction and maintenance including curb cuts and ramps to remove barriers, as well as other special transportation services. Funding is provided by the countywide ½ cent transportation sales tax imposed in Fresno County for twenty years.

Measure C EXT - Street - These funds are used for the street maintenance for street improvements that address the aging street and road systems. Funding is provided by the countywide ½ cent transportation sales tax imposed in Fresno County for twenty years.

Measure C EXT - Flexible - These funds are used for any transportation project they feel is warranted (example: transit, pothole, repair and maintenance of existing alleys). Funding is provided by the countywide ½ cent transportation sales tax imposed in Fresno County for twenty years.

Transportation and Street Maintenance - Accounts for the construction and maintenance of the street network system of the City. Financing is provided by allocations from the County Local Transportation Funds created by the Transportation Development Act.

CITY OF SANGER

OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

SPECIAL REVENUE FUNDS (CONTINUED)

Local Public Safety - These funds are used to account for the revenues from Proposition 172, a 1993 measure which collects a ½ cent sales tax for local public safety.

Air Quality Projects - This fund is used to account for clean air fees collected by the State and distributed by the California Air Quality Management District for clean air projects.

Transportation Equity Act 21 - This fund is used to account for improving the safety due to increasing traffic levels. It protects and enhances the community and the natural environment.

California Gang Reduction, Intervention and Prevention (CAL GRIP) Grants - The California Gang Reduction, Intervention and Prevention (GRIP) Program provides state grant funds to cities and community-based organizations for gang prevention, intervention, reentry, education, job training and skills development, family and community services, and suppression activities.

Vehicle Impound Program Grant - State Office of Traffic Safety (OTS) Vehicle Impound Program Grant provides funding for overtime hours and purchases of a radar trailer to reduce traffic collisions involving drivers with suspended or revoked licenses. Operations will include DUI/Driver's license.

Alcohol Beverage Control (ABC) Grant - Alcohol Beverage Control Grant provides funding for the prevention of under-age drinking and to enforce compliance with ABC laws and regulations of licensed businesses.

Community Development Block Grant (CDBG) - Accounts for expenditures for approved projects that have been funded by Federal Community Development Block Grant funds received through county funding.

Area Agency on Ageing Grant - Federal funding for providing outreach and site management services to older Americans in Sanger and Del Rey. Services include meals and information support.

Bicycle Lane Striping State Grant - State Bicycle Transportation Account (BTA) grant funding for 5.5 miles of Class II bicycle lanes.

Supplemental Law Enforcement Grant - State Supplemental Law Enforcement Services Fund (SLESF) provides for front line municipal police services including anti-gang and community crime prevention programs.

CITY OF SANGER

OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

SPECIAL REVENUE FUNDS (CONTINUED)

Community Facilities District Grant - Community Facilities District 2005-1 levies a special tax in the District comprised of developing areas. The tax provides for the financing of additional demands for public safety and park maintenance services as a result of development.

Sanger Housing Authority - Authorized by Housing Authority Law commencing with Section 34200 of the Health and Safety Code for the development and construction of low and moderate income housing.

State Homeland Security Grant - State Homeland Security Grant provides the first responders with the tools they need should a WMD incident occur in the Urban Area.

DUI Enforcement and Awareness Grant - State Office of Traffic Safety (OTS) Grant provides funding for operations that will focus on DUI offenders to reduce deaths and injuries related to alcohol involved crashes.

Sanger Skate Park Grant - State Parks and Recreation Grant to construct a skate park including a small parking lot, walkways, lighting, landscaping and placement of benches and tables.

Sanger Youth Center Grant - State Parks and Recreation Grant to renovate the Sanger Pal Youth Center.

Edward Byrne Program (JAG) - Federal Justice Assistance Recovery Act Grant for the purchase of police Tazers and office equipment.

COPS Hiring Recovery Program - United States Department of Justice funding for two full time police officers.

Developers Fees - Accounts for fees placed on the development of land. Fees are an offset to the future impact that the development will have on infrastructures.

SAFER Grant - Accounts for Federal Emergency Management Agency (FEMA) grant allocated to six regional fire departments to recruit and train reserve and volunteer firefighters.

CITY OF SANGER

OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

SPECIAL REVENUE FUNDS (CONTINUED)

Petsmart Charities Grant - Accounts for Petsmart grant for low cost spay and neuter of dogs.

Traffic Congestion Relief - Accounts for the funds received for the Traffic Congestion Relief Act of 2000 approved by Assembly Bill 2928. The purpose of this fund is to relieve traffic congestion, provide additional funding for street and road maintenance and provide additional transportation and capacity in high growth areas of the State.

DEBT SERVICE FUND is used to account for the accumulation of resources and payment of general obligation bond principal and interest from government resources and special assessment bond principal and interest from special assessment levies with the government is obligated in some manner for the payment.

Improvement District 79-1 Bonds - Is used for the redemption fund set up by the County to handle the payment of principal and interest on the 20 year bonds issued by the City for public streets, sewer and water infrastructure for Subdivision Track No. 3041.

CITY OF SANGER

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2013

		<u>Special Revenue Funds</u>		
		State Gas Tax	Prop 1B Funding	Landscape and Lighting
ASSETS				
Cash and investments		\$ 765,169	\$ 80,089	\$ 203,117
Receivables:				
Accounts		52,473	-	9,453
Intergovernmental		-	-	-
Land held for development		-	-	-
Due from other funds		-	-	-
Advance to Successor Agency		-	-	-
Notes receivable		-	-	-
		<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS		<u>\$ 817,642</u>	<u>\$ 80,089</u>	<u>\$ 212,570</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable		\$ -	\$ -	\$ 7,602
Retentions payable		-	25,168	-
Due to other funds		-	-	-
TOTAL LIABILITIES		<u> </u>	<u>25,168</u>	<u>7,602</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - notes		-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES		<u> </u>	<u> </u>	<u> </u>
FUND BALANCES (DEFICITS):				
Nonspendable		-	-	-
Restricted for:				
Public works		817,642	54,921	204,968
Public safety		-	-	-
Community services		-	-	-
Affordable housing		-	-	-
Unassigned		-	-	-
TOTAL FUND BALANCES (DEFICITS)		<u>817,642</u>	<u>54,921</u>	<u>204,968</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		<u>\$ 817,642</u>	<u>\$ 80,089</u>	<u>\$ 212,570</u>

See independent auditors' report.

Special Revenue Funds (Continued)

Measure C EXT - Pedestrian	Measure C EXT - Bicycle	Measure C EXT - ADA	Measure C EXT - Street	Measure C EXT - Flexible	Transportation and Street Maintenance	Local Public Safety
\$ 117,542	\$ 35,221	\$ 36,677	\$ 699,784	\$ 1,161,898	\$ 997,986	\$ 15,750
-	-	599	18,330	22,990	171,905	17,957
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 117,542</u>	<u>\$ 35,221</u>	<u>\$ 37,276</u>	<u>\$ 718,114</u>	<u>\$ 1,184,888</u>	<u>\$ 1,169,891</u>	<u>\$ 33,707</u>
\$ -	\$ -	\$ -	\$ 11,767	\$ -	\$ 60,303	\$ -
-	-	370	-	-	28,072	-
-	-	-	-	-	63,489	-
-	-	370	11,767	-	151,864	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
117,542	35,221	36,906	706,347	1,184,888	1,018,027	-
-	-	-	-	-	-	33,707
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>117,542</u>	<u>35,221</u>	<u>36,906</u>	<u>706,347</u>	<u>1,184,888</u>	<u>1,018,027</u>	<u>33,707</u>
<u>\$ 117,542</u>	<u>\$ 35,221</u>	<u>\$ 37,276</u>	<u>\$ 718,114</u>	<u>\$ 1,184,888</u>	<u>\$ 1,169,891</u>	<u>\$ 33,707</u>

(Continued)

CITY OF SANGER

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

		<u>Special Revenue Funds (Continued)</u>		
		<u>Air Quality Projects Funds</u>	<u>Transportation Equity Act 21</u>	<u>CAL GRIP Grants</u>
ASSETS				
Cash and investments		\$ 141,729	\$ -	\$ -
Receivables:				
Accounts		-	8,035	-
Intergovernmental		-	-	42,735
Land held for development		-	-	-
Due from other funds		-	-	-
Advance to Successor Agency		-	-	-
Notes receivable		-	-	-
		<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS		<u>\$ 141,729</u>	<u>\$ 8,035</u>	<u>\$ 42,735</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable		\$ -	\$ 9,759	\$ 6,905
Retentions payable		-	-	-
Due to other funds		-	29,790	35,817
TOTAL LIABILITIES		<u> </u>	<u>39,549</u>	<u>42,722</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - notes		-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES		<u> </u>	<u> </u>	<u> </u>
FUND BALANCES (DEFICITS):				
Nonspendable		-	-	-
Restricted for:				
Public works		141,729	-	13
Public safety		-	-	-
Community services		-	-	-
Affordable housing		-	-	-
Unassigned		-	(31,514)	-
TOTAL FUND BALANCES (DEFICITS)		<u>141,729</u>	<u>(31,514)</u>	<u>13</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		<u>\$ 141,729</u>	<u>\$ 8,035</u>	<u>\$ 42,735</u>

See independent auditors' report.

Special Revenue Funds (Continued)

Vehicle Impound Program Grant	ABC Grant	Community Development Block Grant	Area Agency on Ageing Grant	Bicycle Lane Striping State Grant	Supplemental Law Enforcement Grant	Community Facilities District Grant
\$ 58,370	\$ 7,526	\$ -	\$ 9,927	\$ 1,424	\$ -	\$ 345,888
-	-	24,653	2,286	-	-	3,466
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 58,370</u>	<u>\$ 7,526</u>	<u>\$ 24,653</u>	<u>\$ 12,213</u>	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ 349,354</u>
\$ -	\$ -	\$ 25,787	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	15,526	-	-	-	-
<u>-</u>	<u>-</u>	<u>41,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	1,424	-	-
58,370	7,526	-	-	-	-	349,354
-	-	-	12,213	-	-	-
-	-	-	-	-	-	-
-	-	(16,660)	-	-	-	-
<u>58,370</u>	<u>7,526</u>	<u>(16,660)</u>	<u>12,213</u>	<u>1,424</u>	<u>-</u>	<u>349,354</u>
<u>\$ 58,370</u>	<u>\$ 7,526</u>	<u>\$ 24,653</u>	<u>\$ 12,213</u>	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ 349,354</u>

(Continued)

CITY OF SANGER

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

		<u>Special Revenue Funds (Continued)</u>		
		Sanger	State	DUI
		Housing	Homeland	Enforcement
		Authority	Security	and Awareness
		<u> </u>	<u>Grant</u>	<u>Grant</u>
ASSETS				
Cash and investments		\$ 131,174	\$ -	\$ 29,096
Receivables:				
Accounts		-	-	-
Intergovernmental		-	-	1,819
Land held for development		712,000	-	-
Due from other funds		-	-	-
Advance to Successor Agency		547,544	-	-
Notes receivable		705,859	-	-
		<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS		<u>\$ 2,096,577</u>	<u>\$ -</u>	<u>\$ 30,915</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable		\$ 51	\$ -	\$ -
Retentions payable		-	-	-
Due to other funds		-	-	-
TOTAL LIABILITIES		<u>51</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - notes		705,859	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>705,859</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS):				
Nonspendable		1,259,544	-	-
Restricted for:				
Public works		-	-	-
Public safety		-	-	30,915
Community services		-	-	-
Affordable housing		131,123	-	-
Unassigned		-	-	-
TOTAL FUND BALANCES (DEFICITS)		<u>1,390,667</u>	<u>-</u>	<u>30,915</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		<u>\$ 2,096,577</u>	<u>\$ -</u>	<u>\$ 30,915</u>

See independent auditors' report.

Special Revenue Funds (Continued)

Sanger Skate Park Grant	Sanger Youth Center Grant	Edward Byrne Program (JAG)	COPS Hiring Recovery Program	Developers Fees	SAFER Grant
\$ -	\$ -	\$ 5,239	\$ -	\$ 2,214,056	\$ -
-	62,860	-	-	-	-
-	-	2,356	-	-	41,300
-	-	-	-	523,217	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 62,860</u>	<u>\$ 7,595</u>	<u>\$ -</u>	<u>\$ 2,737,273</u>	<u>\$ 41,300</u>
\$ -	\$ -	\$ 63	\$ -	\$ -	\$ 41,300
-	-	-	-	-	-
70,265	122,260	-	-	-	-
<u>70,265</u>	<u>122,260</u>	<u>63</u>	<u>-</u>	<u>-</u>	<u>41,300</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	2,737,273	-
-	-	7,532	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(70,265)	(59,400)	-	-	-	-
<u>(70,265)</u>	<u>(59,400)</u>	<u>7,532</u>	<u>-</u>	<u>2,737,273</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 62,860</u>	<u>\$ 7,595</u>	<u>\$ -</u>	<u>\$ 2,737,273</u>	<u>\$ 41,300</u>

(Continued)

CITY OF SANGER

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
(CONTINUED)

June 30, 2013

		Special Revenue Funds (Continued)		
		Petsmart	Traffic	Total
		Charities	Congestion	Other
		Grant	Relief	Special
				Revenue Funds
ASSETS				
Cash and investments		\$ 55,330	\$ 13	\$ 7,113,005
Receivables:				
Accounts		-	-	395,007
Intergovernmental		-	-	88,210
Land held for development		-	-	712,000
Due from other funds		-	-	523,217
Advance to Successor Agency		-	-	547,544
Notes receivable		-	-	705,859
TOTAL ASSETS		<u>\$ 55,330</u>	<u>\$ 13</u>	<u>\$ 10,084,842</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable		\$ 1,101	\$ -	\$ 164,638
Retentions payable		-	-	53,610
Due to other funds		-	-	337,147
TOTAL LIABILITIES		<u>1,101</u>	<u>-</u>	<u>555,395</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - notes		-	-	705,859
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>-</u>	<u>-</u>	<u>705,859</u>
FUND BALANCES (DEFICITS):				
Nonspendable		-	-	1,259,544
Restricted for:				
Public works		-	13	7,056,914
Public safety		54,229	-	541,633
Community services		-	-	12,213
Affordable housing		-	-	131,123
Unassigned		-	-	(177,839)
TOTAL FUND BALANCES (DEFICITS)		<u>54,229</u>	<u>13</u>	<u>8,823,588</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		<u>\$ 55,330</u>	<u>\$ 13</u>	<u>\$ 10,084,842</u>

See independent auditors' report.

<u>Debt Service Fund</u>	<u>Total Other Governmental Funds</u>
Improvement District 79-1 Bonds	
\$ -	\$ 7,113,005
-	395,007
-	88,210
-	712,000
-	523,217
-	547,544
-	705,859
<u>\$ -</u>	<u>\$ 10,084,842</u>
\$ -	\$ 164,638
-	53,610
-	337,147
<u>-</u>	<u>555,395</u>
<u>-</u>	<u>705,859</u>
<u>-</u>	<u>705,859</u>
-	1,259,544
-	7,056,914
-	541,633
-	12,213
-	131,123
-	(177,839)
<u>-</u>	<u>8,823,588</u>
<u>\$ -</u>	<u>\$ 10,084,842</u>

CITY OF SANGER

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

For the year ended June 30, 2013

	Special Revenue Funds		
	State Gas Tax	Prop 1B Funding	Landscape and Lighting
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Investment income	2,049	195	170
Intergovernmental revenues	572,258	-	-
Fees and other revenues	-	-	318,872
TOTAL REVENUES	574,307	195	319,042
EXPENDITURES:			
Current:			
Police department	-	-	-
Fire and emergency services	-	-	-
Public works	14,247	-	91,759
Capital outlay	-	-	-
TOTAL EXPENDITURES	14,247	-	91,759
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	560,060	195	227,283
OTHER FINANCING USES:			
Transfers out	(587,353)	-	(150,000)
CHANGES IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	(27,293)	195	77,283
EXTRAORDINARY ITEM:			
Gain on tranfer of advance	-	-	-
NET CHANGE IN FUND BALANCES	(27,293)	195	77,283
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	844,935	54,726	127,685
FUND BALANCES (DEFICITS) - END OF YEAR	\$ 817,642	\$ 54,921	\$ 204,968

See independent auditors' report.

