

NEW ISSUE—BOOK-ENTRY ONLY

RATING:
Standard & Poor's: "AAA/A-1+"
(See "RATING" herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986, from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See, however, "TAX EXEMPTION" herein regarding certain other tax considerations.

\$16,590,000
SANGER PUBLIC FINANCING AUTHORITY
VARIABLE RATE REVENUE REFUNDING BONDS, 2002 SERIES A
(UTILITY SYSTEM FINANCING)

Dated: Date of Delivery

Due: January 1, 2036

The Sanger Public Financing Authority Variable Rate Revenue Refunding Bonds, 2002 Series A (Utility System Financing) (the "Bonds") are being issued as fully registered bonds, initially 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. Individual purchases of the Bonds will be made in book-entry form only, in Authorized Denominations as described herein. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Interest on the Bonds will be payable on the first business day of each month, commencing May 1, 2002, so long as the Bonds bear interest at a Variable Interest Rate and, after conversion to a fixed interest rate, interest will be payable on each January 1 and July 1, commencing on the first January 1 or July 1 that is at least 75 days after the Fixed Rate Conversion Date (as defined herein).

The Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein. The Bonds are also subject to mandatory tender and optional tender as described herein.

The Bonds will be issued by the Sanger Public Financing Authority (the "Authority") under an Indenture, dated as of March 1, 2002 (the "Indenture"), by and between the Authority and Union Bank of California, N.A. (the "Trustee"). The proceeds of the Bonds will be used: (i) to provide for the economic defeasance of the Authority's outstanding Revenue Bonds, 1996 Series A (Utility System Financing), (ii) to fund a reserve fund for the Bonds, (iii) to fund interest on the Bonds for 12 months and (iv) to pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING" herein.

Payments of principal and interest (but not any premium) on the Bonds will be initially supported by an irrevocable direct-pay letter of credit (the "Letter of Credit" or "Credit Facility") issued to the Trustee, the drawings under which will be used to pay the principal of and interest on the Bonds when due. The Letter of Credit will also be drawn on, if other funds are not available, to purchase Bonds tendered by Owners at the purchase price of such Bonds. The Letter of Credit will be issued by

Union Bank of California, N.A.

(the "Credit Entity" or the "Bank"). If the Credit Entity wrongfully dishonors a properly presented and conforming draw on the Letter of Credit or if the Credit Entity repudiates the Letter of Credit, funds will be made available under an irrevocable confirming letter of credit (the "Confirming Letter of Credit") to be issued by the

California State Teachers' Retirement System

(the "Confirming Credit Entity"). The Letter of Credit will expire on March 20, 2007 and the Confirming Letter of Credit will expire on March 21, 2005 unless extended or unless a substitute letter of credit or substitute confirming letter of credit or other replacement securities meeting the requirements of the Indenture is provided.

The Bonds are special limited obligations of the Authority secured by and payable from Revenues, consisting primarily of Installment Payments to be made by the City of Sanger, California (the "City") under an Installment Sale Agreement, dated as of March 1, 2002 (the "Installment Sale Agreement"), by and between the Authority and the City, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture. The City's obligation to make the Installment Payments is solely payable from and secured by a pledge of Net Revenues of the Enterprise. See "SECURITY FOR THE BONDS" herein.

THE BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY), AND NONE OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR. THE INSTALLMENT SALE AGREEMENT IS NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE CITY) IS LIABLE THEREFOR. THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE FROM REVENUES, CONSISTING PRIMARILY OF INSTALLMENT PAYMENTS MADE BY THE CITY PURSUANT TO THE INSTALLMENT SALE AGREEMENT AND AMOUNTS HELD IN THE FUNDS AND ACCOUNTS ESTABLISHED BY THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

*The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel and for the Authority and the City by Dowling, Aron & Keeler, Fresno, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about March 21, 2002. The Authority has retained **Public Asset Management, Inc.**, San Rafael, California, as financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds.*

Seidler-Fitzgerald
Public Finance
(A Division of the Seidler Companies Incorporated)

Dated: March 19, 2002.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Authority or the Underwriter. 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 any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City, the Authority, and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the City, the Authority or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority since the date hereof. The Official Statement is submitted in connection with the sale of Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

SANGER PUBLIC FINANCING AUTHORITY

CITY COUNCIL AND AUTHORITY COMMISSION

Sandra Neri, Mayor/President
Martin F. Castellano, Mayor Pro Tem/Vice President
Michael Montelongo, Councilmember/Member
Rosa Pena, Councilmember/Member
Art H. Marquez, Councilmember/Member

CITY AND AUTHORITY STAFF

Jim Drinkhouse, City Manager/Executive Director
Carlos Sanchez, Director of Administrative Services/Treasurer
Luis Patlan, Director of Developmental Services
Adolfo Corono, City Attorney
Barbara Mergan, City Clerk/Secretary

SPECIAL SERVICES

Financial Advisor
Public Asset Management, Inc.
San Rafael, California

City Attorney and Authority Counsel
Dowling, Arron & Keeler
Fresno, California

Bond Counsel and Disclosure Counsel
Fulbright & Jaworski L.L.P.
Los Angeles, California

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

Verification Agent
Grant Thornton LLP
Minneapolis, Minnesota

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Use of Proceeds	1
Security for the Bonds	1
The Enterprise	2
PLAN OF REFUNDING	2
ESTIMATED SOURCES AND USES OF FUNDS	3
THE BONDS	3
General Provisions	3
Interest Rate Determination Methods	5
Conversion of Interest to Fixed Rate	5
Trustee and Tender Agent	7
Remarketing Agent	8
Redemption	8
Mandatory Tender of Bonds - Fixed Rate Conversion Date	10
Mandatory Tender of Bonds - Other than on Fixed Rate Conversion Date	11
Mechanics of Mandatory Tender	11
Option to Tender Prior to Fixed Rate Conversion Date	12
Purchase of Bonds Delivered On a Tender Date	12
Remarketing of Bonds by Remarketing Agent	13
Delivery of Bonds	14
Book-Entry Only System	14
SECURITY FOR THE BONDS	14
Revenues	14
Net Revenues	15
Application of Net Revenues	15
Reserve Fund	16
Rate Covenant	16
Parity Obligations	17
Other Obligations	18
THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT	18
Letter of Credit	18
Reimbursement Agreement	19
THE CREDIT ENTITY	20
THE CONFIRMING LETTER OF CREDIT AND THE CONFIRMATION AGREEMENT	21
Confirming Letter of Credit	21
Confirmation Agreement	22
THE CONFIRMING CREDIT ENTITY	23

THE ENTERPRISE	24
Wastewater System	24
Water System	25
Financial Statements	25
Historical and Projected Operating Results	26
Utility Rate Comparisons	32
Largest Customers	34
Outstanding Enterprise Indebtedness	34
Future Capital Improvements	34
Management and Employee Relations	37
Insurance	38
 BONDOWNERS' RISKS	 38
Bonds are Limited Obligations	39
No Liability of the Authority to the Bondowners	39
Limitations on Remedies Available to Owners of the Bonds and the Trustee	39
Limited Recourse on Default	39
Loss of Tax Exemption	40
Secondary Market	40
Forecasts	40
Enterprise Expenses And Collections	40
Casualty Risk	40
California Constitution Article XIII C and Article XIII D	41
Voter Initiatives -- State Constitutional Amendment	42
 THE AUTHORITY	 42
 UNDERWRITING	 43
 FINANCIAL ADVISOR	 43
 CERTAIN LEGAL MATTERS	 43
 TAX EXEMPTION	 43
 LITIGATION	 45
 RATING	 45
 NO CONTINUING DISCLOSURE	 45
 MISCELLANEOUS	 45
 APPENDIX A -	 CERTAIN ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION CONCERNING THE CITY OF SANGER
APPENDIX B -	AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2001
APPENDIX C -	SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
APPENDIX D -	BOOK-ENTRY ONLY SYSTEM
APPENDIX E -	PROPOSED FORM OF OPINION OF BOND COUNSEL

OFFICIAL STATEMENT

\$16,590,000
SANGER PUBLIC FINANCING AUTHORITY
VARIABLE RATE REVENUE REFUNDING BONDS, 2002 SERIES A
(UTILITY SYSTEM FINANCING)

INTRODUCTION

This Official Statement of the Sanger Public Financing Authority (the "Authority") sets forth certain information in connection with the sale by the Authority of \$16,590,000 aggregate principal amount of its Variable Rate Revenue Refunding Bonds, 2002 Series A (Utility System Financing) (the "Bonds"). This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX C – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for summaries of certain of such definitions.

The Bonds are being issued pursuant to the Constitution and the laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Bond Law"), and pursuant to the Indenture, dated as of March 1, 2002 (the "Indenture"), by and between the Authority and Union Bank of California, N.A., as trustee (the "Trustee").

Use of Proceeds

The proceeds of the sale of the Bonds will be used by the Authority to provide for the economic defeasance of the Authority's Revenue Bonds, 1996 Series A (Utility System Financing), to fund a Reserve Fund for the Bonds, to fund interest on the Bonds for 12 months and to pay costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING."

Security for the Bonds

The Bonds are special obligations of the Authority, issued pursuant to the Indenture, and are secured by and payable from Revenues, which consist primarily of the Installment Payments made by the City of Sanger, California (the "City") under an Installment Sale Agreement, dated as of March 1, 2002 (the "Installment Sale Agreement"), by and between the Authority and the City, and from amounts held from time to time in the funds and accounts established under the Indenture. The Installment Payments are secured by a pledge, charge and lien upon the Gross Revenues of the Enterprise and are payable solely from Net Revenues of the Enterprise. See "SECURITY FOR THE BONDS."

The obligation of the City to make Installment Payments is a special obligation of the City, payable solely from Net Revenues of the Enterprise. Under the Installment Purchase Agreement, the City will covenant to fix and collect rates, fees and charges for the services and facilities furnished by the Enterprise in amounts sufficient to yield Net Revenues at least equal to one hundred twenty percent (120%) of all

Installment Payments and payments of principal and interest on any Parity Obligations as such payments become due and payable during each Fiscal Year. See "SECURITY FOR THE BONDS -- Rate Covenant."

Letter of Credit. Payments of principal, redemption amount (but not any premium) and interest on the Bonds will be initially supported by an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by Union Bank of California, N.A. (the "Credit Entity"). Drawings under the Letter of Credit will be used to pay the principal of and interest on the Bonds when due. The Letter of Credit will also be drawn on, if other funds are not available, to purchase Bonds tendered by Owners. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" and "THE CREDIT ENTITY" herein.

Confirming Letter of Credit. The Bonds are further supported by an irrevocable, transferable confirming letter of credit (the "Confirming Letter of Credit") issued by the California State Teachers' Retirement System, a component unit of the State of California (the "Confirming Credit Entity"). Under the Confirming Letter of Credit, the Trustee will be permitted to draw an amount not exceeding the stated amount indicated in the Confirming Letter of Credit to pay all of the outstanding principal amount of and interest on the Bonds when due or, if other funds are not available, to purchase Bonds tendered by Owners at the Purchase Price in the event the Credit Entity wrongfully dishonors a properly presented and conforming draw on the Letter of Credit or if the Credit Entity repudiates the Letter of Credit. The rating on the Bonds will therefore be based solely on the credit of the Confirming Credit Entity rather than the credit of the Authority, the City or the Credit Entity. See "THE CONFIRMING LETTER OF CREDIT AND THE CONFIRMATION AGREEMENT" and "THE CONFIRMING CREDIT ENTITY" herein.

The Enterprise

The "Enterprise" means the entire water and wastewater supply, treatment, storage and distribution systems of the City, but only including all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment, storage and distribution of water and wastewater, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City. See "THE ENTERPRISE."

All of the City and certain areas adjacent to the City are served by the Enterprise. The 2001 population of the City was 19,650 according to the California Department of Finance. For information with respect to the City, see "CERTAIN ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION CONCERNING THE CITY OF SANGER" attached hereto as Appendix A and "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2001" attached hereto as Appendix B.

PLAN OF REFUNDING

In 1996, the Authority issued its Revenue Bonds, 1996 Series A (Utility System Financing) (the "Refunded Bonds"), in the aggregate principal amount of \$15,700,000, pursuant to an Indenture of Trust, dated as of October 1, 1996 (the "1996 Indenture"), by and between the Authority and Union Bank of California, N.A., as successor trustee (the "1996 Trustee"). The Refunded Bonds are payable from and secured by pledge of installment payments received by the Authority from the City under an Installment Sale Agreement, dated as of October 1, 1996 (the "1996 Sale Agreement"), by and between the Authority and the City. The Refunded Bonds are presently outstanding in the aggregate principal amount of \$13,895,000.

A portion of the proceeds of the Bonds will be deposited into an Escrow Fund established with Union Bank of California, N.A., as Escrow Agent (the "Escrow Agent"), pursuant to an Escrow Agreement, dated as of March 1, 2002 (the "Escrow Agreement"), by and between the Authority and the Escrow Agent, to economically defease the Refunded Bonds. Such proceeds will be invested in noncallable pre-refunded municipal obligations. Amounts in the Escrow Fund, along with amounts held under the 1996 Indenture, will be sufficient to pay all installments of principal and interest on the Refunded Bonds as such payments become due, up to and including January 1, 2006 (the "Redemption Date"), and to redeem the remaining Refunded Bonds on the Redemption Date at a redemption price of 102%.

The mathematical accuracy of the computations of the sufficiency of the amounts deposited into the Escrow Fund, along with other available moneys, to effect the refunding described above will be verified by Grant Thornton LLP, Minneapolis, Minnesota, as verification agent. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the issuance of the Bonds (other than accrued interest), including proceeds released from the reserve fund held under the 1996 Indenture.

Sources:	
Principal Amount of Bonds	\$16,590,000
Less Underwriter's Discount	<u>(82,950)</u>
Total Sources	<u>\$16,507,050</u>
Uses:	
Deposit to Escrow Fund	\$14,159,388
Deposit to Reserve Fund ⁽¹⁾	1,345,400
Deposit to Costs of Issuance Fund ⁽²⁾	530,865
Deposit to Installment Payment Account ⁽³⁾	<u>471,397</u>
Total Uses	<u>\$16,507,050</u>

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- ⁽¹⁾ Represents an amount equal to the Reserve Requirement. See "SECURITY FOR THE BONDS -- Reserve Fund."
 - ⁽²⁾ Costs of issuance include fees and expenses of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Trustee, rating agency fees, printing expenses and other costs of issuing the Bonds.
 - ⁽³⁾ Amount represents funded interest on the Bonds for 12 months at an assumed interest rate of 2.91%.

THE BONDS

General Provisions

The Bonds will be dated the Closing Date thereof and will bear interest until their maturity, payable on each Bond Payment Date, except that interest due with respect to any Bonds purchased by the Trustee by means of a drawing on the Letter of Credit pursuant to the tender of Bonds on a Tender Date and which Bonds are registered in the name of and owned by the Credit Entity and held by the Tender Agent ("Credit Facility Bonds"), will accrue from the date such Bonds become Credit Facility Bonds at the rate set forth in the Reimbursement Agreement and shall be payable as set forth therein.

Each Bond will bear interest from the Bond Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated after a Record Date and on or before the next Bond Payment Date, in which event it will bear interest from such Bond Payment Date or (b) authenticated on or before the first Record Date, in which event it will bear interest from the Closing Date; provided, however, that if at the time of authentication of any Bond interest is in default, such Bond will bear interest from the date to which interest has been paid. The Bonds will bear interest at the Variable Rate until the Fixed Rate Conversion Date, and on and after the Fixed Rate Conversion Date, at the Fixed Rate. Interest on the Bonds during the Variable Rate Period will be computed upon the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed prior to the Fixed Rate Conversion Date. On and after the Fixed Rate Conversion Date interest on the Bonds will be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

Payment of interest with respect to any Bond on any Bond Payment Date or Redemption Date will be made to the person appearing on the registration books of the Trustee as the Owner thereof as of the Record Date immediately preceding such Bond Payment Date or Redemption Date, as the case may be, such interest to be paid by check mailed by first class mail on the Bond Payment Date to such Owner at his address as it appears on such registration books. Payments of defaulted interest will be paid by check of the Trustee mailed to the registered Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which will be given to the Owners not less than 10 days prior to such special record date. Payment of interest represented by the Bonds may, at the option of any Owner of at least \$1,000,000 principal amount of Bonds of a series (such option to be exercised by written request of such Owner to the Trustee), be transmitted by wire transfer to such Owner to the bank account number in the United States filed with the Trustee prior to the Record Date for a Bond Payment Date.

The principal payable upon maturity or prior redemption with respect to the Bonds will be payable upon surrender prior to the Fixed Rate Conversion Date at the Principal Office of the Trustee or the Principal Office of the Tender Agent and thereafter at the Principal Office of the Trustee with such principal to be paid by check mailed by the Trustee on the Bond Payment Date by first class mail to each Owner at his address as it appears on the registration books; provided, however, that prior to the Fixed Rate Conversion Date payment of such principal will be made by wire transfer to an Owner of Bonds who has exercised his/her option for payment by wire transfer pursuant to the Indenture. Said amounts will be payable in lawful money of the United States of America. The Trustee is authorized to pay or redeem the Bonds when duly presented for payment at maturity or on redemption and to cancel all Bonds upon payment thereof; provided, however, that no such cancellation of Bonds will affect the obligations of the Credit Entity arising under the Credit Facility; provided that the Credit Facility is subject to reduction in accordance with its terms in connection with the payment at maturity or earlier redemption of the Bonds.

Upon surrender by the Owner of a Bond for partial redemption at the Principal Office, payment of such partial redemption of the principal amount of a Bond will be made to such Owner by check mailed by first class mail to the Owner at his address as it appears on the registration books of the Trustee, or prior to the Fixed Rate Conversion Date by wire transfer to any Owner who has exercised its option for payment by wire transfer pursuant to the Indenture. Upon surrender of any Bond redeemed in part only, the Trustee will execute and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same series which will be of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same interest rate mode and the same maturity. Such partial redemption will be valid upon payment of the amount thereby required to be paid to such Owner the Authority and the Trustee will be released and discharged from all liability to the extent of such payment.

Subject to the book-entry only system, Bonds may be exchanged or substituted for or in lieu of mutilated, lost, stolen or destroyed Bonds by request to the Trustee. The Trustee and the Tender Agent may require payment of an appropriate fee and expenses with respect to any such exchange or substitution.

Interest Rate Determination Methods

Variable Rate. So long as the Bonds bear interest at a Variable Rate, the Remarketing Agent will set the Variable Rate on the second Business Day of each calendar week. The Remarketing Agent will give notice in writing to the Trustee, the Credit Entity and the Confirming Credit Entity of each Variable Rate as soon as possible following the determination of such rate. Each Variable Rate will be the rate per annum equal to the minimum rate necessary (as determined by the Remarketing Agent) for the Remarketing Agent to remarket the Bonds on the date the Variable Rate is set at a price equal to 100% of the principal amount thereof plus accrued interest; provided, however, that in no event will the interest rate borne by the Bonds (other than Credit Facility Bonds) exceed the Maximum Rate. Each Variable Rate will be effective Wednesday through the next succeeding Tuesday (or through the end of the period in which the Bonds bear interest at a Variable Rate, whichever first occurs).

If for any reason the Remarketing Agent does not set a Variable Rate on the second Business Day of a calendar week, then the Variable Rate for that period will remain at the Variable Rate set for the immediately preceding Wednesday through Tuesday period. If a court holds that the Variable Rate set for any period is invalid or unenforceable, the Variable Rate for that period, will be set, as determined by the Remarketing Agent, as the rate that is equal to the 30-day tax-exempt or taxable commercial paper rate, as appropriate, published in The Bond Buyer (or any successor to such publication) as of the date of determination of the unenforceable rate or, in the event The Bond Buyer (or any such successor) is no longer published, any other newspaper or journal containing financial news, printed in the English language and customarily published on each Business Day, of general circulation in New York, New York and selected by the Authority, whose decision will be final and conclusive.