Special Revenue Funds (Continued)

Measure C EXT - Pedestrian	Measure C EXT - Bicycle	Measure C EXT - ADA	Measure C EXT - Street	Measure C EXT - Flexible	Transportation and Street Maintenance	Local Public Safety
\$ -	\$ -	\$ 7,910	\$ 237,547	\$ 291,705	\$ 788,411	\$ 104,617
292	87	97	1,540	2,855	2,868	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>292</u>	<u>87</u>	<u>8,007</u>	<u>239,087</u>	<u>294,560</u>	<u>791,279</u>	<u>104,617</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	7,408	-	-	-	-
-	-	-	313,978	44,134	1,292,283	-
-	-	7,408	313,978	44,134	1,292,283	-
292	87	599	(74,891)	250,426	(501,004)	104,617
-	-	-	-	-	-	(90,000)
292	87	599	(74,891)	250,426	(501,004)	14,617
-	-	-	-	-	-	-
292	87	599	(74,891)	250,426	(501,004)	14,617
<u>117,250</u>	<u>35,134</u>	<u>36,307</u>	<u>781,238</u>	<u>934,462</u>	<u>1,519,031</u>	<u>19,090</u>
<u>\$ 117,542</u>	<u>\$ 35,221</u>	<u>\$ 36,906</u>	<u>\$ 706,347</u>	<u>\$ 1,184,888</u>	<u>\$ 1,018,027</u>	<u>\$ 33,707</u>

(Continued)

CITY OF SANGER

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS
(CONTINUED)

For the year ended June 30, 2013

	Special Revenue Funds (Continued)		
	Air Quality Projects Funds	Transportation Equity Act 21	CAL GRIP Grants
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Investment income	350	-	-
Intergovernmental revenues	-	41,013	36,335
Fees and other revenues	3,875	-	-
TOTAL REVENUES	4,225	41,013	36,335
EXPENDITURES:			
Current:			
Police department	-	-	19,590
Fire and emergency services	-	-	-
Public works	-	-	-
Capital outlay	-	46,703	-
TOTAL EXPENDITURES	-	46,703	19,590
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,225	(5,690)	16,745
OTHER FINANCING USES:			
Transfers out	-	-	(16,745)
CHANGES IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	4,225	(5,690)	-
EXTRAORDINARY ITEM:			
Gain on tranfer of advance	-	-	-
NET CHANGE IN FUND BALANCES	4,225	(5,690)	-
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	137,504	(25,824)	13
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 141,729</u>	<u>\$ (31,514)</u>	<u>\$ 13</u>

See independent auditors' report

Special Revenue Funds (Continued)

Vehicle Impound Program Grant	ABC Grant	Community Development Block Grant	Area Agency on Ageing Grant	Bicycle Lane Striping State Grant	Supplemental Law Enforcement Grant	Community Facilities District Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
145	-	-	6	-	-	708
-	1,148	292,823	13,716	-	100,023	407,999
-	-	-	-	-	-	-
<u>145</u>	<u>1,148</u>	<u>292,823</u>	<u>13,722</u>	<u>-</u>	<u>100,023</u>	<u>408,707</u>
655	20	-	-	-	9,511	-
-	-	-	-	-	-	-
-	-	-	-	-	1,315	-
-	-	296,564	-	-	-	-
<u>655</u>	<u>20</u>	<u>296,564</u>	<u>-</u>	<u>-</u>	<u>10,826</u>	<u>-</u>
(510)	1,128	(3,741)	13,722	-	89,197	408,707
-	-	-	(13,722)	-	(79,303)	(428,847)
(510)	1,128	(3,741)	-	-	9,894	(20,140)
-	-	-	-	-	-	-
(510)	1,128	(3,741)	-	-	9,894	(20,140)
58,880	6,398	(12,919)	12,213	1,424	(9,894)	369,494
<u>\$ 58,370</u>	<u>\$ 7,526</u>	<u>\$ (16,660)</u>	<u>\$ 12,213</u>	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ 349,354</u>

(Continued)

CITY OF SANGER

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS
(CONTINUED)

For the year ended June 30, 2013

	Special Revenue Funds (Continued)		
	Sanger Housing Authority	State Homeland Security Grant	DUI Enforcement and Awareness Grant
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Investment income	289	-	77
Intergovernmental revenues	-	3,906	1,819
Fees and other revenues	42,316	-	-
TOTAL REVENUES	42,605	3,906	1,896
EXPENDITURES:			
Current:			
Police department	-	-	4,189
Fire and emergency services	-	-	-
Public works	20,968	-	-
Capital outlay	-	2,433	-
TOTAL EXPENDITURES	20,968	2,433	4,189
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,637	1,473	(2,293)
OTHER FINANCING USES:			
Transfers out	-	-	-
CHANGES IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	21,637	1,473	(2,293)
EXTRAORDINARY ITEM:			
Gain on tranfer of advance	233,875	-	-
NET CHANGE IN FUND BALANCES	255,512	1,473	(2,293)
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	1,135,155	(1,473)	33,208
FUND BALANCES (DEFICITS) - END OF YEAR	\$ 1,390,667	\$ -	\$ 30,915

See independent auditors' report.

Special Revenue Funds (Continued)

Sanger Skate Park Grant	Sanger Youth Center Grant	Edward Byrne Program (JAG)	COPS Hiring Recovery Program	Developers Fees	SAFER Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,188	-
-	-	5,150	146,415	-	73,416
-	-	-	-	32,035	-
-	-	5,150	146,415	33,223	73,416
-	-	2,015	-	-	-
-	-	-	-	-	73,416
-	-	-	-	-	-
75	-	-	-	-	-
75	-	2,015	-	-	73,416
(75)	-	3,135	146,415	33,223	-
-	-	(2,794)	(146,415)	-	-
(75)	-	341	-	33,223	-
-	-	-	-	-	-
(75)	-	341	-	33,223	-
(70,190)	(59,400)	7,191	-	2,704,050	-
<u>\$ (70,265)</u>	<u>\$ (59,400)</u>	<u>\$ 7,532</u>	<u>\$ -</u>	<u>\$ 2,737,273</u>	<u>\$ -</u>

(Continued)

CITY OF SANGER

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS
(CONTINUED)

For the year ended June 30, 2013

	Special Revenue Funds (Continued)		
	Petsmart Charities Grant	Traffic Congestion Relief	Total Other Special Revenue Funds
REVENUES:			
Taxes	\$ -	\$ -	\$ 1,430,190
Investment income	124	13	13,053
Intergovernmental revenues	-	-	1,696,021
Fees and other revenues	75,585	-	472,683
TOTAL REVENUES	75,709	13	3,611,947
EXPENDITURES:			
Current:			
Police department	21,480	-	57,460
Fire and emergency services	-	-	73,416
Public works	-	-	135,697
Capital outlay	-	-	1,996,170
TOTAL EXPENDITURES	21,480	-	2,262,743
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	54,229	13	1,349,204
OTHER FINANCING USES:			
Transfers out	-	-	(1,515,179)
CHANGES IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	54,229	13	(165,975)
EXTRAORDINARY ITEM:			
Gain on tranfer of advance	-	-	233,875
NET CHANGE IN FUND BALANCES	54,229	13	67,900
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	-	-	8,755,688
FUND BALANCES (DEFICITS) - END OF YEAR	\$ 54,229	\$ 13	\$ 8,823,588

See independent auditors' report.

Debt Service Fund	Total Other Governmental Funds
Improvement District 79-1 Bonds	
\$ -	\$ 1,430,190
3,413	16,466
-	1,696,021
-	472,683
<u>3,413</u>	<u>3,615,360</u>
-	57,460
-	73,416
-	135,697
<u>-</u>	<u>1,996,170</u>
<u>-</u>	<u>2,262,743</u>
3,413	1,352,617
<u>(335,964)</u>	<u>(1,851,143)</u>
(332,551)	(498,526)
<u>-</u>	<u>233,875</u>
(332,551)	(264,651)
<u>332,551</u>	<u>9,088,239</u>
<u>\$ -</u>	<u>\$ 8,823,588</u>

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STATE GAS TAX SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 600	\$ 600	\$ 2,049	\$ 1,449
Intergovernmental revenues	651,463	651,463	572,258	(79,205)
TOTAL REVENUES	652,063	652,063	574,307	(77,756)
EXPENDITURES:				
Current:				
Public works	12,200	12,200	14,247	(2,047)
TOTAL EXPENDITURES	12,200	12,200	14,247	(2,047)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	639,863	639,863	560,060	(79,803)
OTHER FINANCING USES:				
Transfers out	(516,000)	(516,000)	(587,353)	(71,353)
TOTAL OTHER FINANCING USES	(516,000)	(516,000)	(587,353)	(71,353)
NET CHANGE IN FUND BALANCE	123,863	123,863	(27,293)	(151,156)
FUND BALANCE - BEGINNING OF YEAR	844,935	844,935	844,935	-
FUND BALANCE - END OF YEAR	\$ 968,798	\$ 968,798	\$ 817,642	\$ (151,156)

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

LANDSCAPE AND LIGHTING SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 170	\$ 170
Fees and other revenues	328,000	328,000	318,872	(9,128)
TOTAL REVENUES	328,000	328,000	319,042	(8,958)
EXPENDITURES:				
Current:				
Public works	143,000	143,000	91,759	51,241
TOTAL EXPENDITURES	143,000	143,000	91,759	51,241
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	185,000	185,000	227,283	42,283
OTHER FINANCING USES:				
Transfers out	(150,000)	(150,000)	(150,000)	-
TOTAL OTHER FINANCING USES	(150,000)	(150,000)	(150,000)	-
NET CHANGE IN FUND BALANCE	35,000	35,000	77,283	42,283
FUND BALANCE - BEGINNING OF YEAR	127,685	127,685	127,685	-
FUND BALANCE - END OF YEAR	\$ 162,685	\$ 162,685	\$ 204,968	\$ 42,283

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MEASURE C EXT - PEDESTRIAN SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 99	\$ 99	\$ 292	\$ 193
TOTAL REVENUES	99	99	292	193
FUND BALANCE - BEGINNING OF YEAR	117,250	117,250	117,250	-
FUND BALANCE - END OF YEAR	\$ 117,349	\$ 117,349	\$ 117,542	\$ 193

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MEASURE C EXT - BICYCLE SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 50	\$ 50	\$ 87	\$ 37
TOTAL REVENUES	50	50	87	37
FUND BALANCE - BEGINNING OF YEAR	35,134	35,134	35,134	-
FUND BALANCE - END OF YEAR	\$ 35,184	\$ 35,184	\$ 35,221	\$ 37

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MEASURE C EXT - ADA SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 7,900	\$ 7,900	\$ 7,910	\$ 10
Investment income	50	50	97	47
TOTAL REVENUES	<u>7,950</u>	<u>7,950</u>	<u>8,007</u>	<u>57</u>
EXPENDITURES:				
Current:				
Public works	<u>7,408</u>	<u>7,408</u>	<u>7,408</u>	<u>-</u>
TOTAL EXPENDITURES	<u>7,408</u>	<u>7,408</u>	<u>7,408</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	542	542	599	57
FUND BALANCE - BEGINNING OF YEAR	<u>36,307</u>	<u>36,307</u>	<u>36,307</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 36,849</u>	<u>\$ 36,849</u>	<u>\$ 36,906</u>	<u>\$ 57</u>

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MEASURE C EXT - STREET SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 237,002	\$ 237,002	\$ 237,547	\$ 545
Investment income	51	51	1,540	1,489
TOTAL REVENUES	<u>237,053</u>	<u>237,053</u>	<u>239,087</u>	<u>2,034</u>
EXPENDITURES:				
Capital outlay	<u>806,000</u>	<u>806,000</u>	<u>313,978</u>	<u>492,022</u>
TOTAL EXPENDITURES	<u>806,000</u>	<u>806,000</u>	<u>313,978</u>	<u>492,022</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(568,947)	(568,947)	(74,891)	494,056
FUND BALANCE - BEGINNING OF YEAR	<u>781,238</u>	<u>781,238</u>	<u>781,238</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 212,291</u>	<u>\$ 212,291</u>	<u>\$ 706,347</u>	<u>\$ 494,056</u>

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MEASURE C EXT - FLEXIBLE SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 358,000	\$ 358,000	\$ 291,705	\$ (66,295)
Investment income	1,201	1,201	2,855	1,654
TOTAL REVENUES	<u>359,201</u>	<u>359,201</u>	<u>294,560</u>	<u>(64,641)</u>
EXPENDITURES:				
Capital outlay	<u>160,681</u>	<u>160,681</u>	<u>44,134</u>	<u>116,547</u>
TOTAL EXPENDITURES	<u>160,681</u>	<u>160,681</u>	<u>44,134</u>	<u>116,547</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	198,520	198,520	250,426	51,906
FUND BALANCE - BEGINNING OF YEAR	<u>934,462</u>	<u>934,462</u>	<u>934,462</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,132,982</u>	<u>\$ 1,132,982</u>	<u>\$ 1,184,888</u>	<u>\$ 51,906</u>

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

TRANSPORTATION AND STREET MAINTENANCE SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 821,001	\$ 821,001	\$ 788,411	\$ (32,590)
Investment income	22	22	2,868	2,846
TOTAL REVENUES	821,023	821,023	791,279	(29,744)
EXPENDITURES:				
Capital outlay	2,274,581	2,274,581	1,292,283	982,298
TOTAL EXPENDITURES	2,274,581	2,274,581	1,292,283	982,298
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,453,558)	(1,453,558)	(501,004)	952,554
FUND BALANCE - BEGINNING OF YEAR	1,519,031	1,519,031	1,519,031	-
FUND BALANCE - END OF YEAR	\$ 65,473	\$ 65,473	\$ 1,018,027	\$ 952,554

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

LOCAL PUBLIC SAFETY SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 90,000	\$ 90,000	\$ 104,617	\$ 14,617
TOTAL REVENUES	90,000	90,000	104,617	14,617
OTHER FINANCING USES:				
Transfers out	(90,000)	(90,000)	(90,000)	-
TOTAL OTHER FINANCING USES	(90,000)	(90,000)	(90,000)	-
NET CHANGE IN FUND BALANCE	-	-	14,617	14,617
FUND BALANCE - BEGINNING OF YEAR	19,090	19,090	19,090	-
FUND BALANCE - END OF YEAR	\$ 19,090	\$ 19,090	\$ 33,707	\$ 14,617

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

TRANSPORTATION EQUITY ACT 21 SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ -	\$ -	\$ 41,013	\$ 41,013
TOTAL REVENUES	-	-	41,013	41,013
EXPENDITURES:				
Capital outlay	45,999	45,999	46,703	(704)
TOTAL EXPENDITURES	45,999	45,999	46,703	(704)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,999)	(45,999)	(5,690)	40,309
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(25,824)	(25,824)	(25,824)	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (71,823)	\$ (71,823)	\$ (31,514)	\$ 40,309

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CAL GRIP GRANTS SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ -	\$ -	\$ 36,335	\$ 36,335
TOTAL REVENUES	-	-	36,335	36,335
EXPENDITURES:				
Current:				
Police department	38,800	38,800	19,590	19,210
TOTAL EXPENDITURES	38,800	38,800	19,590	19,210
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(38,800)	(38,800)	16,745	55,545
OTHER FINANCING USES:				
Transfers out	(48,000)	(48,000)	(16,745)	31,255
TOTAL OTHER FINANCING USES	(48,000)	(48,000)	(16,745)	31,255
NET CHANGE IN FUND BALANCE	(86,800)	(86,800)	-	86,800
FUND BALANCE - BEGINNING OF YEAR	13	13	13	-
FUND BALANCE - END OF YEAR	\$ (86,787)	\$ (86,787)	\$ 13	\$ 86,800

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 293,076	\$ 293,076	\$ 292,823	\$ (253)
TOTAL REVENUES	<u>293,076</u>	<u>293,076</u>	<u>292,823</u>	<u>(253)</u>
EXPENDITURES:				
Capital outlay	<u>509,748</u>	<u>509,748</u>	<u>296,564</u>	<u>213,184</u>
TOTAL EXPENDITURES	<u>509,748</u>	<u>509,748</u>	<u>296,564</u>	<u>213,184</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(216,672)	(216,672)	(3,741)	212,931
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(12,919)</u>	<u>(12,919)</u>	<u>(12,919)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (229,591)</u>	<u>\$ (229,591)</u>	<u>\$ (16,660)</u>	<u>\$ 212,931</u>

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

AREA AGENCY ON AGEING SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 6	\$ 6
Intergovernmental revenues	13,716	13,716	13,716	-
TOTAL REVENUES	13,716	13,716	13,722	6
OTHER FINANCING USES:				
Transfers out	(13,716)	(13,716)	(13,722)	(6)
TOTAL OTHER FINANCING USES	(13,716)	(13,716)	(13,722)	(6)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	12,213	12,213	12,213	-
FUND BALANCE - END OF YEAR	\$ 12,213	\$ 12,213	\$ 12,213	\$ -

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SUPPLEMENTAL LAW ENFORCEMENT GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 100,000	\$ 100,000	\$ 100,023	\$ 23
TOTAL REVENUES	100,000	100,000	100,023	23
EXPENDITURES:				
Current:				
Police department	-	-	9,511	(9,511)
Public works	-	-	1,315	(1,315)
TOTAL EXPENDITURES	-	-	10,826	(10,826)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	100,000	100,000	89,197	(10,803)
OTHER FINANCING USES:				
Transfers out	(100,000)	(100,000)	(79,303)	20,697
TOTAL OTHER FINANCING USES	(100,000)	(100,000)	(79,303)	20,697
NET CHANGE IN FUND BALANCE	-	-	9,894	9,894
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(9,894)	(9,894)	(9,894)	-
FUND BALANCE - END OF YEAR	\$ (9,894)	\$ (9,894)	\$ -	\$ 9,894

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

COMMUNITY FACILITIES DISTRICT GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 708	\$ 708
Intergovernmental revenues	400,000	400,000	407,999	7,999
TOTAL REVENUES	400,000	400,000	408,707	8,707
OTHER FINANCING USES:				
Transfers out	(428,847)	(428,847)	(428,847)	-
TOTAL OTHER FINANCING USES	(428,847)	(428,847)	(428,847)	-
NET CHANGE IN FUND BALANCE	(28,847)	(28,847)	(20,140)	8,707
FUND BALANCE - BEGINNING OF YEAR	369,494	369,494	369,494	-
FUND BALANCE - END OF YEAR	\$ 340,647	\$ 340,647	\$ 349,354	\$ 8,707

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STATE HOMELAND SECURITY GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ -	\$ -	\$ 3,906	\$ 3,906
TOTAL REVENUES	-	-	3,906	3,906
EXPENDITURES:				
Capital outlay	4,068	4,068	2,433	1,635
TOTAL EXPENDITURES	4,068	4,068	2,433	1,635
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,068)	(4,068)	1,473	5,541
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(1,473)	(1,473)	(1,473)	-
FUND BALANCE - END OF YEAR	\$ (5,541)	\$ (5,541)	\$ -	\$ 5,541

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DUI ENFORCEMENT AND AWARENESS GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 77	\$ 77
Intergovernmental revenues	23,200	23,200	1,819	(21,381)
TOTAL REVENUES	23,200	23,200	1,896	(21,304)
EXPENDITURES:				
Current:				
Police department	-	-	4,189	(4,189)
TOTAL EXPENDITURES	-	-	4,189	(4,189)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,200	23,200	(2,293)	(25,493)
FUND BALANCE - BEGINNING OF YEAR	33,208	33,208	33,208	-
FUND BALANCE - END OF YEAR	\$ 56,408	\$ 56,408	\$ 30,915	\$ (25,493)

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

COPS HIRING RECOVERY PROGRAM SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 165,000	\$ 165,000	\$ 146,415	\$ (18,585)
TOTAL REVENUES	<u>165,000</u>	<u>165,000</u>	<u>146,415</u>	<u>(18,585)</u>
OTHER FINANCING USES:				
Transfers out	<u>(185,696)</u>	<u>(185,696)</u>	<u>(146,415)</u>	<u>39,281</u>
TOTAL OTHER FINANCING USES	<u>(185,696)</u>	<u>(185,696)</u>	<u>(146,415)</u>	<u>39,281</u>
NET CHANGE IN FUND BALANCE	(20,696)	(20,696)	-	20,696
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ (20,696)</u>	<u>\$ (20,696)</u>	<u>\$ -</u>	<u>\$ 20,696</u>

See independent auditors' report.

CITY OF SANGER

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEVELOPERS FEES SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 3,000	\$ 3,000	\$ 1,188	\$ (1,812)
Fees and other revenues	-	-	32,035	32,035
TOTAL REVENUES	3,000	3,000	33,223	30,223
FUND BALANCE - BEGINNING OF YEAR	2,704,050	2,704,050	2,704,050	-
FUND BALANCE - END OF YEAR	<u>\$ 2,707,050</u>	<u>\$ 2,707,050</u>	<u>\$ 2,737,273</u>	<u>\$ 30,223</u>

See independent auditors' report.

CITY OF SANGER

INTERNAL SERVICE FUNDS

June 30, 2012

Reprographics and Data Processing - This fund is used to account for the City's computer information systems which include acquisition, replacement and support services for both hardware and software.

Equipment Maintenance - This fund is used to account for bulk gasoline purchases and consumption by the departments of the City.

Self-Insurance Program - This fund is used to account for the City's self-insured risks for the Workers' Compensation and Liability programs.

CITY OF SANGER

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS

June 30, 2013

	Reprographics and Data Processing	Equipment Maintenance	Self Insurance Program	Totals
ASSETS:				
CURRENT ASSETS:				
Cash and investments	\$ 255,983	\$ -	\$ 31,458	\$ 287,441
Accounts receivable, net of allowances	-	-	162,666	162,666
Inventory	-	17,289	-	17,289
Prepaid items	-	-	8,229	8,229
TOTAL CURRENT ASSETS	255,983	17,289	202,353	475,625
NONCURRENT ASSETS:				
Capital assets:				
General property and equipment	197,742	-	-	197,742
Less accumulated depreciation	(191,705)	-	-	(191,705)
TOTAL NONCURRENT ASSETS	6,037	-	-	6,037
TOTAL ASSETS	262,020	17,289	202,353	481,662
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	35,161	18,393	7,519	61,073
Due to other funds	-	-	186,070	186,070
Deposits	-	-	1,284	1,284
Claims payable	-	-	151,034	151,034
TOTAL CURRENT LIABILITIES	35,161	18,393	345,907	399,461
NONCURRENT LIABILITIES:				
Claims payable	-	-	350,804	350,804
TOTAL NONCURRENT LIABILITIES	-	-	350,804	350,804
TOTAL LIABILITIES	35,161	18,393	696,711	750,265
NET POSITION:				
Net investment in capital assets	6,037	-	-	6,037
Unrestricted	220,822	(1,104)	(494,358)	(274,640)
TOTAL NET POSITION	\$ 226,859	\$ (1,104)	\$ (494,358)	\$ (268,603)

See independent auditors' report.

CITY OF SANGER

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - INTERNAL SERVICE FUNDS

For the year ended June 30, 2013

	Reprographics and Data Processing	Equipment Maintenance	Self Insurance Program	Totals
OPERATING REVENUES:				
Charges for services	\$ 1,401,804	\$ 285,820	\$ 2,666,661	\$ 4,354,285
Fees and other revenues	<u>-</u>	<u>538</u>	<u>-</u>	<u>538</u>
 TOTAL OPERATING REVENUES	 <u>1,401,804</u>	 <u>286,358</u>	 <u>2,666,661</u>	 <u>4,354,823</u>
OPERATING EXPENSES:				
Salaries and benefits	849,913	-	-	849,913
Supplies and services	532,634	277,856	2,482,762	3,293,252
General and administrative expense	16,574	-	-	16,574
Depreciation expense	<u>2,683</u>	<u>-</u>	<u>-</u>	<u>2,683</u>
 TOTAL OPERATING EXPENSES	 <u>1,401,804</u>	 <u>277,856</u>	 <u>2,482,762</u>	 <u>4,162,422</u>
 OPERATING INCOME	 -	 8,502	 183,899	 192,401
NET POSITION - BEGINNING OF YEAR, AS RESTATED	 <u>226,859</u>	 <u>(9,606)</u>	 <u>(678,257)</u>	 <u>(461,004)</u>
NET POSITION - END OF YEAR	 <u>\$ 226,859</u>	 <u>\$ (1,104)</u>	 <u>\$ (494,358)</u>	 <u>\$ (268,603)</u>

See independent auditors' report.

CITY OF SANGER

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2013

	Reprographics and Data Processing	Equipment Maintenance	Self Insurance Program	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Charges for services	\$ 1,401,804	\$ 286,358	\$ 2,616,213	\$ 4,304,375
Payments to employees	(849,913)	-	-	(849,913)
Payments for maintenance and operations	(556,305)	(286,358)	(2,349,570)	(3,192,233)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(4,414)	-	266,643	262,229
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash paid to other funds	-	-	(235,185)	(235,185)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	-	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,414)	-	31,458	27,044
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	260,397	-	-	260,397
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 255,983	\$ -	\$ 31,458	\$ 287,441
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income	\$ -	\$ 8,502	\$ 183,899	\$ 192,401
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	2,683	-	-	2,683
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	-	-	(50,448)	(50,448)
(Increase) decrease in inventory	-	(4,017)	-	(4,017)
(Increase) decrease in prepaid items	-	-	129,153	129,153
Increase (decrease) in accounts payable	(7,097)	(4,485)	(11,589)	(23,171)
Increase (decrease) in due to other funds	-	-	-	-
Increase (decrease) in claims payable	-	-	16,184	16,184
Increase (decrease) in deposits	-	-	(556)	(556)
TOTAL ADJUSTMENTS	(4,414)	(8,502)	82,744	69,828
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (4,414)	\$ -	\$ 266,643	\$ 262,229

See independent auditors' report.

CITY OF SANGER

AGENCY FUNDS

June 30, 2012

Cash Deposit Trust - This fund is used to account for revenues and expenditures related to recreation programs, development of residential and commercial properties.

Payroll Services - This fund is used to account for employee withholding deductions prior to submittal to federal and state agencies.

Community Facilities District 1 Bonds - This fund is used to account for special tax bond revenues and expenditures for the Dynamic/Alconguin Development.

CITY OF SANGER

COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2013

	Cash Deposit Trust	Payroll Services	Community Facilities District 1 Bonds	Total Agency Funds
ASSETS:				
Cash and investments	\$ 430,175	\$ 379,283	\$ -	\$ 809,458
Receivables, net of allowances	26,024	-	-	26,024
TOTAL ASSETS	\$ 456,199	\$ 379,283	\$ -	\$ 835,482
LIABILITIES:				
Accounts payable	\$ 3,462	\$ -	\$ -	\$ 3,462
Accrued wages	-	377,604	-	377,604
Deposits	450,295	1,679	-	451,974
Other liabilities	2,442	-	-	2,442
Due to bondholders	-	-	-	-
TOTAL LIABILITIES	\$ 456,199	\$ 379,283	\$ -	\$ 835,482

See independent auditors' report.

CITY OF SANGER

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS

For the year ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
CASH DEPOSIT TRUST				
ASSETS:				
Cash and investments	\$ 502,830	\$ 102,854	\$ 175,509	\$ 430,175
Receivables, net of allowances	26,024	25,875	25,875	26,024
TOTAL ASSETS	\$ 528,854	\$ 128,729	\$ 201,384	\$ 456,199
LIABILITIES:				
Accounts payable	\$ 5,158	\$ 172,049	\$ 173,745	\$ 3,462
Deposits	521,254	95,619	166,578	450,295
Other liabilities	2,442	-	-	2,442
TOTAL LIABILITIES	\$ 528,854	\$ 267,668	\$ 340,323	\$ 456,199
PAYROLL SERVICES				
ASSETS:				
Cash and investments	\$ 401,234	\$ 11,492,773	\$ 11,514,724	\$ 379,283
LIABILITIES:				
Accrued wages	\$ 399,555	\$ 11,490,812	\$ 11,512,763	\$ 377,604
Deposits	1,679	-	-	1,679
TOTAL LIABILITIES	\$ 401,234	\$ 11,490,812	\$ 11,512,763	\$ 379,283
COMMUNITY FACILITIES DISTRICT 1 BONDS				
ASSETS:				
Cash and investments	\$ 131,319	\$ 249	\$ 131,568	\$ -
LIABILITIES:				
Due to bondholders	\$ 131,319	\$ 249	\$ 131,568	\$ -

See independent auditors' report.

(Continued)

CITY OF SANGER

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 (CONTINUED)

For the year ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash and investments	\$ 1,035,383	\$ 11,595,876	\$ 11,821,801	\$ 809,458
Receivables, net of allowances	26,024	25,875	25,875	26,024
TOTAL ASSETS	\$ 1,061,407	\$ 11,621,751	\$ 11,847,676	\$ 835,482
LIABILITIES:				
Accounts payable	\$ 5,158	\$ 172,049	\$ 173,745	\$ 3,462
Accrued wages	399,555	11,490,812	11,512,763	377,604
Deposits	522,933	95,619	166,578	451,974
Other liabilities	2,442	-	-	2,442
Due to bondholders	131,319	249	131,568	-
TOTAL LIABILITIES	\$ 1,061,407	\$ 11,758,729	\$ 11,984,654	\$ 835,482

See independent auditors' report.

STATISTICAL SECTION

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2012

This part of the City of Sanger'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 say about the government's overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	136 - 145
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	146 - 148
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	149 - 152
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	153 - 154
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	155 - 157

CITY OF SANGER
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008	2009
Governmental Activities:						
Net investment in capital assets	10,452,726	12,172,454	13,056,994	16,333,043	17,538,870	18,038,738
Restricted	4,083,865	3,738,964	3,470,008	4,178,645	4,595,322	6,221,093
Unrestricted	265,396	888,655	1,573,670	(588,364)	(651,063)	1,146,277
Total Net Position	14,801,987	16,800,073	18,100,672	19,923,324	21,483,129	25,406,108
Business-type Activities:						
Net investment in capital assets	7,388,666	7,598,493	8,803,925	7,514,812	10,910,638	10,609,675
Restricted	11,179,121	1,417,437	1,437,633	4,584,318	2,812,677	
Unrestricted	(866,119)	7,380,191	5,425,493	3,049,929	4,574,495	6,958,727
Total Net Position	17,701,668	16,396,121	15,667,051	15,149,059	18,297,810	17,568,402
Total Primary Government						
Net investment in capital assets	17,841,392	19,770,947	21,860,919	23,847,855	28,449,508	28,648,413
Restricted	15,262,986	5,156,401	4,907,641	8,762,963	7,407,999	6,221,093
Unrestricted	(600,723)	8,268,846	6,999,163	2,461,565	3,923,432	8,105,004
Prior Period Adjustment *		(50,343)	50,351	(1,056,077)	47,777	-
Total Net Position	32,503,655	33,145,851	33,818,074	34,016,306	39,828,716	42,974,510

2010	2011	2012	2013
17,894,822	22,303,632	23,934,277	23,860,533
7,071,287	11,262,101	11,813,457	12,040,809
1,925,996	(2,164,109)	(1,199,130)	(25,863)
<u>26,892,105</u>	<u>31,401,624</u>	<u>34,548,604</u>	<u>35,875,479</u>
9,835,736	8,822,840	11,378,742	10,592,374
-	-	-	-
7,778,924	9,750,525	9,140,909	10,004,124
<u>17,614,660</u>	<u>18,573,365</u>	<u>20,519,651</u>	<u>20,596,498</u>
27,730,558	31,126,472	35,313,019	34,452,907
7,071,287	11,262,101	11,813,457	12,040,809
9,704,920	7,586,416	7,941,779	9,978,261
-	-	-	-
<u>44,506,765</u>	<u>49,974,989</u>	<u>55,068,255</u>	<u>56,471,977</u>

**CITY OF SANGER
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EXPENSES:										
Governmental activities:										
General Government	2,977,180	1,162,037	2,910,985	4,219,583	4,295,453	-	-	-	-	-
City Council	-	-	-	-	-	300,351	271,191	420,465	494,602	500,333
City Manager	-	-	-	-	-	2,467,097	2,054,876	-	-	-
Administrative Services	-	-	-	-	-	3,701,394	3,640,835	484,993	229,954	-
Parks and recreation	295,534	936,209	789,740	1,032,287	511,035	-	-	-	-	-
Community Services	-	-	-	-	-	705,492	679,535	972,293	831,453	1,034,818
Public Safety	4,991,035	5,060,754	5,489,783	6,232,150	6,283,460	-	-	-	-	-
Police Department	-	-	-	-	-	4,449,451	4,586,191	4,948,545	5,134,256	5,352,024
Fire & Emergency Services	-	-	-	-	-	-	454,507	2,069,479	1,896,003	3,806,380
Development Services	-	-	-	-	-	1,119,044	770,220	494,787	193,920	173,818
Streets & Roads	910,149	1,071,599	1,424,388	1,748,138	1,362,546	-	-	-	-	-
Public Works	-	-	-	-	-	1,164,302	947,747	1,680,717	1,184,573	1,264,081
Economic Development	-	-	-	-	-	640,749	947,333	130,000	-	-
Non-Departmental	-	-	-	-	-	894,327	756,545	613,953	262,707	345,051
Interest on long-term debt	407,480	399,126	362,205	343,222	127,216	183,113	163,998	148,539	77,130	-
Depreciation expense	1,255,118	1,420,614	1,539,594	1,888,875	1,774,195	1,698,714	2,517,764	2,312,052	2,430,434	2,109,603
Total Governmental activities expenses	10,836,496	10,050,339	12,516,695	15,464,255	14,353,905	17,324,034	17,790,742	14,275,823	12,735,032	14,586,108
Business-type activities										
Water	2,074,190	2,312,073	2,774,755	2,549,803	2,909,257	2,825,199	2,728,159	2,753,450	2,398,390	2,673,355
Sewer	2,740,252	2,987,933	3,616,404	4,281,145	4,443,454	4,588,700	4,229,046	5,051,062	5,083,193	4,025,368
Other proprietary funds										
Disposal	2,234,311	2,382,997	2,562,139	2,702,822	2,767,417	2,949,563	2,779,474	2,917,487	2,384,687	2,805,491
Ambulance	1,089,339	1,368,112	1,487,458	1,590,543	1,799,459	1,812,800	1,615,566	1,611,966	1,538,641	-
Total business-type activities expenses	8,138,092	9,051,115	10,440,756	11,124,313	11,919,587	12,176,262	11,352,245	12,333,965	11,404,911	9,504,214
Total primary government expenses	18,974,588	19,101,454	22,957,451	26,588,568	26,273,492	29,500,296	29,142,987	26,609,788	24,139,943	24,090,322