Fixed Rate. The Remarketing Agent will set the Fixed Rate on a date (the "Determination Date") no fewer than two nor more than fifteen (15) Business Days before the Fixed Rate Conversion Date. The Fixed Rate will be the rate determined by the Remarketing Agent to be the rate per annum equal to the minimum interest rate which would be necessary for the Remarketing Agent to remarket the Bonds on the Determination Date at 100% of the principal amount thereof plus accrued interest; provided, however, that in no event will the interest rate borne by the Bonds on and after the Fixed Rate Conversion Date exceed the Maximum Rate. A conversion of all or any sinking fund redemptions to serial maturity dates will be required to the extent, in the opinion of the Remarketing Agent, such a conversion will reduce the total interest to be paid by the Authority. In such case, all references to a Fixed Rate will refer to the interest rates applicable to each maturity.

Conversion of Interest to Fixed Rate

Notice and Opinion of Bond Counsel. The Authority may initiate action to convert the interest borne by all of the Bonds from the Variable Rate to the Fixed Rate by notifying the Trustee, the Tender Agent, the Credit Entity, the Confirming Credit Entity and the Remarketing Agent of the proposed Fixed Rate Conversion Date at least 60 days prior to such proposed date. The notice will be accompanied by (i) an opinion of Bond Counsel stating that the conversion is not prohibited by the law of the State or the Indenture and that the conversion will not cause the interest on the Bonds to fail to be exempt from personal income taxes of the State, or to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, and (ii) written evidence of satisfaction of the limitations specified in the Indenture. The Trustee will have no obligation to provide notice to the Owners

of a change to a Fixed Rate unless the Trustee has received the notice from the Authority and the opinion of Bond Counsel in accordance with the provisions set forth under this heading. The Authority may not request a conversion from the Variable Rate to the Fixed Rate during the existence of an Event of Default and the notice from the Authority will certify as to the absence thereof. If the Authority's notice complies with the provisions of this paragraph, the Fixed Rate will be applicable from the effective date specified in the notice until maturity of the Bonds. Upon conversion from the Variable Rate to the Fixed Rate, the Trustee promptly will surrender the Letter of Credit to the Credit Entity required by the terms of the Letter of Credit.

Limitation. A conversion from the Variable Rate to the Fixed Rate pursuant to the paragraph above will comply with the following: (i) the effective date of the conversion will be a Bond Payment Date; and (ii) the Remarketing Agent will have agreed to remarket the Bonds on the Fixed Rate Conversion Date.

Notice to Owners of Change to Fixed Rate. When a conversion from the Variable Rate to the Fixed Rate is to be made, the Trustee will notify the Owners, the Credit Entity and the Confirming Credit Entity by first class mail at least 30 but not more than 60 days prior to the proposed Fixed Rate Conversion Date. The notice will be prepared and furnished by the Authority to the Trustee for mailing at least 60 days prior to the proposed Fixed Rate Conversion Date and will state:

- (1) that the interest rate payable with respect to the Bonds will be converted to the Fixed Rate;
- (2) the effective date of the Fixed Rate;
- (3) the Bond Payment Dates and Record Dates following the Fixed Rate Conversion Date;
- (4) that following the Fixed Rate Conversion Date there will be no option to tender Bonds for purchase;
- (5) that all Bonds are subject to mandatory tender for purchase on the Fixed Rate Conversion Date and will be deemed to have been so tendered and will be purchased on the Fixed Rate Conversion Date at the principal amount thereof plus interest accrued to such date;
- (6) any ratings assigned to the Bonds by a nationally recognized rating agency to be effective on the Fixed Rate Conversion Date and that such ratings assigned to the Bonds may be reduced or withdrawn;
- (7) the proposed maturity schedule for the Bonds following the Fixed Rate Conversion Date;
- (8) the redemption provisions to which the Bonds are subject following the Fixed Rate Conversion Date;
- (9) that following the Fixed Rate Conversion Date Bonds may be issued in denominations of \$5,000 or integral multiples of \$5,000;
- (10) that if the opinion of Bond Counsel described under the heading "Notice and Opinion of Bond Counsel" above is rescinded, the interest rate will not be converted to the Fixed Rate; and
- (11) that if a Credit Facility and/or Confirming Letter of Credit is to be provided to make payments on the Bonds, the name of the institution providing such Credit Facility and/or Confirming Letter of Credit and the principal terms of such Credit Facility and/or Confirming Letter of Credit;

or, if a Credit Facility and/or Confirming Letter of Credit is not to be provided, the fact that a Credit Facility and/or Confirming Letter of Credit will not thereafter make payments on the Bonds.

Calculation of Interest. During the Variable Rate Period, interest with respect to the Bonds will be computed on the basis of the actual number of days elapsed in a year of 365 days (366 days in leap years) and will be payable on each Bond Payment Date as set forth in the Indenture. On and after the Fixed Rate Conversion Date, interest with respect to the Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months and will be payable on each Bond Payment Date as set forth in the Indenture. Interest on overdue principal and, to the extent lawful, on overdue premium and interest with respect to any Bond will be payable at the rate applicable to such Bond until paid. Provisions in the Reimbursement Agreement may make different arrangements with respect to interest accruing on Credit Facility Bonds. The Trustee will compute the amount of interest payable with respect to the Bonds using the rates supplied to the Trustee by the Remarketing Agent. The Remarketing Agent will send notice in writing to the Trustee and the Tender Agent, of the following:

- (1) on the second Business Day of each week in which interest on the Bonds is payable at a Variable Rate, of the Variable Rate for the applicable Wednesday through Tuesday period; and
- (2) on the first Business Day after the Determination Date, of the Fixed Rate set on such Determination Date.

Using the rates supplied by such notices, the Trustee will calculate the interest payable with respect to the Bonds for the applicable period. During the Variable Rate Period, the Trustee will send the Authority at least five (5) days prior to each Bond Payment Date as set forth in the Indenture written notice of the interest that will have accrued with respect to the Bonds for the period from the preceding Bond Payment Date to the upcoming Bond Payment Date. The Remarketing Agent will inform the Trustee, the Authority, the Tender Agent, the Credit Entity and the Confirming Credit Entity orally at the oral request of any of them of any interest rate established by the Remarketing Agent. The Trustee will confirm the effective interest rate by telephone or in writing to any Owner (at such Owner's cost) who requests it in any manner.

The setting of the rates and the calculation of interest payable with respect to the Bonds as provided in the Indenture will be conclusive and binding on all parties.

Rescission of Opinion of Bond Counsel. Notwithstanding any provision in the Indenture to the contrary, no conversion will be made from the Variable Rate to the Fixed Rate if the Trustee and the Tender Agent receive written notice from Bond Counsel prior to such conversion that the opinion of Bond Counsel required as described under the heading "Notice and Opinion of Bond Counsel" above has been rescinded. If the Trustee has sent any notice to the Owners, the Credit Entity and the Confirming Credit Entity regarding the conversion to the Fixed Rate pursuant to Indenture, then in the event of rescission of the opinion of Bond Counsel, the Trustee will promptly notify all Owners, the Credit Entity and the Confirming Credit Entity of such rescission and that the rate will not be converted to the Fixed Rate.

Trustee and Tender Agent

Union Bank of California, N.A., Los Angeles, California has been appointed Trustee for all of the Bonds under the Indenture. The Trustee may be removed or replaced by the Authority as provided in the Indenture.

Union Bank of California, N.A., Los Angeles, California, has been appointed Tender Agent under the Indenture. The Tender Agent may be removed or replaced by the Authority as provided in the Indenture.

Remarketing Agent

Seidler-Fitzgerald Public Finance, Los Angeles, California, has been appointed Fixed Rate Remarketing Agent, and Gates Capital Corporation, New York, New York, has been appointed Variable Rate Remarketing Agent for the Bonds. References herein to the Remarketing Agent refer to both the Fixed Rate Remarketing Agent and the Variable Rate Remarketing Agent jointly, except that such references refer to only the Fixed Rate Remarketing Agent with regard to the setting of the Fixed Rate and the remarketing of the Bonds in connection with a Fixed Rate Conversion Date, and only to the Variable Rate Remarketing Agent with regard to the determination of the Variable Rate and the remarketing of the Bonds prior to the Fixed Rate Determination Date. The Remarketing Agent may be removed or replaced by the Authority and may resign, all as provided in the Remarketing Agreement, dated as of March 1, 2002, by and among the Authority, the Trustee, and the Remarketing Agent.

Redemption

Mandatory Redemption from Net Proceeds. The Bonds are subject to mandatory redemption on any Bond Payment Date, in whole or in part, from moneys drawn under the Credit Facility, which shall be reimbursed from Net Proceeds following the deposit by the Trustee in the Installment Prepayment Account of the Redemption Fund of Net Proceeds deposited by the City under the Indenture, at least 45 days prior to a Bond Payment Date which have been credited towards the Prepayment made by the City pursuant to the Installment Sale Agreement, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium; provided, however, that if there shall no longer be available a Credit Facility to secure the payment of principal and interest represented by the Bonds or if the Credit Facility does not permit a draw with respect to Prepayments, the Bonds are subject to redemption from Net Proceeds which the Trustee shall deposit in the Installment Prepayment Account of the Redemption Fund, to be used to redeem the Bonds by the Trustee as provided herein.

In the event that amounts remain in the Installment Prepayment Account because such amounts did not constitute an Authorized Denomination of a Bond, then such amounts shall be transferred to the Installment Payment Account of the Debt Service Fund.

Optional Redemption. During the Variable Rate Period and on the Fixed Rate Conversion Date, the Bonds are subject to optional redemption in whole or in part (in an amount of \$50,000 or any integral multiple of \$5,000 in excess thereof) on any Business Day, at the option of the Authority at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium.