**CITY OF SANGER
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
PROGRAM REVENUES:										
Governmental activities:										
Charges for services:										
Administrative Services	1,144,054	1,849,996	2,321,571	1,456,172	1,262,112	2,029,261	1,702,359	-	-	-
Public Safety	319,406	276,331	204,312	428,512	432,360	-	-	-	-	-
Community Services	-	-	-	-	-	433,033	116,488	131,227	123,969	236,836
Parks and recreation	322,927	376,753	432,870	493,921	619,244	-	-	-	-	-
Police department	-	-	-	-	-	84,148	95,477	126,122	103,990	291,329
Fire & Emergency Services	-	-	-	-	-	43,669	35,524	6,660	1,865	1,712,966
Development Services	-	-	-	-	-	17,318	25,643	231,810	72,039	142,877
Streets and Roads	14,781	16,732	33,076	55,230	52,888	-	-	-	-	-
Public Works	-	-	-	-	-	1,652,665	1,689,032	1,975	1,927	320,891
Non-departmental	-	-	-	-	-	22,203	15,230	2,790	535	2,634
Operating grants & contributions	1,752,672	1,422,720	233,185	3,195,325	1,273,446	3,111,647	3,457,472	5,277,408	3,768,876	4,907,531
Capital grants and contributions	1,192,965	461,066	2,086,896	3,055,699	4,062,540	1,831,066	1,695,414	-	-	-
Total governmental activities program revenues	4,746,805	4,403,598	5,311,910	8,684,859	7,702,590	9,225,010	8,832,639	5,777,992	4,073,201	7,615,064
Business type activities;										
Charges for services:										
Water	1,284,004	1,254,019	2,402,768	2,790,647	2,492,192	2,504,385	2,498,718	2,617,843	2,563,789	2,660,254
Sewer	2,795,624	2,791,007	3,409,720	3,278,306	3,800,477	3,883,114	3,874,238	5,051,230	5,370,840	4,185,301
Other proprietary funds	-	-	-	-	-	-	-	-	-	-
Disposal	2,131,147	2,391,810	2,830,410	2,501,751	2,698,491	2,864,880	3,135,338	3,021,277	3,013,881	4,016,485
Ambulance	1,018,452	1,055,032	998,838	2,142,997	1,667,640	1,852,309	1,756,880	1,890,599	1,487,495	-
Operating grants & contributions	-	-	-	-	-	-	-	-	765,877	-
Total business-type activities program revenues	7,229,227	7,491,868	9,641,736	10,713,701	10,658,800	11,104,688	11,265,174	12,580,949	13,201,882	10,862,040
Total primary government program revenues	11,976,032	11,895,466	14,953,646	19,398,560	18,361,390	20,329,698	20,097,813	18,358,941	17,275,083	18,477,104
Net revenues (expenses)										
Governmental activities	(6,089,691)	(5,646,741)	(7,204,785)	(6,779,396)	(6,651,315)	(8,099,024)	(8,958,103)	(8,497,831)	(8,661,831)	(6,971,044)
Business-type activities	(908,865)	(1,559,247)	(799,020)	(410,612)	(1,260,787)	(1,071,574)	(87,071)	246,984	1,796,971	1,357,826
Total net revenues (expenses)	(6,998,556)	(7,205,988)	(8,003,805)	(7,190,008)	(7,912,102)	(9,170,598)	(9,045,174)	(8,250,847)	(6,864,860)	(5,613,218)

**CITY OF SANGER
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General revenues and other changes in net position:										
Governmental Activities:										
Taxes	4,891,059	6,773,948	7,723,567	7,744,308	8,623,489	10,833,671	8,953,445	5,140,820	9,232,074	7,169,204
Licenses and Permits	-	-	-	-	-	100,541	114,767	189,487	-	-
Fines and penalties	-	-	-	-	-	122,426	78,508	177,895	-	-
Revenue from use of money and property	45,628	57,472	60,858	34,137	48,591	117,379	21,806	-	45,000	57,695
Fees and other revenues	1,580,274	260,807	321,302	323,252	295,117	547,409	1,230,574	570,076	479,067	545,838
Transfers	220,000	552,600	450,000	450,000	300,000	250,000	45,000	1,597,826	(73,632)	291,307
Proceeds from sale of property	-	-	-	-	-	2,800	-	-	-	-
Extraordinary gain on transfer to successor agency	-	-	-	-	-	-	-	-	1,336,376	-
Extraordinary gain on transfer of advance	-	-	-	-	-	-	-	-	-	233,875
Total governmental activities	6,736,961	7,644,827	8,555,727	8,551,697	9,267,197	11,974,226	10,444,100	7,676,104	11,018,885	8,297,919
Business-type activities										
Revenue from use of money and property	613,245	671,185	-	-	-	-	-	-	-	-
Fees and other revenues	11,469	135,115	519,950	342,620	4,709,538	592,166	178,329	-	75,683	69,507
Transfers	(220,000)	(552,600)	(450,000)	(450,000)	(300,000)	(250,000)	(45,000)	(21,377)	73,632	(291,307)
Extraordinary gain on transfer of advance	-	-	-	-	-	-	-	-	-	(233,875)
Total business-type activities	404,714	253,700	69,950	(107,380)	4,409,538	342,166	133,329	(21,377)	149,315	(455,675)
Changes in net position:										
Governmental activities	647,270	1,998,086	1,350,942	1,772,301	2,615,882	3,875,202	1,485,997	(821,727)	2,357,054	1,326,875
Business-type activities	(504,151)	(1,305,547)	(729,070)	(517,992)	3,148,751	(729,408)	46,258	225,607	1,946,286	902,151
Total primary government	143,119	692,539	621,872	1,254,309	5,764,633	3,145,794	1,532,255	(596,120)	4,303,340	2,229,026

City of Sanger
Fund balance of Governmental Funds
Last Ten Fiscal Years

General Fund

	Reserved	Unreserved Designated	Unreserved	Non spendable	Assigned	Unassigned	Total
2004	-	250,000	852,600	-	-	-	1,102,600
2005	17,707	250,000	1,633,209	-	-	-	1,900,916
2006	230,358	250,000	2,369,607	-	-	-	2,849,965
2007	350,723	250,000	137,310	-	-	-	738,033
2008	124,728	583	-	-	-	-	125,311
2009	38,389	-	(945,976)	-	-	-	(907,587)
2010	8,764	-	(642,309)	-	-	-	(633,545)
2011	-	-	-	-	-	36,120	36,120
2012	-	-	-	-	-	512,726	512,726
2013	-	-	-	-	467,404	960,381	1,427,785

All Other Governmental funds

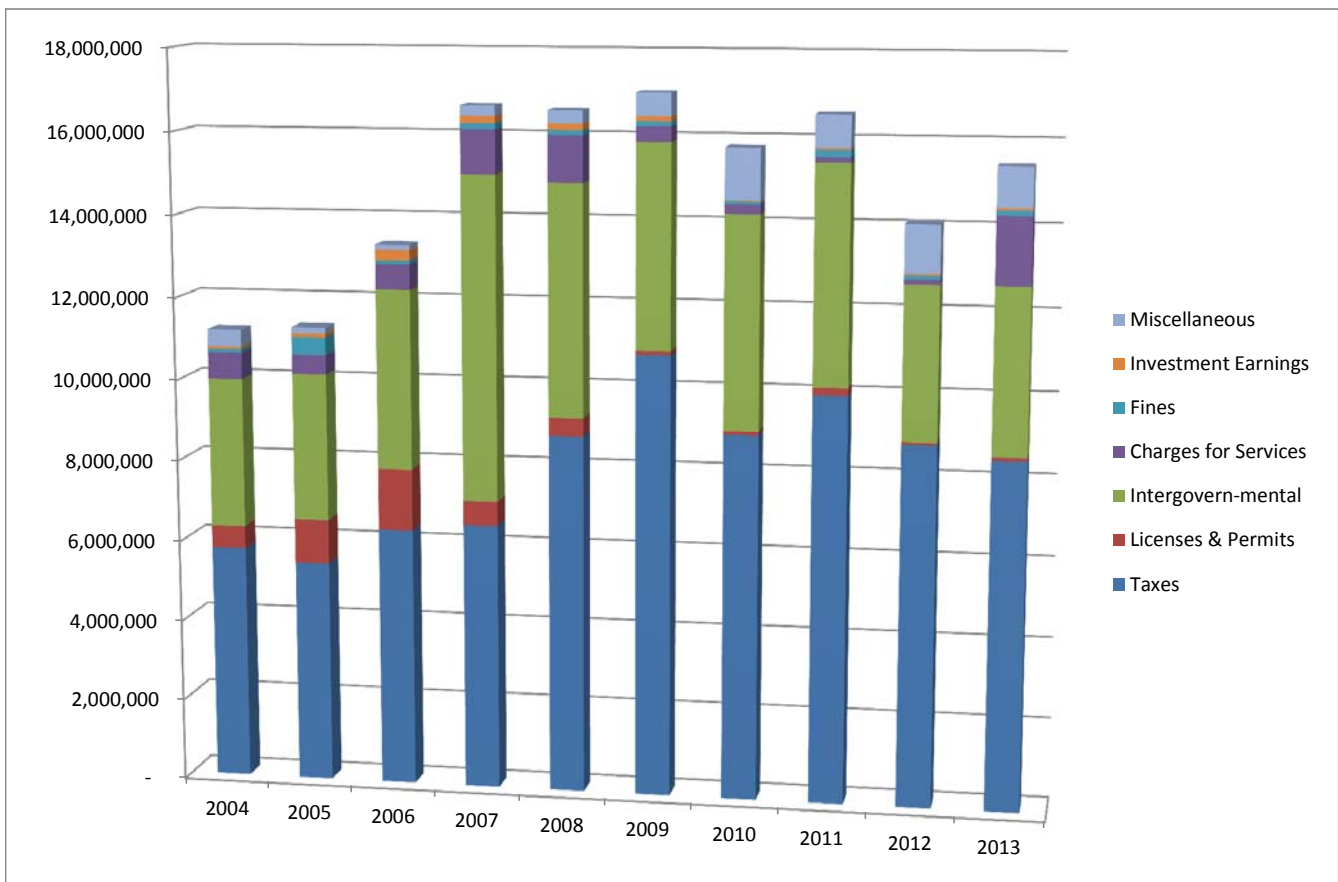
	Reserved	Unreserved: Special	Non spendable	Restricted	Unassigned	Total
	All other	Revenue Funds				
2004	2,105,984	1,977,881	-	-	-	4,083,865
2005	2,100,952	1,638,012	-	-	-	3,738,964
2006	1,956,138	1,513,870	-	-	-	3,470,008
2007	1,631,006	2,545,302	-	-	-	4,176,308
2008	2,097,260	2,532,269	-	-	-	4,629,529
2009	1,423,184	4,797,909	-	-	-	6,221,093
2010	2,081,848	5,712,189	-	-	-	7,794,037
2011	-	-	2,280,848	8,981,253	(668,211)	10,593,890
2012	-	-	712,000	10,353,026	(179,700)	10,885,326
2013	-	-	1,259,544	10,075,406	(177,839)	11,157,111

City of Sanger
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES:										
Taxes	5,765,445	5,453,204	6,349,148	6,544,870	8,801,309	10,833,671	8,953,445	9,976,485	8,845,187	8,519,577
Licenses and permits	549,700	1,086,113	1,508,763	589,275	460,673	100,541	114,767	189,487	58,043	94,123
Fines and penalties	83,668	441,678	97,493	148,217	118,931	122,426	78,508	177,895	90,447	120,258
Investment income	64,428	91,053	249,675	172,580	152,483	117,379	21,806	47,032	45,096	57,695
Charges for services	643,302	463,484	608,742	1,063,539	1,127,683	361,247	223,980	123,149	118,074	1,630,184
Intergovernmental revenue	3,671,005	3,614,357	4,398,041	7,918,884	5,622,249	4,942,713	5,152,886	5,287,461	3,754,681	4,045,569
Fees and other revenues	412,335	142,055	127,526	243,828	312,074	547,409	1,230,574	774,341	1,144,080	962,966
TOTAL REVENUES	11,189,883	11,291,944	13,339,388	16,681,193	16,595,402	17,025,386	15,775,966	16,575,850	14,055,608	15,430,372
EXPENDITURES:										
Current:										
General Government	2,863,968	1,748,551	2,237,387	2,650,866	3,294,770	-	-	-	-	-
City council	-	-	-	-	-	317,595	271,191	428,899	475,064	500,333
Administrative services	-	-	-	-	-	302,395	309,500	-	-	-
Community services	272,787	922,329	785,205	1,038,210	557,243	698,535	602,956	972,293	831,453	1,034,818
Public Safety	4,900,012	4,834,030	5,440,806	6,264,207	6,533,859	-	-	-	-	-
Police department	-	-	-	-	-	4,435,310	4,420,977	4,948,545	5,134,256	5,352,024
Fire and emergency services	-	-	-	-	-	2,018,473	2,077,646	2,069,479	1,896,003	3,806,380
Development services	-	-	-	-	-	1,109,535	713,864	494,787	276,847	173,818
Public works (Streets & Roads)	1,530,039	1,044,769	1,418,508	1,754,597	1,404,548	1,214,502	1,015,246	1,680,717	1,184,573	1,264,081
Economic development	-	-	-	-	-	628,688	921,220	-	-	-
Nondepartmental	-	-	-	-	-	894,327	756,545	884,114	529,945	585,302
Contribution of property to City	-	-	-	-	-	-	-	130,000	-	-
Capital outlay	2,728,529	2,191,473	2,374,781	6,203,151	3,602,740	4,547,886	2,327,686	3,167,104	1,509,592	2,042,637
Debt service:										
Principal	448,787	486,130	506,513	402,155	465,895	365,000	385,000	400,000	425,000	5,000
Interest	410,534	406,385	374,001	179,208	214,156	187,273	172,149	139,225	122,725	-
TOTAL EXPENDITURES	13,154,656	11,633,667	13,137,201	18,492,394	16,073,211	16,719,519	13,973,980	15,315,163	12,385,458	14,764,393
Excess of revenues Over (under) Expenditures	(1,964,773)	(341,723)	202,187	(1,811,201)	522,191	305,867	1,801,986	1,260,687	1,670,150	665,979
OTHER FINANCING SOURCES (USES):										
Proceeds on notes and loans	73,883	102,221	43,219	105,062	45,364	-	-	-	-	-
Proceeds on sale of property	418,536	95,257	35,030	301	29,021	2,800	-	-	-	-
Proceeds from long term debt	50,000	-	-	-	-	-	-	-	-	-
Refunding bond issued	-	1,269,255	1,214,400	3,950,000	-	-	-	-	-	-
Payment to escrow for refunding bonds	-	(671,655)	(764,400)	(3,941,886)	-	-	-	-	-	-
Bond discounts	-	-	-	(53,813)	-	-	-	-	-	-
Cost of issuance	-	-	-	(154,446)	-	-	-	-	-	-
Transfers in	827,900	-	-	1,725,495	1,755,423	2,111,637	1,127,131	3,013,708	1,684,280	2,138,133
Transfers out	(607,900)	-	-	(1,275,495)	(1,455,423)	(1,861,637)	(1,082,131)	(2,992,331)	(1,757,912)	(1,851,143)
TOTAL OTHER FINANCING SOURCES (USES)	762,419	795,078	528,249	355,218	374,385	252,800	45,000	21,377	(73,632)	286,990
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM	(1,202,354)	453,355	730,436	(1,455,983)	896,576	558,667	1,846,986	1,282,064	1,596,518	952,969
EXTRAORDINARY ITEM:										
Loss on transfer to successor agency	-	-	-	-	-	-	-	-	(828,476)	-
Gain on transfer of advance	-	-	-	-	-	-	-	-	-	233,875
NET CHANGE IN FUND BALANCES	(1,202,354)	453,355	730,436	(1,455,983)	896,576	558,667	1,846,986	1,282,064	768,042	1,186,844
FUND BALANCES (DEFICIT) BEGINNING OF YEAR AS ORIGINALLY REPORTED	6,388,879	5,186,525	5,639,880	6,319,973	4,914,341	4,754,840	5,313,506	7,160,492	10,630,010	11,398,052
PRIOR PERIOD ADJUSTMENTS	-	-	(50,343)	50,351	(1,056,077)	-	-	2,187,454	-	-
FUND BALANCES (DEFICIT) BEGINNING OF YEAR AS RESTATED	6,388,879	5,186,525	5,589,537	6,370,324	3,858,264	4,754,840	5,313,506	9,347,946	10,630,010	11,398,052
FUND BALANCES END OF YEAR	5,186,525	5,639,880	6,319,973	4,914,341	4,754,840	5,313,507	7,160,492	10,630,010	11,398,052	12,584,896

**City of Sanger
General Government Revenues By Source
Last Ten Years**

Fiscal Year	Taxes	Licenses and Permits	Intergovernmental	Charges for Services	Fines	Investment Earnings	Miscellaneous	Total
2004	5,765,445	549,700	3,671,005	643,302	83,668	64,428	412,335	11,189,883
2005	5,453,204	1,086,113	3,614,357	463,484	441,678	91,053	142,055	11,291,944
2006	6,349,148	1,508,763	4,398,041	608,742	97,493	249,675	127,526	13,339,388
2007	6,544,870	589,275	7,918,884	1,063,539	148,217	172,580	243,828	16,681,193
2008	8,801,309	460,673	5,622,249	1,127,683	118,931	152,483	312,074	16,595,402
2009	10,833,671	100,541	4,942,713	361,247	122,426	117,379	547,409	17,025,386
2010	8,953,445	114,767	5,152,886	223,980	78,508	21,806	1,230,574	15,775,966
2011	9,976,485	189,487	5,287,461	123,149	177,895	47,032	774,341	16,575,850
2012	8,845,187	58,043	3,754,681	118,074	90,447	45,096	1,144,080	14,055,608
2013	8,519,577	94,123	4,045,569	1,630,184	120,258	57,695	962,966	15,430,372

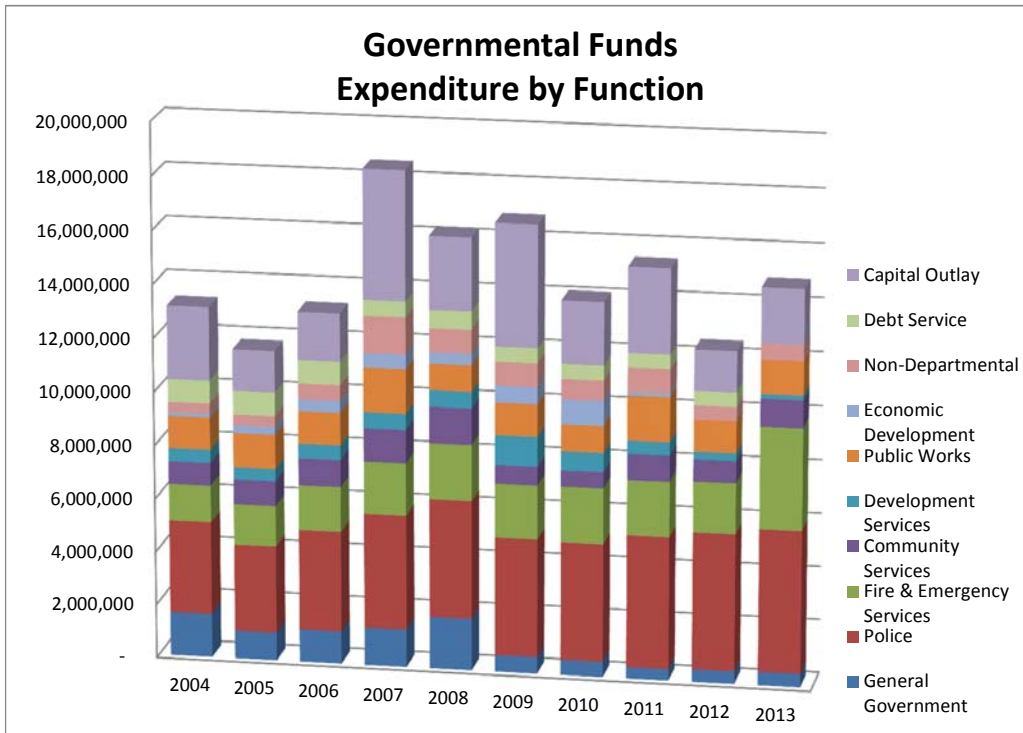


City of Sanger
General Government Tax Revenues by Source
Last Ten Years

Fiscal							Special	
Year	Property	Sales	Franchise	Utility Users	Misc Taxes	Assessments	Total	
2004	1,773,478	1,855,848	594,364	910,693	470,030	161,033	5,765,446	
2005	1,841,104	1,840,343	578,745	858,847	82,976	251,190	5,453,205	
2006	2,033,215	2,244,282	595,365	1,001,986	174,940	299,359	6,349,147	
2007	2,388,100	2,226,883	586,872	944,107	97,505	301,401	6,544,868	
2008	2,716,815	3,787,956	615,896	1,245,533	35,861	399,247	8,801,308	
2009	3,308,013	4,185,921	780,258	1,212,990	582,759	763,730	10,833,671	
2010	2,654,481	3,543,883	783,066	1,140,902	395,839	435,274	8,953,445	
2011	3,007,905	3,908,658	804,392	1,232,963	593,475	429,092	9,976,485	
2012	2,136,889	3,852,065	800,715	1,280,746	652,743	122,029	8,845,187	
2013	2,128,783	3,534,152	713,861	1,252,053	788,411	102,317	8,519,577	

City of Sanger
General Government Expenditures By Function
Last Ten Years

Fiscal Year	General Government	Police	Fire & Emergency Services	Community Services	Development Services	Public Works	Economic Development	Non-Departmental	Debt Service	Capital Outlay	Total
2004	1,636,248	3,466,429	1,383,584	854,614	495,532	1,210,743	144,550	375,106	859,321	2,728,529	13,154,656
2005	1,048,465	3,264,770	1,515,621	943,089	446,377	1,292,889	301,801	393,469	892,514	1,534,673	11,633,668
2006	1,218,000	3,763,288	1,682,520	1,019,385	546,768	1,218,876	433,069	589,576	880,514	1,785,205	13,137,201
2007	1,413,999	4,294,025	1,966,588	1,245,450	597,481	1,657,241	533,085	1,385,710	581,363	4,817,441	18,492,383
2008	1,942,395	4,432,077	2,101,782	1,357,376	618,242	982,770	415,152	892,080	680,051	2,710,660	16,132,585
2009	619,991	4,435,310	2,018,473	698,535	1,109,535	1,214,502	628,688	894,327	552,273	4,547,886	16,719,520
2010	580,691	4,420,977	2,077,646	602,956	713,864	1,015,246	921,220	756,545	557,149	2,327,686	13,973,980
2011	428,899	4,948,545	2,069,479	972,293	494,787	1,680,717	130,000	884,114	539,225	3,167,104	15,315,163
2012	475,064	5,134,256	1,896,003	831,453	276,847	1,184,573	-	529,945	547,725	1,509,592	12,385,458
2013	500,333	5,352,024	3,806,380	1,034,818	173,818	1,264,081	-	585,302	5,000	2,042,637	14,764,393



City of Sanger
Assessed and Estimated Actual Value of Property
Last Ten Fiscal Years

Fiscal Year Ended 30-Jun	Real Property		Personal Property		Exemption Real Property	Net	
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value
2004	525,023,903	525,023,903	18,083,709	18,083,709	17,084,200	526,023,412	543,107,612
2005	563,686,654	563,686,654	16,170,055	16,170,055	17,150,000	562,706,709	579,856,709
2006	627,210,852	627,210,852	19,651,653	19,651,653	17,004,400	629,858,105	646,862,505
2007	839,573,785	839,573,785	19,897,753	19,897,753	17,414,600	842,056,938	859,471,538
2008	1,044,879,129	1,044,879,129	24,556,780	24,556,780	18,052,544	1,051,383,365	1,069,435,909
2009	1,035,029,829	1,035,029,829	20,197,393	20,197,393	18,340,000	1,036,887,222	1,055,227,222
2010	906,337,900	906,337,900	24,610,484	24,610,484	18,319,000	912,629,384	930,948,384
2011	889,659,850	889,659,850	25,895,160	25,895,160	18,226,600	897,328,410	915,555,010
2012	883,524,036	883,524,036	25,219,529	25,219,529	17,967,600	890,775,965	908,743,565
2013	864,500,520	864,500,520	32,126,356	32,126,356	17,494,400	879,132,476	896,626,876

Source: Fresno County Auditor/Controller

City of Sanger
Property Tax Rates - Direct and Overlapping Government
Last Ten Fiscal years

Fiscal Year ended June 30,	City of Sanger	Sanger Unified School District	State Center General Obligation Bond	County Wide	Total
2004	0.00000	0.1030800	0.015644	1.00000	1.118724
2005	0.00000	0.1000000	0.014372	1.00000	1.114372
2006	0.00000	0.0560640	0.005886	1.00000	1.06195
2007	0.00000	0.1200000	0.005038	1.00000	1.125038
2008	0.00000	0.1200000	0.015618	1.00000	1.135618
2009	0.00000	0.0420280	0.000594	1.00000	1.042622
2010	0.00000	0.0420280	0.000594	1.00000	1.042622
2011	0.00000	0.1376880	0.01005	1.00000	1.147738
2012	0.00000	0.0837640	0.007070	1.00000	1.090834
2013	0.00000	0.1222000	0.009358	1.00000	1.131558

Note: The basis for the tax rates is per \$100 assessed valuation

Source: Fresno County Auditor Controller/Treasurer Tax Collector

**City of Sanger
Principal Taxpayers**

Taxpayer	Type of Business	2012/2013 Assessed Valuation	Percentage of Total Assessed Valuation
Sanger Power LLC	Power generator	27,407,148	3.12%
International Paper Company	Corrigated manufacturer	18,236,295	2.07%
Wal-Mart Real Estate Business Trust	Retail	10,906,782	1.24%
Del Monte Fresh Produce	Fresh cut fruit packaging	9,413,600	1.07%
Sanger Poultry LLC	Poultry processor	8,711,120	0.99%
Gibson Wine Company	Wine maker	6,230,891	0.71%
BAM Investors	Real estate investments	5,092,600	0.58%
Gray 1 Tuscan Residential LLC	Residential subdivision developer	4,868,328	0.55%
Country Creek Apartments LLC	Real estate investments	4,800,000	0.55%
Del Rey Farms	Real estate investments	4,612,229	0.52%
Totals		100,278,993	11.41%

Source: California Municipal Statistics, Inc

City of Sanger
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business Type Activities	Total Primary Government	Percentage of Estimate Actual Value of Taxable Property (1)
	Tax Allocation Bonds	Notes Payable	Capital Leases	Lease Revenue Bonds		
2004	5,310,000	48,200	565,754	16,068,593	21,992,547	4.18%
2005	5,010,000	40,000	387,824	16,085,016	21,522,840	3.82%
2006	4,695,000	35,000	201,311	16,101,437	21,032,748	3.34%
2007	4,490,000	30,000	145,256	20,735,000	25,400,256	3.02%
2008	4,075,000	25,000	99,361	20,735,000	24,934,361	2.37%
2009	3,710,000	25,000	51,163	20,645,000	24,431,163	2.36%
2010	3,330,000	15,000	-	20,465,000	23,810,000	2.61%
2011	2,935,000	10,000	-	20,185,000	23,130,000	2.58%
2012	-	5,000	-	19,790,000	19,795,000	2.22%
2013	-	-	-	19,275,000	19,275,000	2.19%

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements

Source: City of Sanger Financial Report
(1) See the schedule of Assessed and Actual Value of Property

City of Sanger
Ratio of Annual Debt Service Expenditures
For General Obligation Bonded Debt
to Total General Governmental Expenditures
Last Ten Fiscal Years

<u>Fiscal Year</u>	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to Governmental Expenditures
2004	283,200	376,460	659,660	13,154,656	5.01%
2005	303,200	357,785	660,985	11,633,668	5.68%
2006	315,000	337,320	652,320	13,137,201	4.97%
2007	341,100	151,121	492,221	18,492,394	2.66%
2008	415,000	185,165	600,165	16,132,585	3.72%
2009	365,000	169,990	534,990	16,719,520	3.20%
2010	380,000	155,135	535,135	13,973,980	3.83%
2011	395,000	139,225	534,225	15,315,163	3.49%
2012	420,000	122,725	542,725	12,385,458	4.38%
2013	-	-	-	14,512,073	0.00%

**CITY OF SANGER
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2013**

ASSESSSED VALUATION		
Assessed Value		879,132,476
Add back exempt property		17,494,400
 Total Assessed Value		 896,626,876
 LEGAL BONDED DEBT LIMIT (15% OF ASSESSED VALUE)		 134,494,031
 AMOUNT OF DEBT SUBJECT TO LIMIT:		
Total Bonded debt	0	
Less Tax Allocation Bonds not subject to limit	0	
 Amount Subject to limit		 -
 LEGAL BONDED DEBT MARGIN		 134,494,031

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
2004	81,466,142	0	81,466,142	0
2005	86,978,506	0	86,978,506	0
2006	97,029,376	0	97,029,376	0
2007	128,920,731	0	128,920,731	0
2008	160,415,386	0	160,415,386	0
2009	158,284,083	0	158,284,083	0
2010	139,642,258	0	139,642,258	0
2011	137,333,252	0	137,333,252	0
2012	136,311,535	0	136,311,535	0
2013	134,494,031	0	134,494,031	0

**City of Sanger
Revenue Bond Coverage
Sewer Fund
Last Ten fiscal years**

Fiscal Year	Gross Revenues	Operating Expenses	Net Available for Debt Service	Principal	Debt Service Requirements		Coverage
					Interest	Total	
2004	2,796,937	2,110,362	686,575	-	181,451	181,451	3.78
2005	2,876,007	2,380,860	495,147	-	322,658	322,658	1.53
2006	3,446,556	3,009,033	437,523	-	516,459	516,459	0.85
2007	3,358,760	3,680,188	(321,428)	-	435,323	435,323	(0.74)
2008	4,125,635	3,838,040	287,595	-	856,373	856,373	0.34
2009	4,099,483	3,022,006	1,077,477	90,000	856,373	946,373	1.14
2010	3,928,488	2,684,854	1,243,634	180,000	853,313	1,033,313	1.20
2011	4,212,522	2,631,339	1,581,183	280,000	844,313	1,124,313	1.41
2012	4,149,445	2,402,594	1,746,851	395,000	830,313	1,225,313	1.43
2013	4,190,432	2,545,526	1,644,906	515,000	816,488	1,331,488	1.24

**City of Sanger
Demographics Statistics
Last Ten fiscal years**

Fiscal Year	City Population	% Change	Fresno County Population	City population as % of County population	Fresno County Unemployment Rate
2003	20,035	1.47%	850,325	2.36%	13.50%
2004	20,877	4.20%	866,772	2.41%	12.70%
2005	21,844	4.63%	877,584	2.49%	8.40%
2006	23,571	7.91%	914,235	2.58%	6.50%
2007	25,007	6.09%	917,515	2.73%	8.10%
2008	25,218	0.84%	931,098	2.71%	9.70%
2009	25,506	1.14%	942,298	2.71%	15.30%
2010	24,270	-4.85%	930,450	2.61%	16.00%
2011	24,391	0.50%	942,904	2.59%	16.50%
2012	24,580	0.77%	943,493	2.61%	15.05%
2013	24,703	0.50%	952,166	2.59%	12.60%

Sources: County of Fresno
Economic Development Department - labor market information

Note: Per capita income and total personal income information not available.