During the term of any Credit Facility no notice of any optional redemption shall be sent unless either (1) the Authority has deposited with the Trustee moneys in an amount sufficient to cover the principal of, premium, if any, and interest due on such redemption date (exclusive of anticipated investment earnings thereon), or (2) the Authority delivers to the Trustee the written consent of the Credit Entity and the confirming Credit Entity.

Sinking Fund Redemption. The Bonds are subject to mandatory redemption in part on the dates in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

<u>Redemption Date</u> <u>(January 1)</u>	<u>Principal Amount</u>	<u>Redemption Date</u> <u>(January 1)</u>	<u>Principal Amount</u>
2007	\$350,000	2022	\$545,000
2008	360,000	2023	560,000
2009	375,000	2024	575,000
2010	385,000	2025	595,000
2011	395,000	2026	610,000
2012	410,000	2027	630,000
2013	420,000	2028	645,000
2014	430,000	2029	665,000
2015	445,000	2030	685,000
2016	460,000	2031	705,000
2017	470,000	2032	725,000
2018	485,000	2033	745,000
2019	500,000	2034	770,000
2020	515,000	2035	790,000
2021	530,000	2036*	815,000

*Maturity

At the Fixed Rate Conversion Date, any annual sinking fund redemption which has not yet become due may be treated as a serial maturity of principal bearing interest at the Fixed Rate payable on January 1 and July 1 thereafter to maturity.

In the event of a partial redemption of Bonds pursuant to mandatory redemption from Net Proceeds or optional redemption as described in the Indenture, the foregoing annual sinking fund payments shall be reduced in equal percentages, as nearly as practicable, provided that the reductions shall be made in multiples of \$5,000. The City shall provide the Trustee with the amended sinking fund payments schedule calculated as set forth above.

Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of Bonds and less than all Outstanding Bonds are called for redemption, the Trustee shall select Bonds for redemption, from the Outstanding Bonds not previously called for redemption, in Authorized Denominations, first from Credit Facility Bonds, then with respect to a mandatory redemption from Net Proceeds on a pro rata basis among maturities and by lot within a maturity, and in the case of an optional redemption from such maturities as are designated in a City Certificate. The Trustee shall promptly notify the City and the Authority in writing of the Bonds so selected for redemption.

Partial Redemption of Bonds. Upon surrender by the Owner of a Bond for partial redemption at the Principal Office, payment of such partial redemption of the principal amount of a Bond will be made to such Owner by check mailed by first class mail to the Owner at his address as it appears on the registration books of the Trustee, or prior to the Fixed Rate Conversion Date by wire transfer to any Owner who has exercised its option for payment by wire transfer pursuant to the Indenture. Upon surrender of any Bond redeemed in part only, the Trustee or the Tender Agent shall execute and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds which shall be of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same interest rate and the

same maturity. Such partial redemption shall be valid upon payment of the amount thereby required to be paid to such Owner, and the City, the Authority and the Trustee shall be released and discharged from all liability to the extent of such payment.

Notice of Redemption. When redemption is authorized or required pursuant to the Indenture, the Trustee shall give notice of the redemption of the Bonds. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the CUSIP numbers and, if less than all of the Bonds of a maturity are to be redeemed, the serial numbers of the Bonds to be redeemed, (c) the date of redemption, (d) the place or places where the redemption will be made, (e) the following descriptive information regarding the Bonds: date, interest rates and stated maturity dates, and (f) that a new Bond in an amount equal to that portion not so redeemed will be executed by the Trustee and delivered to the Owner in the event of a partial redemption. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, and that from and after such date, provided that moneys therefore have been deposited with the Trustee, interest with respect to such Bonds to be redeemed shall cease to accrue and be payable.

Notice of such redemption shall be mailed by first-class mail, postage prepaid, to the City, to all municipal Securities Depositories and to at least one national Information Service which the City shall designate to the Trustee, and to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books, at least 30 days, but not more than 60 days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds, and provided, further, however, that the Trustee shall, on the day it receives notice of redemption by the City, provide telephonic, telegraphic or telex notice of such notice of redemption to the Remarketing Agent, the Credit Entity and the Confirming Credit Entity.

Effect of Notice of Redemption. Notice having been given as described above, and the moneys for the redemption (including the interest to the applicable date of redemption), having been set aside in the Redemption Fund, the Bonds shall become due and payable on said date of redemption, and, upon presentation and surrender thereof at the Principal Office, said Bonds shall be paid at the unpaid principal price with respect thereto, plus interest accrued and unpaid to said date of redemption.

If, on said date of redemption, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date of redemption, shall be held by the Trustee so as to be available therefor on such date of redemption, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said date of redemption, interest with respect to the Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture shall be canceled upon surrender thereof and delivered to or upon the order of the City.

Mandatory Tender of Bonds - Fixed Rate Conversion Date

In the event the Authority has complied with the requirements of the Indenture to change the interest rate represented by the Bonds to a Fixed Rate, all Bonds will be subject to mandatory tender and purchase on the Fixed Rate Conversion Date in accordance with the provisions of the Indenture and as described herein under the heading "Mechanics of Mandatory Tender."

Mandatory Tender of Bonds - Other than on Fixed Rate Conversion Date

The Bonds are subject to mandatory tender on the last Bond Payment Date occurring on or prior to the date at least five days prior to the date on which the Credit Facility is scheduled to expire or terminate in accordance with its terms and if the Trustee has not received notice at least 40 days prior to such Bond Payment Date that an Alternate Credit Facility is to be provided. Not less than thirty days before each such Mandatory Tender Date under this paragraph, the Trustee shall send a notice to all Owners by first class mail, postage prepaid, which notice shall contain the following information: (1) that the Credit Facility is scheduled to expire or terminate and no Alternate Credit Facility will be provided, (2) that each Owner's Bond is subject to mandatory tender as provided in such notice, and (3) if any of the nationally recognized rating agencies which has a credit rating outstanding on the Bonds has indicated to the Trustee in writing that it will lower or withdraw its rating on the Bonds as of such Mandatory Tender Date, notice of such new rating, or if no new rating is available, notice that any of such rating agencies may lower or withdraw such rating as of such Mandatory Tender Date.

The Bonds are subject to mandatory tender under this paragraph on the first Business Day to occur on or after the seventh day following receipt by the Trustee of notice from the Credit Entity or the Confirming Credit Entity of the occurrence of an event of default under the Reimbursement Agreement or the Confirmation Agreement, as applicable, or that the Credit Entity will not reinstate the interest portion of the Credit Facility. Not later than the third Business Day after receipt by the Trustee of such notice, the Trustee shall send to all Owners by first class mail, postage prepaid, and to the Depository also by facsimile, a notice which shall contain the following information: (1) that an event of default has been declared under the Reimbursement Agreement or the Confirmation Agreement, or that the Credit Entity will not reinstate interest portion of the Credit Facility, and (2) that each Owner's Bond is subject to mandatory tender on the first Business Day to occur on the seventh day following the receipt by the Trustee of such notice from the Credit Entity or the Confirming Credit Entity.

The Bonds are subject to mandatory tender on the last Business Day prior to the effective date of any Alternate Credit Facility in accordance with the provisions of the Indenture. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" for a description of the Events of Default which could cause a mandatory tender under the Letter of Credit and the Reimbursement Agreement.

All notices of a Mandatory Tender Date will also be mailed by the Trustee to the Credit Entity, the Confirming Credit Entity, the Remarketing Agent and the Tender Agent.

Mechanics of Mandatory Tender

Owners of Bonds will be required to tender the Bonds to the Tender Agent by 11:00 a.m., New York time, on any Mandatory Tender Date for purchase at a purchase price equal to the principal amount thereof plus accrued interest thereon to and including the Mandatory Tender Date. So long as the Bonds are registered in the name of the Nominee, such tenders shall be made through the book-entry system. Any Untendered Bonds will be deemed to have been tendered on a Mandatory Tender Date, whether or not the Bonds are in fact surrendered to the Tender Agent. In the event of a failure by Owners of Bonds to tender Bonds on the Mandatory Tender Date, said Owners of Untendered Bonds will not be entitled to any payment (including any interest to accrue subsequent to the Mandatory Tender Date) other than the purchase price for such Untendered Bonds, and any Untendered Bonds will no longer be entitled to the benefits of the Indenture, except for the purpose of payment of the purchase price thereof. Such Untendered Bonds will be deemed purchased, cancelled and no longer Outstanding under the Indenture. However, the purchase price will be paid only upon presentation of the Bonds to the Tender Agent.

In the case of the Fixed Rate Conversion Date only, if the Remarketing Agent notifies the Trustee not less than fifteen days before the Fixed Rate Conversion Date that it cannot remarket all of the Bonds or if the requirements for the effectiveness of a Fixed Rate Conversion Date are not satisfied before the Fixed Rate Conversion Date, the Trustee will give notice thereof by first-class mail, postage prepaid, to all Owners, the Remarketing Agent, the Credit Entity and the Authority and each of such parties will be restored to their respective positions as if notice of the Fixed Rate Conversion Date had not been given and no mandatory tender will occur. In addition to the mailed notice required by the preceding sentence, the Trustee will deliver a duplicate copy of such notice to the Depository, the Credit Entity and the Confirming Credit Entity by telecommunications or overnight delivery.