City of Sanger Principal Employers

Company	Product/Service	# of Employees
1 Sanger Unified School District	Public Education	1,097
2 Walmart	Retail	339
3 Pittman Farms (Sanger Poultry)	Poultry Processor	325
4 ADCO	Machinery Designing and Manufacturing	150
5 Weyhaeuser (International Paper)	Corrugated Products Manufacturing	145
6 Del Monte Fresh Produce	Fresh-cut Fruit & Vegetable Packaging	115
7 Initiative Foods	Baby Food Processing	110
8 City of Sanger	Municipal Government	99
9 California Truss Frame (MC Truss)	Roof Truss Manufacturing	70
10 Gong's Market	Retail Grocery	50

Source: City of Sanger

City of Sanger
Full-Time City employees
Last Ten fiscal years

Function/Programs	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
City Council	5	5.34	5.34	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Administrative Srvices	8	8	7	7	10	8	6	7	6.9	8.9
Community Services	6	5	5	7.78	10.92	9.42	5.42	6.4	6.25	6.83
Police Department	42	39	39	39	37	37	41	41.5	43.5	43.5
Fire & Emergencies	13.4	13.4	12.4	14	14	14	18	18	16	25
Development Services	4.25	4.94	6.94	4	7.85	2.1	1.1	1.18	2.1	2
Public Works	8.25	8.25	8.25	7	6.03	3.83	2.83	4.35	4.35	4.25
Total Governmental Activities	86.9	83.93	83.93	84.28	91.3	79.85	79.85	83.93	84.6	95.98
Business-Type-Activities										
Water	6.77	7.45	7.79	7.99	8.33	9.85	7.99	6.29	6.42	5.63
Sewer	8.74	9.4	9.73	9.93	10.26	11.75	9.93	8.26	8.36	7.61
Disposal	8.24	9.9	10.23	12.43	12.76	14.75	11.43	10.61	10.81	4.16
Ambulance	8.6	8.6	8.6	10	10	10	10	10	9	0
Total Business Type Activities	32.35	35.35	36.35	40.35	41.35	46.35	39.35	35.16	34.59	17.4
Full Time Employees	119.25	119.28	120.28	124.63	132.65	126.2	119.2	119.09	119.19	113.38

**City of Sanger
Workload/Performance Data
Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
# of calls for service	40,705	43,616	46,384	46,651	34,688	27,855	28,959	29,804	31,011	26,783
# of arrests	906	985	1,273	1,026	988	850	955	1,009	918	827
# of traffic citations	3,756	3,047	4,135	3,982	3,701	2,100	2,221	1,794	973	1,296
Fire										
Fire rating	4	4	4	4	4	4	4	4	4	4
# of calls for service (1)	2,129	2,407	2,424	2,737	2,953	2,791	3,058	3,141	3,338	3,329
Response time Fire (2)	(2)	(2)	(2)	(2)	5.28 min	5.56 min	5.03 min	4.57 min	4.53 min	3.25 min
Response time EMS (3)	3.05 min	3.29 min	3.24 min	3.29 min	4.36 min	5.27 min	5.29 min	5.34 min	5.40 min	3.50 min
Parks and Recreation										
# of recreation classes	4,300	4,400	4,500	4,100	4,200	4,100	4,000	4,300	4,500	4,850
# of facility rentals	750	800	900	1,000	1,200	1,000	900	1,200	1,400	1,350
Public Works										
# of street miles maintained	70.6	74.2	76.24	77.45	78.77	79.25	80.14	80.14	80.14	80.14
# of Facilities sq ft maintained	62,478	62,478	62,478	78,478	83,078	83,078	83,078	83,078	83,078	83,078
Utilities:										
# of utility accounts	5,007	5,124	5,848	5,977	5,966	5,977	6,140	6,150	6,161	6,262
Volume of water treated	1,747	1,708	1,785	1,986	1,942	1,826	1,748	1,757	1,805	1,912
Volume of waste treated	725	723	724	724	726	728	730	730	731	752
Planning and Building										
# of building permits	508	662	599	785	764	500	514	640	310	425
# of planning applications	28	40	56	42	33	13	17	18	22	31
# of code complaints	2,140	2,830	2,252	1,676	1,634	853	1,147	1,388	1,668	2,700

(1) Includes both City and County calls for service

(2) Response time for Fire not available for years prior to 2008

(3) Includes both City and County calls

**CITY OF SANGER
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public Safety:										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	1	1	1	1	1	1	1	1	1	1
Public Utilities:										
Streets (miles)	70.6	74.2	76.24	77.45	78.77	79.25	80.14	80.14	80.14	80.14
Community Services:										
Parks	15	15	15	16	17	17	19	20	20	20
Community Centers	1	1	1	1	1	1	1	1	1	1
Utilities:										
Water Wells	6	6	8	8	8	8	8	8	9	9

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APPENDIX C
CITY INVESTMENT POLICY

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CITY OF SANGER

INVESTMENT POLICY

PURPOSE

This statement is intended to provide guidelines for the prudent investment of the City of Sanger's temporary idle cash for all funds, and outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash.

The normal operating funds of the City shall be governed by the constraints imposed by this policy. However, recognizing the need for special consideration in investing substantial proceeds from the debt issue activities of the City, the full range of investment opportunities authorized by California Government Code Section 53601 will apply to funds from debt issue activities.

OBJECTIVE

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity.

PRUDENT INVESTOR STANDARD

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be "Prudent Investor Rule" (Civil Code Section 2261, et seq.).¹ This affords the City a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code Section 53601, et seq.).

OBJECTIVES

As specified in California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, primary objectives, in priority order, of the investment activities shall be:

¹ The Prudent Investor Rule states, in essence, that "in investing . . . property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs. . ."

1. Safety The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. Safety of principal is the foremost objective of the investment program. Investments of the City of Sanger shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. Liquidity This refers to the ability to “cash in” at any moment in time with a minimal chance of losing some portion of principal or interest. The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirement that might be reasonably anticipated.
3. Yield Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return. Yield is a consideration only after the basic requirements of safety and liquidity have been met.

DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Section 53600, et seq. Management responsibility for the investment program is hereby delegated to the Finance Director who shall establish written procedures for the operation of the investment program consistent with this investment policy and the requirements of applicable laws. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors.

All participants in the investment process shall act as custodians of the public trust and all investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. All investment related activity shall be done in conformance with this policy and all applicable State and Federal laws and regulations.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any financial interest in financial institutions that conduct business with the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence.

INVESTMENT GUIDELINES

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates.

The Administrative Services Director shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53635 while following these guidelines:

1. **Safekeeping and Custody** - All investments of the City shall have the City of Sanger as the registered owner or shall be kept in custody of the City or the trust department of its designated third party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker. While in safekeeping, the City shall have on file from its designated bank, a written statement that the City has a 'perfected interest' in all securities held in the trust department. The trust department shall be required to send the City a monthly statement of what is being kept. The Administrative Services Director shall state in the monthly treasurer's report that the statement from the trustee has been reviewed and that the securities are being adequately protected or insured against risk of loss.
2. **Diversification** - Investments shall be diversified among institutions, type of securities and maturities. Investments shall be diversified to eliminate the risk of loss resulting from over concentration of investments in a specific maturity, issuer or class of securities. In establishing a diversification strategy the following general policies and constraints shall apply:
 - (a) Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
 - (b) Maturities selected shall be provide for stability of income and liquidity
 - (c) Disbursement and payroll dates shall be covered through liquid investments with a daily maturity date.
3. **Collateralization** - All individual certificates of deposit in excess of \$250,000 must be collateralized. Collateral must meet the requirements of California Government Code Section 53652.
4. **Financial Institutions** – In selecting financial institutions, the creditworthiness shall be considered and the Administrative Services Director shall review the financial history of the institution and utilize only those depositories that are qualified public depositories as established by state law. City funds in excess of the FDIC insured amount shall be invested only in financial institutions sufficiently capitalized to accommodate the City's cash needs. Investments shall not knowingly be made in any financial institution that practices or supports directly or indirectly through its actions discrimination on the basis of race, religion, color, creed, natural or ethnic origin, age, sex or physical disability.
5. **Brokers/Dealers** – The City shall select only broker/dealers in accordance with the requirements of California Government Code Section 53601.5 who are licensed and in good standing with the California Department of Securities, the Securities and Exchange

Commission, the National Association of Securities Dealers or other self-regulatory organizations. Before engaging in investment transactions with a broker/dealer the City shall have received from said firm a signed Certification Form. This form shall attest that the individual has reviewed the City of Sanger's Investment Policy and understands the policy and intends to present investment recommendations and transactions to the City that are appropriate under the terms and conditions of the Investment Policy

6. **Reporting** - The Administrative Services Director shall report monthly to the City Attorney and City Council the type of investment, financial institution, date of maturity, amount of investment, current market value, rate of interest for all securities with a maturity of more than 12 months and a statement that all City investments are in compliance with the City investment policy and all applicable provisions of the California Government Code. Failure by the Administrative Services Director to so report shall cause the City Attorney to notify the City Council of said failure.
7. **Scope of Funds** - Pursuant to Government Code, Section 53647, the Administrative Services Director shall allocate interest earned to the funds listed in Schedule "A" of this Investment Policy. The funds listed in Schedule "A" may change from time to time because of the addition or deletions to the activities of the City. No fund with an average monthly cash balance of less than \$10,000 will receive further interest unless required otherwise by law. All interest not otherwise allocated shall remain in the General Fund.
8. **Liquidity** – The City of Sanger strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determinations always maintaining sufficient funds available to meet six months of obligations. The basic premise underlying the City's investment philosophy is, and will continue to be, to insure that money is always safe and available when needed.

INVESTMENTS PERMITTED AND LIMITATIONS

Allowable investments for the portfolio of The City of Sanger are limited by California Government Code Sections 53601 et seq. 53635. Percentages of Investment Participation and percentages of Maximum, Participation apply at the time of purchase. In no event, shall investment maturities exceed five years.

U.S. Treasury Securities

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

Maximum Maturity	5 years
Investment Participation	100%

Federal Agencies Securities

Obligations issued by Federal Government agencies and Government Sponsored Enterprises (U.S. Instrumentalities) such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan

Mortgage Corporation (FHLMC) and other similar securities. Such securities are obligations of the agencies themselves, but there is also an implied guarantee by the United States Government.

Maximum Maturity	5 years
Investment Participation	100%

Certificates of Deposit

Issued by commercial banks and credit unions with federal deposit insurance available for amounts up to \$250,000. Financial institutions must provide collateral for deposits over \$250,000

Maximum Maturity	5 Years
Investment Participation	30%

Negotiable Certificates of Deposit

Issued by commercial banks and credit unions with federal deposit insurance available for amounts up to \$250,000

Maximum Maturity	5 years
Investment Participation	30%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 et seq. It is a pooled investment fund managed by the State Treasurer’s office for the exclusive benefit of governmental entities within California. Principal amount withdrawal of \$15 million or greater need 24 hour notice and less that \$15 million may withdraw the same day.

Maximum Maturity	N/A
Investment Participation	Maximum allowed by LAIF

Medium –Term Corporate Notes

Medium Term Notes of a maximum of five years maturity issued by corporations organized and operating with the United States or by depository institutions licensed by the United States or any states and operating within the United States. A rating agency must rate notes eligible for investment “AAA” or “AA”

If the credit rating of the security falls below the “A” grade, it must be sold and removed from the City portfolio

Maximum Maturity	5 years
Investment Participation	30%

PROGRAM TO ENCOURAGE LOCAL DEVELOPMENT

To encourage local economic development, local financial institutions will be utilized to provide investment products for a portion of the City’s portfolio. Such products will not necessarily result in maximum earnings for the portfolio. However, the loss of short-term investment yields may be offset by the potential expansion of the tax base. Local financial institutions eligible for participation in this program are defined as any financial institution whose deposits are insured

by the Federal Deposit Insurance Corporation (for commercial and savings banks), Savings Association Insurance Fund (for savings and loans associations) and the National Credit Union Share Insurance Fund (for credit unions) and organized and chartered under the laws of the United States or the State of California. Local institutions shall mean any financial institution headquartered in Fresno County or any financial institution with a full service branch in Fresno County. The institution shall be able to collateralize the City funds in accordance with California Government Code Section 53652.

INTERNAL CONTROLS

A system of internal controls will be maintained to assure compliance with Federal and State regulations, city council direction, and prudent cash management procedures. There will be an annual audit conducted by an independent outside auditing firm to ensure compliance with all regulations and the investment policy of the City

STATEMENT OF INVESTMENT POLICY

The City of Sanger's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Council and they must approve any modifications.

ALLOCATION OF INTEREST

Schedule "A"

1. General Fund
2. Gas Tax Funds (2106, 2107, 2107.5 and 2105)
3. Transportation Development Act Funds (Articles III and VIII)
4. Measure "C" Funds
5. Redevelopment Agency Funds
6. Sewer Operations Fund
7. Water Operations Fund
8. Disposal Operation Fund
9. Ambulance Operations Fund
10. Developers Fee Fund
11. Risk Management Fund
12. ISTEPA Fund
13. Federal and State Grant Funds

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Installment Sale and the Indenture of Trust prepared for the Revenue Bonds. 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 City and from the Trustee.

DEFINITIONS

“*Act*” means Articles 1 through 4 (commencing with section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“*Additional Payments*” means the payments so designated and required to be paid by the City pursuant to the Installment Sale Agreement.

“*AGM*” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assigns thereof.

“*Agreement*” means that certain Joint Exercise of Powers Agreement, dated September 20, 2013, by and between the City and the California Municipal Finance Authority, creating the Authority, together with any amendments thereof and supplements thereto.

“*Authority*” means the Sanger Financing Authority, a joint powers authority duly organized and existing under the laws of the State.

“*Authorized Representative*” means: (a) with respect to the Authority, its Chairman, Vice Chairman, Executive Director, Treasurer or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chairman and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, City Manager, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its Mayor and filed with the Trustee.

“*Board of Directors*” means the governing body of the Authority.

“*Bond Counsel*” means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority 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.

“*Bond Fund*” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“*Bond Law*” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“*Bond Year*” means each twelve-month period extending from June 16 in one calendar year to June 15 of the succeeding calendar year, both dates inclusive; provided that the first Bond Year shall begin on the Closing Date and shall end on December 15, 2014.

“*Bonds*” means the Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014, authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“*Business Day*” means any day, other than a Saturday or Sunday or a day on which commercial banks in New York, New York, Los Angeles, California, or San Francisco, California, or the Trust Office, are required or authorized by law to close or a day on which the New York Stock Exchange is closed.

“*City*” means the City of Sanger, a municipal corporation and chartered city organized under the laws of the State.

“*Closing Date*” means August 28, 2014, being the date of delivery of the Bonds to the Original Purchaser.

“*Code*” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated under the Code.

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

“*Costs of Issuance*” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee and its counsel, title insurance premiums, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, the premiums for the Municipal Bond Insurance Policy and the Reserve Account Municipal Bond Insurance Policy, costs of preparation and reproduction of documents and costs of printing.

“*Costs of Issuance Fund*” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“*County*” means the County of Fresno, a public body corporate and politic organized under the laws of the State.

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

(a) The principal components of the Installment Payments and of payments with respect to Parity Obligations coming due and payable by their terms in such period; and

(b) The interest component of the Installment Payments and of payments with respect to Parity Obligations which would be due during such period on the aggregate principal amount of the Installment Payments and payments with respect to Parity Obligations that would be unpaid in such period if the Installment Payments and payments with respect to Parity Obligations are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Installment Payments and payments with respect to Parity Obligations no longer unpaid.

“*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 AGM, 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.

“*Engineer’s Report*” means a report prepared and signed by an Independent Engineer.

“*Escrow Agreement*” means that certain escrow deposit and trust Agreement, dated the Closing Date, by and between the City and the Escrow Bank, providing for the defeasance of the 2006 Bonds.

“*Escrow Bank*” means MUFG Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as escrow bank under the Escrow Agreement.

“*Escrow Fund*” means the fund by that name created under the Escrow Agreement and held by the Escrow Bank.

“*Event of Default*” means, (a) with respect to the Bonds, any of the events described in the Indenture, and (b) with respect to the Installment Sale Agreement, any of the events described in the Installment Sale Agreement.

“*Fair Market Value*” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“*Fiscal Year*” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“*Gross Revenues*” means all user fee charges derived by the City from, the ownership and operation of the Wastewater System, including but not limited to investment earnings thereon.

“*Indenture*” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“*Independent Accountant*” means any certified public accountant or firm of certified public accountants, appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“*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 Authority, the Trustee or the City.

“*Independent Engineer*” means any registered engineer or firm of such registered engineers, of national reputation, appointed by the City and who, or each of whom: (a) is judged by the City to have experience in matters relating to the engineering matters relating to Wastewater System enterprises; (b) is in fact independent and not under domination of the Authority or the City; (c) does not have any substantial interest, direct or indirect, with the

Authority or the City other than as purchaser of the Bonds or any Parity Obligations; and (d) is not connected with the Authority or the City as an officer or employee of the Authority or the City, but who may be regularly retained to make reports to the Authority or the City.

“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>); provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, shall mean such other organizations providing information with respect to the Bonds shall mean such other organizations providing information with respect to the redemption of bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Installment Payment Date” means the first (1st) day of each June and December during the Term of the Installment Sale Agreement, commencing August 1, 2014.

“Installment Payments” means the amounts payable by the City pursuant to the Installment Sale Agreement, including any prepayments thereof pursuant to the Installment Sale Agreement.

“Installment Sale Agreement” means that certain Installment Sale Agreement, dated as of August 1, 2014, by and between the Authority, as seller, and the City, as purchaser, of the Project, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

“Insurance Agreement” means that certain Insurance Agreement, dated August 28, 2014, by and among the Authority, the City and AGM, relating to the Reserve Account Municipal Bond Insurance Policy, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

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

“Interest Payment Date” means each June 15 and December 15, commencing December 15, 2014.

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

“Maximum Aggregate Annual Debt Service” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Bond Year with respect to the Installment Sale Agreement and all Parity Obligations outstanding.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“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 Bonds.

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

“*Original Purchaser*” means the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“*Outstanding*,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“*Owner*,” whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“*Parity Obligations*” means any leases, loan agreements, installment sale agreements, bonds, notes, interest rate swap agreements, currency swap agreements, forward payment agreements, futures, or contracts providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency, rate, spread, or similar exposure (except termination payments relating thereto which shall be payable on a subordinate basis) or other obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued pursuant to and in accordance with the Installment Sale Agreement. For all purposes of this Installment Sale Agreement, the 2013 Installment Sale Agreement and the City’s obligations thereunder shall constitute Parity Obligations.

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

“*Permitted Investments*” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (provided the Trustee may rely upon the Request of the Authority directing investment under the Indenture as a determination that such investment is a Permitted Investment):

- (a) Treasuries;
- (b) Federal Housing Administration debentures;
- (c) The following listed obligations government-sponsored agencies which are not 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, demand 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 District (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 District 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 District 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 with respect to the Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby 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 District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District, the Trustee 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, the District, the Trustee and 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 District, 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 District 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 District 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 District 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 District 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 District 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) other forms of investments approved in writing by AGM.

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

“*Project*” means the land, improvements and other property described more fully in Exhibit C attached to the Installment Sale Agreement and by this reference incorporated herein.

“*Rate Stabilization Fund*” means the fund by that name established and held by the District pursuant to the Installment Sale Agreement.

“*Record Date*” means, with respect to any Interest Payment Date, the first (1st) calendar day of the month of such Interest Payment Date, whether or not such day is a Business Day.

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

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

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

“*Reserve Account Municipal Bond Insurance Policy*” means the Municipal Bond Insurance Policy issued by AGM for deposit in the Reserve Account in an amount equal to the Reserve Requirement.

“*Reserve Requirement*” means, as of the Closing Date, an amount equal to the least of (a) maximum amount of annual Debt Service coming due and payable in the current or any future Bond Year, (b) 125% of average annual Debt Service, and (c) 10% of the par amount of the Bonds. As of the Closing date, the Reserve Requirement is \$ _____.

“*Revenues*” means (a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source) and prepayments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture; but excluding any Additional Payments.

“*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 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“*Serial Bonds*” means the Bonds maturing on June 15 in each of the years 2020 through 2026, inclusive.

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

“*State*” means the State of California.

“*Subordinate Debt*” means any obligations of the City payable from and secured by a pledge of and lien upon any of the Net Revenues subordinate to the Installment Payments and any Parity Obligations, entered into or issued pursuant to and in accordance with the Installment Sale Agreement.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“*Term Bonds*” means the Bonds maturing on June 15, _____, and June 15, _____.

“*Term of the Installment Sale Agreement*” means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

“*Trustee*” means MUFG Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in the Indenture.

“*Trust Office*” means the corporate trust office of the Trustee at 350 California Street, 11th Floor, San Francisco, California 94014, or at such other or additional offices as may be specified in writing to the Authority and the City, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“*2006 Bonds*” means the Sanger Public Financing Authority Lease Revenue Refunding Bonds (Wastewater Treatment Facilities) Series 2006A.

“*2013 Bonds*” means the Sanger Financing Authority (Fresno County, California) Subordinate Wastewater Revenue Bonds, Series 2013.

“*2013 Installment Sale Agreement*” means that certain installment sale agreement, dated as of November 1, 2013, by and between the Authority and the City, which support the payment of debt service on the 2013 Bonds.

“*Wastewater Fund*” means the City’s existing wastewater system fund, established and held by the City with respect to the Wastewater System.

“*Wastewater System*” means any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the disposal or reuse of sewer, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, including all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

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

INDENTURE

Establishment and Application of Costs of Issuance Fund.

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On December 30, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Bond Fund and the Costs of Issuance Fund shall be closed.

Revenues; Funds and Accounts; Payment of Principal and Interest

Pledge and Assignment; Bond Fund. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Installment Sale Agreement (other than the rights of the Authority thereunder). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Installment Sale Agreement.

The assignment of the Installment Sale Agreement to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting thereunder shall be subject to the provisions of the Indenture. The Trustee shall not be responsible for any representations, warranties, covenants or obligations of the Authority.

Subject to the Indenture, all Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

The Trustee agrees to provide written notice to the City at least five Business Days prior to each Installment Payment Date of the amount, if any, on deposit in the Bond Fund which shall serve as a credit against, and shall relieve the City of making, the Installment Payments due from the City on such Installment Payment Date. Subject to the Indenture, all Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Installment Sale Agreement to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such Funds. Within the Bond Fund there shall be established an Interest Account, a Principal Account and a Reserve Account. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues. On each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

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

Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to the Indenture.

Application of Reserve Account. If, on any Interest Payment Date, the moneys available in the Interest Account and/or the Principal Account do not equal the amount of the principal, interest and redemption premium (if any) with respect to the Bonds then coming due and payable, the Trustee shall apply the moneys available in the Reserve Account to make delinquent amounts by transferring the amount necessary for this purpose to the Interest Account and/or the Principal Account or shall draw on the Reserve Account Insurance Policy and apply amounts received from such draw to make delinquent amounts by transferring the amount necessary for this purpose to the Interest Account and/or the Principal Account. To the extent there is cash or investments on deposit in the Reserve Account, such cash or investments shall be applied first before there is any draw on the Reserve Account Insurance Policy or any other credit facility credited to the Reserve Account in lieu of cash (a "Credit Facility"). Payment of any Reserve Account Insurance Policy Costs (hereinafter defined) shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Account Insurance 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 Account. Payment of Reserve Account Insurance 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 Account. 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 amount with respect to which moneys have been advanced from the Reserve Account or there has been a draw on the Reserve Account Insurance Policy, such amount shall be deposited in the Reserve Account to the extent of such advance and first applied to reimburse a draw on the Reserve Account Insurance Policy and then to replenish any cash drawn therefrom.

The Trustee shall ascertain the necessity for a claim upon the Reserve Account Insurance Policy and to provide notice to AGM in accordance with the terms of the Reserve Account Insurance Policy at least five (5) business days prior to each date upon which interest or principal is due with respect to the Bonds.

The City, pursuant to the Lease Agreement, agrees to repay any draws under the Reserve Account Insurance 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 Bonds 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 Account Insurance 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 Account Insurance Policy Costs related to such draw.

Amounts in respect of Reserve Account Insurance 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 Account Insurance Policy.

If the City shall fail to pay any Reserve Account Insurance Policy Costs in accordance with the requirements of the Indenture, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture and the Lease Agreement, other than (i) acceleration of the maturity of the Bonds, or (ii) remedies which would adversely affect Owners.

Neither the Indenture 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 Bonds.

Application of Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed pursuant to the Indenture; *provided, however,* that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments maturing or available on or before the date on which they are anticipated to be used. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in the money market fund set forth in the letter of authorization and direction executed by the Authority and delivered to the Trustee. If no specific money market fund had been specified by the Authority, the Trustee shall make a request to the Author-

ity for investment directions and, if no investment directions are provided, such amount shall be held in cash, uninvested until specific investment directions are provided by the Authority to the Trustee. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. To the extent investments are registrable, such investments shall be registered in the name of the Trustee. Proceeds deposited in the Reserve Account shall not be invested in Permitted Investments described in subsection (i) or (j) of the definition thereof.

All interest or gain derived from the investment of amounts in Fund shall be retained therein. All interest or gain derived from the investment of amounts in Costs of Issuance Fund shall be retained therein. All interest or gain derived from the investment of amounts in Reserve Account, unless required to increase the amount therein to the Reserve Requirement, shall be transferred when received to the Interest Account. All interest or gain derived from the investment of amounts in Interest Account shall be retained therein. All interest or gain derived from the investment of amounts in any other funds or accounts established under the Indenture shall be transferred when received to the Interest Account.

For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

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 Account shall have a term to maturity of not greater than five years.

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

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

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Authority for earnings derived from funds that have been invested.

The Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value.

Investments in the Reserve Fund shall be valued at fair market value and the Trustee shall be deemed to have complied with such valuation to the extent it utilized an automated pricing service through its trust accounting system. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Account shall be valued by the Authority at their present value (within the meaning of section 148 of the Code).

Particular Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

No Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Installment Sale Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours and under reasonable circumstances. The Trustee shall deliver a monthly accounting of all funds and accounts except for any fund or account which has a balance of \$0.00 and has not had any activity since the last reporting date. The Trustee shall establish such other funds and accounts as it deems necessary to carry out its duties under the Indenture.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants.

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

Rebate Requirement. The Authority shall cause the City to take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investments earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

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

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

Maintenance of Tax Exemption. The Authority shall take any and all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Installment Sale Agreement. The Trustee shall promptly collect all amounts due from the City pursuant to the Installment Sale Agreement. Subject to the provisions of the Indenture, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Installment Sale Agreement.

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

Continuing Disclosure. Pursuant to the Installment Sale Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements and the Authority shall have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default, however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

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

Events of Default and Remedies

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; *provided, however*, that if in the reasonable opinion of the Authority the default

stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Installment Sale Agreement.

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

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

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

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

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

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

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

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

Limitation on Bond Owners' Right to Sue. Notwithstanding any other provision of the Indenture, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Sale Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor in the In-

denture, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

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

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Parties Interested in the Indenture. Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Authority or the Trustee, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Indenture, or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the City, the Authority or the Trustee, their officers, employees and agents, and the Owners.

Modification or Amendment of the Indenture

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Indenture;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code; or

(v) to facilitate the issuance of Parity Obligations by the City pursuant to the Installment Sale Agreement.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(e) Notice of any modification of the Indenture or amendment to the Indenture shall be given by the Authority to each rating agency which then maintains a rating on the Bonds, at least fifteen (15) days prior to the effective date of the related Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Trust Office or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Trust Office, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds. The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

Defeasance

Discharge of Indenture. Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

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

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

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

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

Unclaimed Funds. Notwithstanding any provisions of the Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for a period ending on the earlier of 10 days prior to the date unclaimed funds would escheat to the state or (a) two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or (b) two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

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 Bonds shall be paid by AGM pursuant to the Municipal Bond Insurance Policy, the Bonds 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 Authority to the Owners shall continue to exist and shall run to the benefit of AGM and AGM 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 Bonds.

Trustee-Related Provisions.

(a) AGM shall receive prior written notice of any name change of the Trustee or the resignation, removal or termination of the Trustee.

(b) No resignation, removal or termination of the Trustee shall take effect until a successor, acceptable to AGM, shall be appointed.

(c) The Trustee may be removed at any time at the request of AGM for any breach of its obligations under the Indenture.

Amendments and Supplements.

(a) With respect to amendments or supplements to the Indenture 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.

(b) With respect to amendments or supplements to the Indenture or the Lease Agreement which do require the consent of the Owners, AGM's prior written consent is required.

(c) Copies of any amendments or supplements to the Indenture or the Lease Agreement which are consented to by AGM shall be sent to the rating agencies that have assigned a rating to the Bonds.

(d) Notwithstanding any other provision of the Indenture 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 Trustee shall consider the effect on the Owners as if there was no Municipal Bond Insurance Policy.

(e) AGM shall be deemed to be the sole holder of the Bonds 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 Indenture. 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 Indenture or the Lease Agreement confer upon or give or grant to AGM any right, remedy or claim under or by reason of the Indenture or the Lease Agreement, AGM is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Control Rights.

(a) AGM shall be deemed to be the Owner of all of the Bonds 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 or taking any action permitted by or required under the Indenture or the Lease Agreement, as the case may be, to be granted or taken by the Owners of such Bonds.

(b) Anything in the Indenture 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.

(c) The rights granted to AGM under the Lease Agreement and/or the Indenture 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.

(a) *Consent of AGM.* Any provision of the Indenture 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.

(b) *Consent of AGM in Addition to Owner Consent.* Wherever the Indenture or the Lease Agreement require the consent of Owners, AGM's consent shall also be required.

(c) *Consent of AGM in the Event of Insolvency.* Any reorganization or liquidation plan with respect to the Authority 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 Bonds guaranteed by AGM, absent a default by AGM under the Municipal Bond Insurance Policy.

The rights granted to AGM under the Indenture 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.

ance 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 Indenture, moneys sufficient to pay the principal and interest with respect to the Bonds 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 teletype 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 Bonds 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 Bonds and the amount required to pay principal with respect to the Bonds, 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 Bond delivered with the Municipal Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal with respect to Bonds 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 Bonds registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to AGM, registered in the name of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), 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 Bond shall have no effect on the amount of principal or interest payable by the Authority with respect to any Bond 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 Bond. 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 Bonds under the sections of the Indenture regarding payment of Bonds. 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 Indenture to the contrary, the Authority 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 Bonds, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be com-

puted on the basis of the actual number of days elapsed over a year of 360 days. The Authority covenants and agrees that AGM Reimbursement Amounts are secured on a parity with amounts due under the Lease Agreement.

Accounts 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 Bonds, 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 Authority to AGM under the Lease Agreement or the Indenture shall survive discharge or termination of the Lease Agreement or the Indenture.

The Authority 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 Site and Facility Lease, the Lease Agreement, the Assignment Agreement or the Indenture; (ii) the pursuit of any remedies under the Site and Facility Lease, the Lease Agreement, the Assignment Agreement or the Indenture or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Site and Facility Lease, the Lease Agreement, the Assignment Agreement or the Indenture whether or not executed or completed; or (iv) any litigation or other dispute in connection with the Site and Facility Lease, the Lease Agreement, the Assignment Agreement or the Indenture 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 Site and Facility Lease, the Lease Agreement, the Assignment Agreement or the Indenture.

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 Authority or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Reserve Account to the Reserve Requirement.

AGM shall be entitled to pay principal or interest with respect to the Bonds 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.

INSTALLMENT SALE AGREEMENT

Sale

The Authority agrees to sell the 2013 Project to the City, and the City agrees to purchase the 2013 Project from the Authority, upon the terms and conditions set forth in the Installment Sale Agreement.

Term of the Installment Sale Agreement

The Term of the Installment Sale Agreement shall commence on the Closing Date, and shall end on the date on which the City shall have paid all of the Installment Payments and all other amounts due and payable under the Installment Sale Agreement. The provisions of the Installment Sale Agreement are subject in all respects to any other provisions of the Installment Sale Agreement relating to the termination of the Installment Sale Agreement with respect to the 2013 Project or any portion thereof.

Title

Upon the Completion Date of each component of the 2013 Project, title to such component shall be deemed conveyed to and vested in the City. The Authority and the City shall execute, deliver and cause to be recorded any and all documents necessary to convey such title to the City.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Subordinate Net Revenues, as the purchase price of the 2013 Project the aggregate principal amount of _____ dollars (\$ _____), together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on each Installment Payment Date in the Installment Sale Agreement. The Installment Payments shall be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture, in the amounts and at the times as set forth therein.

Effect of Prepayment. In the event that the City prepays all remaining Installment Payments in full pursuant to the Installment Sale Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments therefor under the Installment Sale Agreement; *provided, however,* that the City's obligations to compensate and indemnify the Trustee pursuant the Installment Sale Agreement shall survive such prepayment. In the event that the City prepays the Installment Payments in part but not in whole pursuant to the Installment Sale Agreement, the principal component of each succeeding Installment Payment shall be reduced as provided in the Installment Sale Agreement, and the interest component of each remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed pursuant to the applicable provisions of the Indenture.

Rate on Overdue Payments. In the event the City should fail to make any of the payments required in the Installment Sale 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, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

Assignment. The City understands and agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City assents to such assignment. The Authority directs the City, and the City agrees, to pay to the Trustee at its Trust Office, all amounts payable by the City pursuant to the Installment Sale Agreement.

Application of Gross Revenues; Pledge and Application of Subordinate Net Revenues

Pledge of Subordinate Net Revenues. The City agrees that the payment of the Installment Payments shall be secured by a pledge, charge and first and prior lien upon Subordinate Net Revenues, and Subordinate Net Revenues sufficient to pay the Installment Payments as they become due and payable are Subordinate, charged, assigned, transferred and set over by the City to the Authority and its assigns for the purpose of securing payment of the Installment Payments. The Subordinate Net Revenues shall constitute a trust fund for the security and payment of the Installment Payments.

Deposit to and Transfer from Wastewater Fund. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Wastewater Fund.

The City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay all Maintenance and Operation Costs as they come due and payable.

The City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay all payments with respect to the Senior Obligations.

The City covenants and agrees that all Gross Revenues will be held by the City in the Wastewater Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority under the Installment Sale Agreement), the owners of the Senior Obligations, the Owners, the owners of any Parity Obligations and the owners of any Subordinate Obligations.