Option to Tender Prior to Fixed Rate Conversion Date

Prior to the Fixed Rate Conversion Date, any Owner of the Bonds may give irrevocable written notice to the Tender Agent at its Trust Office and request that the Tender Agent purchase all or any part (in Authorized Denominations) of the Bonds then outstanding and registered in the name of such Owner at an amount or price equal to the unpaid principal amount thereof plus accrued and unpaid interest thereon to, but not including, the Business Day on which the Bonds are to be tendered to the Tender Agent (the "Optional Tender Date") and without premium. Such notice (the "Optional Tender Notice") will specify the Optional Tender Date (which shall not be less than seven (7) days after the date of receipt by the Tender Agent of such Optional Tender Notice), the CUSIP number, the principal amount being tendered in integral multiples of Authorized Denominations and, so long as the Bonds are registered in the name of the Nominee, such notice shall also specify the Participant number and the contact person of the Participant. Upon receipt of an Optional Tender Notice, the Tender Agent will, as soon as is practicable but in no event later than the close of business on the Business Day following the day of receipt of such Optional Tender Notice, give notice to the Trustee, the Authority, the Credit Entity, the Confirming Credit Entity and the Remarketing Agent of the Optional Tender Notice, the Optional Tender Date specified therein and the principal amount of Bonds to be purchased on such Optional Tender Date.

Owners providing an Optional Tender Notice will be required to tender the Bonds to the Tender Agent for purchase by 11:00 A.M. New York time on the Optional Tender Date. Any Untendered Bonds will be deemed to have been tendered. In the event of a failure by Owners of Bonds to tender Bonds on the Optional Tender Date, said Owners of Bonds will not be entitled to any payment (including any interest to accrue subsequent to the Optional Tender Date) other than the purchase price for such Untendered Bonds, and any Untendered Bonds will no longer be entitled to the benefits of the Indenture, except for the purpose of payment of the purchase price thereof. However, the purchase price will be paid only upon presentment of the Bonds to the Tender Agent. Upon the cancellation of Untendered Bonds, the Trustee will execute new Bonds in the same aggregate principal amount as, and in substitution for, the Bonds not so tendered by such Owner and will hold, deliver and make available such new Bonds to the new Owner thereof in accordance with the provisions of the Indenture which will be fully applicable notwithstanding that such new Bonds are executed in substitution for the Bonds not so tendered.

From and after the Fixed Rate Conversion Date, the Tender Agent will not be required to purchase such Bonds on demand and optional tender by the Owners thereof in accordance with the provisions set forth under this heading.

Purchase of Bonds Delivered On a Tender Date

Bonds purchased from Owners on any Tender Date will be purchased at a price equal to the principal amount thereof plus accrued interest, if any, to the Tender Date in immediately available funds, but solely from the following sources of funds in the following order of priority:

- (1) moneys deposited into the Remarketing Proceeds Account, other than moneys representing remarketing proceeds from the sale of Bonds to the Authority, in accordance with the Indenture;
- (2) moneys deposited into the Liquidity Account in accordance with the Indenture;
- (3) other Available Moneys (as described in the Indenture) furnished to the Trustee; and
- (4) other moneys made available to the Trustee for such purpose from the Authority or the City.

The Tender Agent or Trustee, as applicable, will promptly give notice to the Credit Entity, the Confirming Credit Entity, the Remarketing Agent, the Tender Agent, the Trustee and the Authority of any notice given by or to an Owner pursuant to certain provisions of the Indenture. No later than 2:00 p.m. New York time on the Business Day next preceding each Tender Date, the Remarketing Agent will give telegraphic, telex or telephonic notice, promptly confirmed in writing, to the Tender Agent and the Trustee and specifying the amount of the proceeds of the sale of such Bonds, if any, sold by the Remarketing Agent pursuant to the Indenture and the name, address and tax identification number of the purchasers thereof as well as the denominations of such remarketed Bonds.

The purchase price of any Bonds tendered for purchase will be payable by check mailed to the Owners of record as of the close of business on the day preceding the Tender Date; provided, however, that the purchase price of such tendered Bonds for purchase may, at the option of any Owner, be transferred to such Owner by wire transfer on the Tender Date if prior to such Tender Date such Owner has delivered to the Tender Agent a request in writing for such wire transfer specifying the bank account number to which such transfer is to be made.

Not later than 9:00 a.m., Los Angeles time, on the Business Day next preceding each Tender Date, the Trustee shall draw on the Credit Facility and shall deposit the amount of such draw in the Liquidity Account to pay for the purchase price of any Bonds that cannot be paid from remarketing proceeds in the Remarketing Proceeds Account. In the event that the Trustee has not received notice from the Remarketing Agent as to the availability of remarketing proceeds prior to the time of its draw on the Credit Facility on the Business Day next preceding each Tender Date, the Trustee shall draw on the Credit Facility to pay the purchase price of all Bonds tendered for purchase on such Tender Date. The Tender Agent shall pay, to the extent that it has received funds therefor, the purchase price of such tendered Bonds, plus accrued interest, if any, no later than 5:00 p.m., New York time, on any Optional Tender Date or Mandatory Tender Date.

Remarketing of Bonds by Remarketing Agent

Subject to the terms of the Remarketing Agreement, the Remarketing Agent will use its best efforts to remarket Bonds subject to purchase on a Tender Date and to remarket Bonds registered in the name of the Credit Entity or the Confirming Credit Entity. The proceeds of any sale with respect to a Tender Date will be delivered to the Tender Agent for deposit into the Remarketing Proceeds Account by no later than 11:00 a.m., New York time, on each Tender Date. The proceeds of the sale of any Bonds registered to or on behalf of the Credit Entity or the Confirming Credit Entity will be delivered to the Tender Agent for deposit in the Remarketing Proceeds Account by 11:00 a.m., New York time, on the date of sale and the Tender Agent will remit such amounts to the Credit Entity or the Confirming Credit Entity, as applicable, no later than 4:00 p.m., New York time, on such date.

In the event that any Bonds are purchased for the benefit of the Credit Entity or the Confirming Credit Entity pursuant to the Indenture, the Remarketing Agent will continue to offer for sale and use its best efforts to sell such Bonds. So long as the Credit Facility is in effect, prior to the release of any Credit Facility

Bonds or the remarketing of any Bonds purchased following the mandatory tender thereof pursuant to the Indenture, the Tender Agent shall have received notice from the Trustee that the Letter of Credit has been reinstated in an amount equal to the principal amount of the Credit Facility Bonds and interest thereon in accordance with its terms.

Delivery of Bonds

Bonds remarketed by the Remarketing Agent pursuant to the Indenture will be delivered to the Remarketing Agent, and registered in the name, or at the direction, of the respective purchasers.

Bonds purchased with moneys drawn under the Letter of Credit will be registered in the name, or at the direction, of the issuer of the Letter of Credit or its nominee and delivered to and held by the Tender Agent for the account of such issuer of the Letter of Credit as secured party, unless the issuer of the Letter of Credit will make other arrangements with the Tender Agent. The Tender Agent will notify the Remarketing Agent when Bonds are registered to or on behalf of the provider of the Letter of Credit and the Remarketing Agent will remarket such Bonds in accordance with the Indenture.

Bonds purchased with Available Moneys will be delivered to the Trustee for cancellation.

Moneys in the Liquidity Account and the Remarketing Proceeds Account will be held in trust for the persons who delivered such Bonds for purchase. Following payment to persons who delivered such Bonds for purchase, to the extent that any fees or obligations are owed to the Trustee, the Credit Entity or the Confirming Credit Entity, moneys remaining in the Remarketing Proceeds Account and the Liquidity Account will be paid by the Tender Agent first to the Credit Entity or the Confirming Credit Entity for the repayment of amounts owing under the Credit Facility Agreement as certified to the Tender Agent in writing by the Credit Entity or the Confirming Credit Entity, as applicable, and then to the Trustee to the extent of fees and obligations owing thereto. Money remaining in such Accounts following such payments will be paid to the Authority.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to DTC's Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants. See "APPENDIX D -- BOOK-ENTRY ONLY SYSTEM."

SECURITY FOR THE BONDS

Revenues

The Bonds are special limited obligations of the Authority, payable from and secured by Revenues consisting primarily of Installment Payments made by the City pursuant to the Installment Sale Agreement and all amounts held from time to time in the funds and accounts established under the Indenture. Pursuant

to the Indenture, the Authority has assigned to the Trustee for the security of the Bonds substantially all of its rights under the Installment Sale Agreement, including but not limited to its right to receive and to enforce payment of the Installment Payments.

Net Revenues

The City's obligation to make Installment Payments is solely secured by a separate pledge, charge and lien upon the Gross Revenues of the Enterprise and is payable from Net Revenues of the Enterprise. The Installment Sale Agreement defines Net Revenues as the Gross Revenues less Operation and Maintenance Costs of the Enterprise and less obligation due under the 1996 Sale Agreement. Operation and Maintenance Costs of the Enterprise are defined in the Installment Sale Agreement to be the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Enterprise, including but not limited to (a) the cost of acquiring, treating, storing and distributing water and wastewater, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and (c) in-lieu fees, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Enterprise, including but not limited to the Installment Payments and debt service payments on any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) the reasonable administrative costs of the City attributable to the operation and maintenance of the Enterprise, (iv) amortization of intangibles or other bookkeeping entries of a similar nature and (v) indirect plan charges and internal administrative costs.

The Installment Sale Agreement defines Gross Revenues as all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited to investment earnings thereon and any loans, grants or other transfers from the City; but excluding (a) connection charges, (b) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Enterprise, and (c) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City and levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprise.

Application of Net Revenues

In the Installment Sale Agreement, the City covenants and agrees that the Gross Revenues shall be deposited by the City, immediately upon receipt, in the Utility Fund, previously established by the City and which is required to be held and maintained by the City at all times during the term of the Installment Sale Agreement. The City covenants and agrees that all Net Revenues will be held by the City in the Utility Fund, in trust for the benefit of the Trustee (as assignee of the rights of the Authority under the Installment Sale Agreement) and the owners of the Bonds and any Parity Obligations.

The City is required to deposit with the Trustee on the 25th day immediately preceding each Bond Payment Date an amount equal to the aggregate amount of the Installment Payment coming due and payable on such Bond Payment Date. In addition, on or before each Installment Payment Date, the City shall pay to the Trustee the amount of any deficiency in the Reserve Fund, the notice of which deficiency shall have been given by the Trustee to the City.

The City is required to manage, conserve and apply the Net Revenues on deposit in the Utility Fund in such a manner that all deposits required to be made pursuant to the Indenture will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing under the Indenture, the City may use and apply Net Revenues in the Utility Fund for (i) transfers from the Utility Fund to the General Fund of the City for administrative costs; (ii) the

payment of Additional Payments, (iii) the payment of any subordinate obligations or any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Enterprise, (v) the prepayment of any obligations of the City relating to the Enterprise, (vi) the reasonable administrative costs of the City allocable to the operation and maintenance of the Enterprise, including payment of indirect plan charges and internal administrative costs or (vi) any other lawful purposes of the Utility Fund. All monies in the Utility Fund may be invested by the City from time to time in any Authorized Investment.

Reserve Fund

To secure further the payment of principal of and interest on the Bonds, the Authority is required, upon delivery of the Bonds, to deposit the amount of the Reserve Requirement (as defined below) in the Reserve Fund held by the Trustee. Amounts in the Reserve Fund are required to be used to pay debt service on the Bonds to the extent other moneys are not available therefor.

The Indenture defines "Reserve Requirement" to mean, at any date of determination in a Bond Year and as computed by the City, an amount equal to the least of (i) Maximum Annual Debt Service, (ii) an amount equal to 10% of the sale proceeds (within the meaning of Section 148 of the Code) of the Bonds, or (iii) an amount equal to 125% of the average annual debt service on the Bonds for that and every succeeding Bond Year. For purposes of calculating the Reserve Requirement, the interest rate on the Bonds is assumed to be 6.0%. Upon prior written notification to S&P, the Reserve Requirement may be satisfied by crediting to the Reserve Fund moneys or a Qualified Reserve Fund Credit Instrument or any combination thereof, which in the aggregate makes funds available in the Reserve Fund in an amount equal to the Reserve Requirement. See "APPENDIX C -- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Indenture."

Rate Covenant

The Installment Sale Agreement requires that the City fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year that will, after making allowances for contingencies and errors in the estimates, yield Gross Revenues that are sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (b) All Installment Payments and the principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or such principal and interest on Parity Obligations are payable from the proceeds of the Bonds or Parity Obligations deposited for such purpose;
- (c) All amounts, if any, required to restore the Reserve Fund to the full amount of the Reserve Requirement; and
- (d) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the City has covenanted to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year that are sufficient to yield Net Revenues at least equal to 120% of the aggregate amount described in the preceding clause (b) above. See "APPENDIX C -- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

For a discussion of the possible impact of Article XIID of the California Constitution on the enforceability of the rate covenants described above, see “BONDOWNERS’ RISKS -- California Constitution Article XIIC and Article XIID.”

Parity Obligations

The City has covenanted in the Installment Sale Agreement that, except for obligations incurred to prepay, redeem or discharge Installment Payments or other Parity Obligations, no additional indebtedness evidenced by leases, installment sale agreements, bonds, notes or other obligations of the City or the Enterprise payable from and secured by a pledge of and lien upon any of the Net Revenues and ranking on a parity with the obligation to make Installment Payments (a “Parity Obligation”) will be created or incurred unless:

(a) No Event of Default shall have occurred and be continuing under and as defined in the Installment Sale Agreement;

(b) The Net Revenues calculated in accordance with sound accounting principles, as shown by the books of the City for the most recently completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive 12-month period selected by the City, in either case verified by a certificate or opinion of an Independent Accountant employed by the City, plus (at the option of the City) the Additional Revenues, equal at least 120% of the amount of Maximum Annual Debt Service;

(c) Upon the issuance of such Parity Obligations a reserve fund will be established therefor in an amount at least equal to the lesser of (i) the maximum amount of debt service required to be paid by the City with respect to such Parity Obligations during any Fiscal Year, or (ii) the maximum amount then permitted under the Tax Code; and

(d) The trustee or fiscal agent for such Parity Obligations is the same entity performing the functions of Trustee under the Indenture.

Additional Revenues means, with respect to the issuance of any Parity Obligations, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any additions, improvements or extensions that have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the City were not in service, all in an amount equal to 75% of the estimated additional Net Revenues to be derived from such additions, improvements and extensions for the first 12-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise that has become effective prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the

most recent completed Fiscal Year during any more recent twelve (12) month period, all as shown by the certificate or opinion of an Independent Accountant.

Other Obligations

The City may not issue any additional bonds or incur any other obligations during the term of the Installment Sale Agreement having any priority in payment out of the Gross Revenues or Net Revenues over the Installment Payments. In addition to Parity Obligations described above, the City may issue bonds or incur obligations that are secured by a pledge of and lien upon Net Revenues that are subordinate to the pledge of and lien upon Net Revenues created by the Installment Sale Agreement.

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following are brief outlines of certain provisions contained in the Letter of Credit established in favor of the Trustee and the Reimbursement Agreement between the Authority and the Credit Entity and are not to be considered a full statement pertaining thereto. The provisions apply to the Bonds and the Reimbursement Agreement. Reference is made to the Letter of Credit and the Reimbursement Agreement on file with the Authority for the complete text thereof.

Letter of Credit

Concurrently with the execution and delivery of the Bonds, the Bank will deliver the Letter of Credit to the Trustee. The Trustee will be permitted to draw an aggregate amount not to exceed \$16,917,255 (comprised of the principal amount to the Bonds plus interest calculated at an assumed rate of 12% for 60 days, based upon a 365 day year, as applicable, for the number of days actually elapsed), and subject to reductions and reinstatements as provided in the Letter of Credit. The Letter of Credit will permit the Trustee to draw thereunder, in accordance with the terms thereof, to pay (i) the principal, redemption amounts and interest but not premiums on the Bonds, and (ii) the purchase price of any Bonds tendered but not remarketed by the Remarketing Agent.

The Letter of Credit provides that the Trustee may draw upon the Letter of Credit up to the Available Amount (subject to reduction as provided in the Letter of Credit) for any of the following purposes:

(a) "Payment Draft" - in the form of (i) an "Interest Drawing" representing the payment of interest due with respect to the Bonds; (ii) a "Partial Prepayment Drawing" representing the payment of principal plus accrued and unpaid interest upon redemption or prepayment of less than all of the Bonds Outstanding (as defined in the Indenture), (iii) a "Final Drawing" representing the payment of the unpaid principal and interest on Bonds either at a stated maturity, upon a prepayment, redemption or mandatory tender for purchase of all of the Bonds (other than Bonds presently held of record by the City or the Authority, or by the Trustee for the account of the City or the Authority) where the Bonds are not to be remarketed with the support of the Letter of Credit.

(b) "Tender Draft" - representing the payment of unpaid principal and interest due with respect to all or less than all of the Bonds Outstanding upon a tender to the Trustee for purchase pursuant to the Indenture (other than Bonds presently held of record by the City or the Authority, or by the Trustee for the account of the City or the Authority).

The Letter of Credit shall terminate (the "Stated Termination Date") upon the earliest to occur of (i) the date on which the Bank receives written notice from the Trustee that there are no longer any Bonds

Outstanding; (ii) the date on which the Bank receives written notification from the Trustee that its Letter of Credit has been replaced with an Alternate Credit Facility; (iii) the date on which the Bank honors a "Final Draft"; (iv) the date on which the Bonds begin to earn interest at the Fixed Rate, as described in the notice from the Trustee to the Bank; and (v) the close of banking business at the Bank's Monterey Park, California office on March 20, 2007 (the "Maturity Date"). The Maturity Date may be extended from time to time, at the option of the Bank by amendments to the Letter of Credit.

Reimbursement Agreement

Pursuant to the Reimbursement Agreement, the Bank is to be reimbursed for drawings made by the Trustee upon the Letter of Credit in accordance with the Reimbursement Agreement. In satisfaction of the City's obligation to reimburse the Bank for such drawings, the Trustee shall reimburse the Bank from the Installment Payment Account. If an event of default occurs under the Reimbursement Agreement, on account of any failure to reimburse the Bank or otherwise, the Bank may direct the Trustee to exercise any remedy available to the Trustee under the Indenture. Such actions shall in no way limit the rights of the Trustee to make draws under the Letter of Credit in accordance therewith.

Any of the following shall constitute an event of default under the Reimbursement Agreement (each, an "Event of Default" under the Reimbursement Agreement).

(a) The Authority or the City shall fail to pay any amount payable under any provision for payment contained in the Reimbursement Agreement when due; or

(b) Any representation or warranty made, or deemed made, by the Authority or the City (or any of their respective officers) in connection with the Reimbursement Agreement shall prove to have been incorrect in any material respect when made or deemed made; or

(c) The Authority or the City shall fail to perform or observe any term, covenant or agreement as specified in Section 5.02 of the Reimbursement Agreement; or

(d) The Authority or the City shall fail to perform or observe any other term, covenant or agreement contained in the Reimbursement Agreement on its part to be performed or observed and any such failure shall remain unremedied for ten (10) days after written notice thereof shall have been given to the Authority or the City by the Bank; or

(e) The Authority or the City shall default in the payment of any Debt as defined in the Reimbursement Agreement (other than Debt arising under the Reimbursement Agreement), whether such Debt now exists or shall be created after the issuance of the Letter of Credit, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced, any Debt, whether such Debt now exists or may be hereafter created shall occur, which default in payment or event of default shall result in such Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; or

(f) An order for relief shall have been entered against the Authority or the City under the Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued undischarged and unstayed for a period of ninety (90) days, or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, trustee or custodian of the Authority or the City or of their property, or for the winding up or liquidation of their affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of ninety (90) days; or

(g) The Authority or the City shall institute a voluntary case, or shall consent to the institution of an involuntary case against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, trustee, liquidator or custodian of it or of its property or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the City in furtherance of any of the aforesaid purposes; or

(h) Any provisions of the Reimbursement Agreement shall at any time for any reason cease to be valid and binding on the Authority or the City, or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Authority or the City or the Authority or the City shall deny that it has any or further liability or obligation under the Reimbursement Agreement; or

(i) Any Event of Default under and as defined respectively in the Indenture, the Installment Sale Agreement or any other Related Document shall have occurred and be continuing; or

(j) Any event which materially and adversely affects the financial condition of the Authority or the City, or the ability of the Authority or the City to observe and perform the terms of the Reimbursement Agreement shall have occurred and be continuing or any notice of an "Event of Default" under and as defined in the Confirmation Agreement have been delivered by the Confirming Credit Entity to the Trustee; or

(k) A draw shall have occurred under the Confirming Letter of Credit.