On or before each Installment Payment Date, the City shall withdraw from the Wastewater Fund and transfer to the Trustee, for deposit into the Bond Fund, amounts which, together with the balance then on deposit in the Bond Fund (other than amounts resulting from the prepayment of the Installment Payments pursuant to the Installment Sale Agreement and other than amounts required for payment of the principal or interest with respect to any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Wastewater Fund such amounts at such times as shall be required to pay (i) the principal of and interest on any Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Parity Obligations; and (ii) pay all other amounts when and as due and payable under the Installment Sale Agreement.

Release from Lien. Following the transfer described above with respect to the June 15 Interest Payment Date, Subordinate Net Revenues in excess of amounts required for the payment of Installment Payments and any Parity Obligations in that Fiscal Year shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the City.

Rates, Fees and Charges.

The City will, at all times while any of the Installment Payments, the Senior Obligations, any Parity Obligations and any Subordinate Obligations remain Outstanding, fix, prescribe and collect rates, fees and charges for the Water Service for each Fiscal Year so as to yield Gross Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year in the order below set forth:

- (a) All current Maintenance and Operation Costs.
- (b) Payments required with respect to the Senior Obligations.
- (c) The Installment Payments and all payments required with respect to the any Parity Obligations.
- (d) Payments required with respect to the any Subordinate Obligations.
- (e) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Subordinate Net Revenues.
- (f) Any other lawful purposes of the City, including, but not limited to, deposits to the Rate Stabilization Fund in accordance with the Installment Sale Agreement.

In addition, the City shall fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are sufficient to yield Net Revenues at least equal to one hundred twenty percent (120%) of the amounts payable under the preceding paragraphs above in such Fiscal Year.

Limitations on Future Obligations Secured by Subordinate Net Revenues

No Obligations Superior to Installment Payments. In order to protect further the availability of the Subordinate Net Revenues and the security for the Installment Payments and any Parity Obligations, the City agrees that the City

shall not, so long as any Installment Payments or any Parity Obligations are outstanding, issue or incur any obligations payable from Gross Revenues, Net Revenues or Subordinate Net Revenues superior to the Installment Payments or any Parity Obligations and specifically shall not issue any obligations on a parity with the Senior Obligations.

Parity Obligations. The City further covenants that it will not issue or incur any Parity Obligations unless among other things, the requirements of either clause (i) or (ii) below are satisfied:

(i) Test Period Net Revenues (as defined below) are at least equal to 120% of the Debt Service for each of the five Fiscal Years commencing with the first full Fiscal Year following the period of capitalized interest (if any) for the Parity Obligations, as evidenced by a Certificate of the City;

or

(ii) Projected Net Revenues (as described below) are at least equal to 120% of Debt Service for each of the five Fiscal Years commencing with the first full Fiscal Year following the period of capitalized interest, if any, for the Parity Obligations, as evidenced by a Certificate of the City.

The projections described in (ii) above may take into account (A) only increases in the charges made for service from the Wastewater System adopted by the City prior to the date of issuance or incurrence of such Parity Obligations and which are scheduled to be effective within 36 months following the date of issuance or incurrence of such Parity Obligations, and (ii) an allowance for Net Revenues from any additions or connections to or improvements or extensions of the Wastewater System, all in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, connections, improvements or extensions.

Notwithstanding the requirements described above, Parity Obligations may be issued or incurred to refund outstanding Parity Obligations if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Parity Obligations (outstanding on the date of issuance or incurrence of such refunding Parity Obligations, but excluding such refunding Parity Obligations) not being refunded are outstanding.

“Test Period Net Revenues” means, with respect to the issuance of any Parity Obligations, the maximum amount of Net Revenues for either the prior Fiscal Year or any consecutive twelve month period during the eighteen months immediately preceding the issuance of such Parity Obligations.

The City may but shall not be required to fund a reserve fund or obtain a reserve fund surety bond with respect to any Parity Obligations. If a reserve fund is funded for any Parity Obligations or a reserve fund surety bond is obtained with respect to any Parity Obligations, such funded reserve fund or reserve fund surety bond shall secure only the related Parity Obligations and shall not support the Installment Sale Agreement or any other Parity Obligations.

Subordinate Obligations. The City further covenants that the City shall not issue or incur any Subordinate Obligations unless Test Period Net Revenues or projected Net Revenues, calculated in the same manner as described in paragraph (b) above, are equal to at least 100% of the sum of the Debt Service and debt service obligations on all Subordinate Obligations outstanding immediately subsequent to the incurring of such additional obligations.

Additional Payments

In addition to the Installment Payments, the City shall pay, from Subordinate Net Revenues, when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture and the Installment Sale Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Inden-

ture, compensation due to the Authority for its fees, costs and expenses incurred under the Indenture and all costs and expenses of attorneys, auditors, engineers and accountants.

Payment of Rebatable Amounts

The City agrees to furnish all information to, and cooperate fully with, the Authority and its officers, employees, agents and attorneys, in order to assure compliance with the provisions of the Indenture. In the event that the Authority shall determine, pursuant to the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the Trustee from any source of legally available funds, the amounts determined by the Authority to be due and payable to the United States of America under such the Indenture.

Rate Stabilization Fund

From time to time, the City may deposit in the Rate Stabilization Fund from Gross Revenues such amounts as the City may determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred eighty (180) days following the end of such Fiscal Year.

The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Wastewater Fund for inclusion in Gross Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred eighty (180) days after the end of such Fiscal Year, or (ii) for any other lawful purpose of the City.

All interest or other earnings on deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

Notwithstanding the foregoing, (i) no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent that such Gross Revenues were included the calculations of the Limitations on Future Obligations Secured by Net Revenues section of the Installment Sale Agreement and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from Gross Revenues that would cause noncompliance with the Rates, Fees and Charges section of the Installment Sale Agreement and (ii) no deposit of Net Revenues shall be made in the Rate Stabilization Fund to the extent that such deposit would cause noncompliance in any Fiscal Year.

The Rate Stabilization Fund is not subordinate to secure the payments with respect to the Senior Obligations, the payment of the Installment Payments, the payments with respect to any Parity Obligations or the payments with respect to any Subordinate Debt.

Certain Covenants

Maintenance, Utilities, Taxes and Assessments. Throughout the Term of the Installment Sale Agreement, all improvement, repair and maintenance of the Wastewater System shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Wastewater System, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, wastewater 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 Wastewater System resulting from ordinary wear and tear.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting any Wastewater System or the respective interests or estates therein; *provided, however,* 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 Installment Sale 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 Authority shall notify the City that, in its opinion, by nonpayment of any such items, the interest of the Authority under the Installment Sale Agreement or under the Indenture will be materially adversely affected, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Operation of Wastewater System. The City covenants and agrees to operate or cause to be operated the Wastewater System in an efficient and economical manner and to operate, maintain and preserve or caused to be operated, maintained and preserved the Wastewater System in good repair and working order. The City covenants that, in order to fully preserve and protect the priority and security of the Bonds, the City shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater System which, if unpaid, may become a lien or charge upon the Gross Revenues or the Subordinate Net Revenues prior or superior to the lien granted under the Installment Sale Agreement, or which may otherwise impair the ability of the City to pay the Installment Payments in accordance with the Installment Sale Agreement.

Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, liability and casualty insurance in such amounts and against such risks as shall be appropriate for Wastewater Systems of like size and with similar facilities as the Wastewater System. 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 self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System shall be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater System. The proceeds of liability insurance shall be applied toward the extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee and the Authority) shall either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System in replacement of the condemned portions thereof, or (b) applied as a credit against the City's obligation to make the Installment Payments and payments with respect to any Parity Obligations in accordance with written instructions of the City filed with the Trustee.

Records and Accounts. The City shall keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The City shall cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the City.

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 Installment Sale Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default under the Installment Sale Agreement; *provided, however*, that any Participating Underwriter or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under the Installment Sale Agreement, including seeking mandate or specific performance by court order.

Against Encumbrances. The City will not make any pledge of or place any lien on Gross Revenues or the moneys in the Wastewater Fund except as provided in the Installment Sale Agreement. The City may at any time, or from time to time, execute Parity Obligations as permitted in the Installment Sale Agreement or incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Subordinate Net Revenues on any moneys in the Wastewater Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the Installment Sale Agreement.

Against Competitive Facilities. To the extent permitted by law, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, city or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any Wastewater System competitive with the Wastewater System. Notwithstanding the foregoing, the City may permit competitive systems where it determines that provision of wastewater service is either geographically, technically or economically prohibitive or where provision of such services is more readily obtained from another provider of such services.

Tax Covenants.

Private Activity Bond Limitation. The City shall assure that proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code 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 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

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

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

Maintenance of Tax-Exemption.

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

Disclaimer of Warranties; Access

Disclaimer of Warranties. The Authority and the Trustee make no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Project, or any other representation or warranty with respect to the Project. In no event shall the Authority or the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising out of the Installment Sale Agreement or the Indenture for the existence, furnishing, functioning or City’s use of the Project.

Access to the Wastewater System. The City agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Wastewater System. The City further agrees that the Authority and the Trustee, and any duly authorized represen-

tative thereof, shall have such rights of access to the Wastewater System as may be reasonably necessary to cause the proper maintenance of the Wastewater System in the event of failure by the City to perform its obligations under the Installment Sale Agreement.

Release and Indemnification Covenants. The City shall and agrees to indemnify and save the Authority and the Trustee and their respective officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Wastewater System by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under the Installment Sale Agreement, (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Wastewater System, (d) any act or negligence of any sublessee of the City with respect to the Wastewater System, (e) the Acquisition and Construction of the Project or the authorization of payment of the Project Costs, (f) the performance by the Trustee of its duties and obligations under the Indenture, including any duties referred to in the Indenture, (g) the presence on, under or about, or release from, the Wastewater System of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, or (h) the offer, sale and issuance of the Bonds. No indemnification is made under the Installment Sale Agreement for adjudicated willful misconduct or negligence by the Authority or the Trustee, or their respective officers, employees, successors or assigns. The rights of the Trustee and the obligations of the City under the Installment Sale Agreement shall survive the termination of the Installment Sale Agreement and the resignation or removal of the Trustee.

Non-Liability of Authority for Wastewater System Obligations. The Authority and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the City incurred in connection with the Wastewater System.

Assignment, Sale and Amendment

Assignment by the City. The obligations of the City under the Installment Sale Agreement may not be assigned by the City.

Sale or Other Disposition of Wastewater System. Except as provided in the Installment Sale Agreement, the City covenants that the Wastewater System shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole; *provided, however*, the City may lease the Wastewater System to a related public entity that (a) assumes all liabilities of the City with respect to the Wastewater System, and (b) covenants to maintain Gross Revenues sufficient to operate and maintain the Wastewater System and duly provide for the punctual payment of all obligations assumed by such related public entity in connection with such lease including, but not limited to, the Installment Payments under the Installment Sale Agreement. Neither the Subordinate Net Revenues nor any other funds pledged or otherwise made available to secure payment of the Installment Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of the Installment Sale Agreement. The City shall not enter into any agreement which impairs the operation of the Wastewater System or any part of it necessary to secure adequate Subordinate Net Revenues to pay the Installment Payments, or which otherwise would impair the rights of the Bond Owners and the owners of any Parity Obligations with respect to the Subordinate Net Revenues. If any substantial part of the Wastewater System shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of Project constituting part of the Wastewater System, or (b) to the extent not so used, be paid to the Trustee to be applied to prepay the Installment Payments or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Amendment of Installment Sale Agreement. The City and the Authority shall have the right to modify or amend the Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes:

(a) to provide for the issuance of Parity Obligations pursuant to the Installment Sale Agreement;

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

(c) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Installment Sale Agreement, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable; or

(d) to amend any provision thereof for the purpose of complying with the applicable requirements of the Tax Code.

Events of Default and Remedies

Events of Default Defined. The following events shall be Events of Default under the Installment Sale Agreement:

(a) Failure by the City to pay any Installment Payment when and as the same become due and payable under the Installment Sale Agreement.

(b) Failure by the City to pay any Additional Payment when due and payable under the Installment Sale Agreement, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), 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 Authority or the Trustee; *provided, however*, that if the City shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure shall not constitute an Event of Default under the Installment Sale Agreement if the City shall commence to cure such failure within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) 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 Code, as amended, or under any similar acts which may be enacted after the Installment Sale Agreement.

(e) The occurrence and continuation of any payment event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations or any event that allows the acceleration of Parity Obligations.

Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of the Indenture, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the Installment Sale Agreement; and

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners under the Installment Sale Agreement, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Installment Sale Agreement, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid Installment Payments shall have been so declared due and payable pursuant to the preceding clause (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the net effective rate of interest per annum then borne by the Outstanding Bonds, and the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. As provided in the Installment Agreement, the Trustee shall be required to exercise the remedies provided in the Installment Sale Agreement in accordance with the Indenture.

No Remedy Exclusive. No remedy conferred upon or reserved to the Authority in the Installment Sale Agreement is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or now or existing at law or in equity after the Installment Sale Agreement. 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 Authority to exercise any remedy reserved to it in the Installment Sale Agreement it shall not be necessary to give any notice, other than such notice as may be required in the Installment Sale Agreement or by law.

Agreement to Pay Attorneys' Fees and Expenses. In the event either party to the Installment Sale Agreement shall default under any of the provisions of the Installment Sale Agreement and the nondefaulting party, the Trustee or the Owner of any Bonds should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party contained in the Installment Sale Agreement, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Installment Sale Agreement shall be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Installment Sale Agreement.

Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under the Installment Sale Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City consents. Such rights and remedies shall be exercised by Trustee and the Owners of the Bonds as provided in the Indenture.

Rights of the Owners of Parity Obligations. Notwithstanding anything in the Installment Sale Agreement to the contrary, it is acknowledged and agreed that the rights of the Trustee and the Bond Owners under the Installment Sale Agreement in and to the Subordinate Net Revenues and the Wastewater System shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of the Installment Sale Agreement, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

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APPENDIX E

FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Sanger Financing Authority
1700 7th Street
Sanger, California 93657

OPINION: \$17,000,000* Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014

Members of the Board of Directors:

We have acted as bond counsel in connection with the issuance by the Sanger Financing Authority (the "Authority") of \$17,000,000* aggregate principal amount of the bonds of the Authority designated the "Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014" (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), an indenture of trust, dated as of September 1, 2014 (the "Indenture"), by and between the Authority and MUFG Union Bank, N.A., as trustee, and a resolution of the governing body of the Authority adopted on July 17, 2014. The Bonds are secured by Revenues as defined in the Indenture, including installment payments (the "Installment Payments") made by the City of Sanger (the "City") under an installment sale agreement, dated as of September 1, 2014 (the "Installment Sale Agreement"), by and between the Authority, as seller, and the City, as purchaser. 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 Authority and the City contained in the Indenture and the Installment Sale Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a joint exercise of powers agency and public entity duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

* Preliminary, subject to change.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The Installment Sale Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

6. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Installment Sale Agreement and to perform the agreements on its part contained therein.

7. The Installment Sale Agreement has been duly authorized, executed and delivered by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

8. The Installment Sale Agreement establishes a valid first and exclusive lien on and pledge of the Net Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Installment Sale Agreement, in accordance with the terms of the Installment Sale Agreement.

9. Subject to the Authority's and the City's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

10. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the City related to its municipal water system under Articles XIII C and XIII D of the California Constitution. In addition, the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority, the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF SANGER (the “City”) in connection with the issuance of by the Sanger Financing Authority (the “Authority”) of its \$17,000,000* Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2014 (the “Indenture”), by and between the Authority and MUFJ Union Bank, N.A., as trustee (the “Trustee”). The Bonds shall be secured by a pledge, charge and lien upon Net Revenues (as such term is defined in the Indenture). Pursuant to Section 5.6 of that certain Installment Sale Agreement, dated as of September 1, 2014, by and between the Authority and the City, the City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“*Dissemination Agent*” shall mean IGService, 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 Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2013-14 Fiscal Year, which is due not later than March 31, 2015, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, as follows:

- (i) A statement that the City has complied with its rate covenants with respect to the Bonds as disclosed under the caption “SECURITY FOR THE BONDS—Rate Covenant” in the Official Statement.
- (iv) An update of the following tables under the caption “THE WASTEWATER SYSTEM” in the Official Statement:
 - (A) “Rates;” and
 - (B) “Ten Largest Users of the Wastewater System;”

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.

- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of 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 Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

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

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond 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. Article VIII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate was (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. 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 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 Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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 Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF SANGER

By _____
Name _____
Title _____

ACKNOWLEDGED:

IGSERVICE, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Sanger

Name of Issue: Sanger Financing Authority (Fresno County, California) Wastewater Refunding Revenue Bonds, Series 2014

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: _____

IGSERVICE, Dissemination Agent

By _____
Authorized Officer

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to The Depository Trust Company (“DTC”), New York, NY, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, the Authority, the Trustee and the Underwriter understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, 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 users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Authority or the 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, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the Bonds by Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City, the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH

RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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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