Should an Event of Default under the Reimbursement Agreement occur and be continuing, the Bank may (but shall not be obligated to), by notice to the City, declare the obligation of the Bank to issue the Letter of Credit to be terminated, whereupon the same shall forthwith terminate, or, if the Letter of Credit shall have been issued, (i) give notice to the Trustee pursuant to the Indenture requesting the Trustee to declare a mandatory tender for purchase of all Bonds then outstanding and all interest accrued and unpaid thereon to be due and payable, (ii) take such action as may be necessary to cure such Event of Default on behalf and for the account of the City, (iii) require immediate payment in full by the City of any payment or amount owed by it to the Bank under the Reimbursement Agreement, and (iv) exercise all or any combination of the remedies provided for in the Reimbursement Agreement or rights and remedies available at law or in equity or under any other agreement.

THE CREDIT ENTITY

The following information concerning the Credit Entity has been provided by representatives of the Credit Entity and has not been confirmed or verified by any of the Authority, the City, the Underwriter or the Remarketing Agent. No representation is made herein to the accuracy or adequacy of such information or as to the absence of material adverse changes to such information subsequent to the date hereof, or that the information contained or incorporated herein by reference is correct as of any time subsequent to its date.

Union Bank of California, N.A. ("UBOC") is a subsidiary of Union BanCal Corporation, a bank-holding company based in San Francisco with assets of \$33.7 billion. UBOC ranks among the 30 largest banks in the United States, with 250 branches in California, Washington and Oregon and offices in New York and Texas, as well as 18 international offices.

As of December 31, 2000, Union BanCal Corporation has loans totaling \$26.0 billion and total deposits of \$27.3 billion. For the 12-month period, net income was \$439.9 million. For the nine months

ending September 30, 2001, net income was \$349.6 million, compared to \$431.5 million for the same period last year. Copies of the latest annual report and the most recent quarterly report to UBOC may be obtained from UBOC at its Los Angeles office, presently located at 445 Figueroa Street, Los Angeles, California 90071.

THE CONFIRMING LETTER OF CREDIT AND THE CONFIRMATION AGREEMENT

The following is a summary of certain provisions of the Confirming Letter of Credit and Confirmation Agreement. This summary is not to be considered a full statement of the terms the Confirming Letter of Credit or the Confirmation Agreement and accordingly, is qualified by reference thereto and is subject to the full text thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings given such terms in the Confirming Letter of Credit and the Confirmation Agreement.

Confirming Letter of Credit

Concurrently with the issuance of Letter of Credit, the Confirming Credit Entity will issue the Confirming Letter of Credit. The Confirming Letter of Credit will be an irrevocable, transferable confirming letter of credit which provides that the Trustee shall draw moneys under the Confirming Letter of Credit for the benefit of the Registered Owners of the Bonds only if the Credit Entity has wrongfully dishonored a properly presented and conforming draw on the Letter of Credit or if the Credit Entity repudiates the Letter of Credit. In such event, the Trustee shall declare a default under the Indenture and accelerate the maturity of the Bonds. Upon such acceleration, the Trustee shall make a drawing under and in accordance with the Confirming Letter of Credit to pay the principal of and interest on the Bonds when due. The Confirming Letter of Credit may only be drawn upon once, and shall be drawn upon for the full principal amount of the Outstanding Bonds, together with interest thereon. In such event, the Trustee will use the proceeds of the draw on the Confirming Letter of Credit to immediately pay the Bonds in full.

The Confirming Letter of Credit shall automatically terminate upon the earliest of (a) the termination of the Letter of Credit, (b) close of business on March 21, 2005, as such date may be extended at the Confirming Credit Entity's sole discretion (the "Scheduled Expiration Date of the Confirming Letter of Credit"), (c) ninety (90) days following the Trustee's receipt of a certificate from the Confirming Credit Entity to the effect that an Event of Termination under the Confirmation Agreement dated as of March 1, 2002, between the Credit Entity and the Confirming Credit Entity, has occurred, (d) five (5) days following the date of payment of a drawing under the Letter of Credit or under the Confirming Letter of Credit for payment of the Purchase Price of the Bonds following a mandatory tender of the Bonds pursuant to the Indenture following the Trustee's receipt of the notice referred to in clause (c) above; (e) the date on which the Bonds earn interest at the Fixed Interest Rate; (f) the date on which the Trustee receives an Alternate Credit Facility and/or Alternate Liquidity Facility and/or Alternate Confirming Credit Facility; (g) the date on which the Stated Amount of the Confirming Letter of Credit is reduced to zero; or (h) ninety (90) days following the Confirming Credit Entity's receipt of a certificate from the Trustee stating that the Credit Entity has delivered to the Trustee notice of the termination of the Confirming Letter of Credit pursuant to the Confirmation Agreement.

The Scheduled Expiration Date of the Confirming Letter of Credit shall be extended on the date which is two years prior to the then existing Scheduled Expiration Date of the Confirming Letter of Credit, for a period of one year, unless the Trustee shall have received notice from the Confirming Credit Entity not less than 30 days prior to the date which is two years prior to the then existing Scheduled Expiration Date of the Confirming Letter of Credit, that the Confirming Letter of Credit will not be extended beyond its then existing Scheduled Expiration Date of the Confirming Letter of Credit.

Confirmation Agreement

Upon the occurrence and continuance of an Event of Termination under the Confirmation Agreement, the Confirming Credit Entity may give notice to the Trustee and the Credit Entity of the occurrence of an Event of Termination, thereby causing the Confirming Letter of Credit to expire ninety (90) days after such notice is given to the Trustee. Promptly upon receipt of such notice, the Trustee shall declare the principal of all 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.

An Event of Termination under the Confirmation Agreement includes the following:

- (a) the Confirming Letter of Credit shall be drawn upon at any time;
- (b) the Credit Entity shall fail to pay when due (whether at maturity, by reason of acceleration or otherwise) any amounts payable by the Credit Entity to the Confirming Credit Entity under the Confirmation Agreement; provided, however, that failure to pay certain amounts owed for expenses, fees, increased costs, indemnification or taxes shall not cause an Event of Termination unless the Credit Entity shall fail to pay such amounts within five (5) days following written demand therefor by the Confirming Credit Entity;
- (c) any representation or warranty made by the Credit Entity in the Confirmation Agreement or in any statement or certificate furnished by it pursuant to the Confirmation Agreement shall prove to have been untrue in any material respect as of the date of the issuance or making thereof;
- (d) there shall be a material failure by the Credit Entity to observe or perform any covenant contained in the Confirmation Agreement and such material failure shall continue for a period of thirty (30) business days after receipt of written notice by the Credit Entity from the Confirming Credit Entity;
- (e) the Credit Entity shall (i) not pay, or admit in writing its inability to pay, its debts generally as they become due or suspend payment of its obligations, (ii) make a general assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, conservator, liquidator or similar official for it or any substantial part of its property, (iv) institute any proceeding seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) fail to contest in good faith any appointment or proceeding described in (f) below, or (vi) take any corporate action in furtherance of the foregoing purposes;
- (f) a custodian, receiver, trustee, conservator, liquidator or similar official shall be appointed for the Credit Entity or any substantial part of its property, or a proceeding described in (e) above shall be instituted against the Credit Entity and such appointment shall continue undischarged or any such proceeding shall continue undismissed or unstayed for a period of sixty (60) days;
- (g) any governmental authority having jurisdiction shall have taken or instituted any action or proceeding for the dissolution or disestablishment of the Credit Entity or for the suspension of its operations, or the ongoing business operations of the Credit Entity shall be displaced or curtailed by any seizure, vesting or intervention by or under authority of any government or governmental agency other than a temporary suspension, seizure or intervention applicable to the United States Credit Banking industry generally or a substantial portion thereof;

- (h) the Credit Entity shall fail to maintain a long-term letter of credit rating of at least "Baa3" from Moody's Investors Service, Inc. and "BBB-" from Standard and Poor's;
- (i) there shall have been delivered an Alternate Credit Facility and/or Alternate Liquidity Facility and/or Alternative Confirming Credit Facility under the Indenture; and
- (j) the Bonds shall have been converted to a Fixed Interest Rate under the Indenture.

THE CONFIRMING CREDIT ENTITY

The following information concerning CALSTRS has been provided by representatives of CALSTRS and has not been independently confirmed or verified by the Underwriter, the Authority or the City. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

CALSTRS is a component unit of the State of California (the "State"), organized and operating under the laws of the State, including the Teachers' Retirement Law, constituting Part 13 of Division 1 of Title 1 of the Education Code of the State, commencing at Section 22000 (the "Law"), as amended. CALSTRS is a unit of the State and Consumer Services Agency. All full-time certificated employees in the public school system from kindergarten through the community college level are required by law to be members of CALSTRS. CALSTRS provides defined retirement, survivor and disability benefits to all members based on the final compensation attained by the member, the age of retirement and the term of service, and other factors. As of June 30, 2000, there were 496,110 active and inactive members and 165,282 recipients of retiree, disability and survivor benefits, for a total of 661,392, an increase of 28,603 over the previous year.

Financial data for June 30, 2000 are taken from the audited financial statements presented in CALSTRS' Annual Report for the fiscal year ended June 30, 2000.

The Law establishes the Teachers' Retirement Board (the "Board"), which has the sole and exclusive fiduciary responsibility over the administration and investment of funds held in the Teachers' Retirement Fund (the "Fund"), in which by law the assets of CALSTRS are held. School districts and other agencies employing members of CALSTRS are required to make monthly contributions to the Fund in an amount equal to 8% of the total of the salaries upon which members' contributions are based. As of June 30, 2000, the Fund had net assets held in trust for pension benefits with a market value of approximately \$112.8 billion, up from approximately \$99.8 billion as of June 30, 1999. As of January 31, 2002, net assets were approximately \$99.6 billion (unaudited).

As of June 30, 2000, approximately \$101.7 billion on a fair value basis, or approximately 80% of the non-cash assets of CALSTRS, were invested in Category 1 risk level investments, as defined in GASB Statement No. 3. Category 1 investments are the lowest risk investments and include investments that are insured or registered or for which the securities are held by CALSTRS or its agent in CALSTRS' name. As of June 30, 2000, approximately \$25.7 billion of CALSTRS' investments, or approximately 20%, were held in investments that do not carry a risk category. There were no CALSTRS' Category 2 or Category 3 investments as of June 30, 2000.

As of June 30, 2000, the Fund held approximately \$3.2 million in cash and cash equivalents, approximately \$1.6 billion in short-term investments, approximately \$27.2 billion in debt securities,

approximately \$73.7 billion in equity securities and \$25.0 billion in real estate and other investments. The Fund does not invest in reverse repurchase agreements.

CALSTRS is independently rated "AAA/A-1+" by Standard and Poor's, a Division of the McGraw-Hill Companies, Inc. ("S&P"), "Aaa/VMIG1" by Moody's Investors Service, and "AAA/F-1+" by Fitch.

CALSTRS will provide without charge, upon request, a copy of the 2000 Annual Report of CALSTRS containing its financial statements for the years ended June 30, 2000 and 1999. Requests to CALSTRS for the Annual Report should be directed by mail or phone to State Teachers' Retirement System, P.O. Box 163740, Sacramento, California 95816-3710, Attention: Credit Enhancement Program, telephone (916) 229-3854. The most recent Annual Report can be viewed on the CALSTRS website at www.calstrs.ca.gov.

The foregoing information has been provided by CALSTRS and is not intended to serve as a representation, warranty, or contract modification of any kind.

THE ENTERPRISE

The City of Sanger, California, is located in southeastern Fresno County in the South San Joaquin Valley and has a current population of 19,650. The City owns and operates its own water and wastewater systems (the "Enterprise").

Wastewater System

The City's wastewater system collects, treats and disposes of wastewater generated by the residential, commercial, governmental and industrial members of the community. The majority of the organic load treated at the City's wastewater treatment plant is discharged by food-processing industries.

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 and construction of a 21-inch industrial sewer line. Furthermore, 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. The wastewater system consists of two wastewater treatment plants (domestic and industrial). The 1.8 MGD domestic plant and the 1.1 MGD industrial plant are operated in parallel. 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.

Current domestic wastewater flow is approximately 1.5 MGD and is projected to nearly double to 3.0 MGD by the design year 2015. Effluent disposal currently occurs on two sites south of the plant -- a 188-acre agricultural reclamation site and a 20-acre percolation pond site.

Water System

In 1890, J.S. Filloon built the City's first water works, consisting of a boiler room, pump house and water tower. In 1896, Frank Kummeth took over the operation of the water system and operated it until 1914 when the water works was purchased by the City for \$8,000. Later a steel tower and water tank were erected at Fifth Street and Academy.

Groundwater was and is the major water supply for the City. The Kings River recharges the groundwater, along with runoff from the foothills, which has been sufficient to meet the needs of the area. As the population increased in the City and region, the demand for water also increased. Additional wells were drilled without impacting the groundwater levels. Sufficient recharge occurs from the percolation from the Kings River and from the return of surface water used for irrigation.

The City obtains 100 percent of the City's water supply from groundwater. The City is capable of producing 11,560 acre-feet per year (AFY), from seven wells, with an average depth of 235 feet. The current demand is, however, only 4,706 AFY. During a declared water shortage, the City will implement a 25 percent voluntary rationing water conservation program in order to insure that the groundwater table does not drop to a dangerous level. Groundwater recharge is a major component of the groundwater management program. Groundwater is recharged mainly from the Kings River stream flow percolation, from return of surface water used for irrigation, from the storm water percolation basins, and from the secondary effluent percolation basins. Groundwater flows in a general south-west direction. The depth to groundwater in Sanger varies from 0 feet, near the river bottom, to approximately 40 feet, according to groundwater contour maps prepared by the Department of Water Resources.

The City operates its own storm water collection system, which includes numerous ponding basins. The storm water ponding basins allow water to percolate and recharge the groundwater basin. In addition, the City operates its own secondary effluent percolation basins, which also recharge the groundwater basin. Recharge from the secondary effluent percolation basins generates approximately 2,004 acre feet of constant recharge that increases the reliability of the groundwater supply in the City.

Lawsuit Settlement. In 1994, the City settled a lawsuit it had filed against Dow Chemical Company, Shell Oil Company, Occidental Chemical Corporation and Occidental Petroleum Corporation concerning contamination of its water supply. Terms of the settlement included a payment to the City by the defendants of \$15,250,000, which amount was paid in 1993. Proceeds of the settlement are being held in reserve for future remedial projects.

Financial Statements

A copy of the most recent financial statements of the City audited by Caporicci, Cropper & Larson LLP (the "Auditor") are included as Appendix B hereto (the "Financial Statements"). The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the City as of June 30, 2001 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles. The City has not requested nor did the City obtain permission from the Auditor to include the Financial Statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit work on the Financial Statements.

The summary historical operating results contained under the caption "THE ENTERPRISE -- Historical and Projected Operating Results" are derived from these Financial Statements and are qualified in their entirety by reference to such statements, including the notes thereto.

Historical and Projected Operating Results

The following tables reflect historical operating revenues and expenses for the Fiscal Years ending June 30, 1997 through June 30, 2001, and projected operating revenues and expenses for Fiscal Years ending June 30, 2002 through June 30, 2007 for both the City's Water System and Wastewater System:

**CITY OF SANGER
WATER SYSTEM
HISTORICAL OPERATING RESULTS
FISCAL YEAR ENDED JUNE 30, 1997 THROUGH 2001**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
OPERATING REVENUES:					
Charges for services	\$1,294,164	\$1,181,604	\$1,241,865	\$ 1,203,302	\$1,229,707
Other	280,707	913	15,405	--	602
Total operating revenues	<u>1,574,871</u>	<u>1,182,517</u>	<u>1,257,270</u>	<u>1,203,302</u>	<u>1,230,309</u>
OPERATING EXPENSES:					
Personnel service	227,068	215,531	201,140	146,012	125,090
Supplies and services	624,896	342,748	331,026	369,449	408,296
Maintenance and repair	35,680	27,974	33,891	2,788	1,691
Operation	105,020	185,702	233,968	345,880	345,880
Other	286,051	316,612	197,222	251,473	198,611
Depreciation	109,623	121,472	189,827	190,909	184,055
Total operating expenses	<u>1,388,338</u>	<u>1,210,039</u>	<u>1,187,074</u>	<u>1,306,511</u>	<u>1,263,623</u>
OPERATING INCOME (LOSS)	<u>186,533</u>	<u>(27,522)</u>	<u>70,196</u>	<u>(103,209)</u>	<u>(33,314)</u>
NONOPERATING REVENUES (EXPENSES):					
Interest revenue ⁽¹⁾	522,099	609,455	--	--	--
Investment earnings ⁽¹⁾	--	--	624,876	654,662	713,364
Total nonoperating revenues (expenses)	<u>522,099</u>	<u>609,455</u>	<u>624,876</u>	<u>654,662</u>	<u>713,364</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	708,632	581,933	695,072	551,453	680,050
Operating transfers out	<u>(284,636)</u>	<u>(452,767)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>(600,00)</u>
NET INCOME (LOSS)	423,996	129,166	195,072	51,453	80,050
RETAINED EARNINGS:					
Beginning of year, as restated ⁽²⁾	14,210,216	14,603,597	14,732,763	14,965,585	15,017,038
End of year	<u>\$14,634,212</u>	<u>\$14,732,763</u>	<u>\$14,927,835</u>	<u>\$15,017,038</u>	<u>\$15,097,088</u>

⁽¹⁾ Beginning fiscal year 1999, the "Interest revenue" was amended to "Investment earnings."

⁽²⁾ Reconciling amount constitutes prior year adjustments.

Source: City of Sanger.

CITY OF SANGER
WASTEWATER SYSTEM
HISTORICAL OPERATING RESULTS
FISCAL YEAR ENDED JUNE 30, 1997 THROUGH 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
OPERATING REVENUES:					
Charges for services	\$1,227,632	\$1,358,794	\$2,018,791	\$2,066,209	\$2,054,171
Other	638,083	19,975	2,631,179	37,063	6,232
Total operating revenues	<u>1,865,715</u>	<u>1,378,769</u>	<u>4,649,970</u>	<u>2,103,272</u>	<u>2,060,403</u>
OPERATING EXPENSES:					
Personnel service	332,998	369,124	241,725	282,007	287,399
Supplies and services	256,099	246,688	425,324	544,433	653,771
Maintenance and repair	37,191	24,535	125,149	64,203	1,942
Operation	105,020	194,820	243,088	--	355,000
Other	295,801	197,554	213,036	1,123,580	219,975
Depreciation	126,780	125,574	131,100	(1,115)	527,206
Total operating expenses	<u>1,153,889</u>	<u>1,158,295</u>	<u>1,379,422</u>	<u>2,013,108</u>	<u>2,045,293</u>
OPERATING INCOME (LOSS)	<u>711,826</u>	<u>220,474</u>	<u>3,270,548</u>	<u>90,164</u>	<u>15,110</u>
NONOPERATING REVENUES (EXPENSES):					
Interest revenue ⁽¹⁾	72,741	614,477	--	--	--
Investment earnings ⁽¹⁾	--	--	69,675	164,655	71,103
Interest expense	(626,192)	(872,978)	(853,335)	(832,113)	(809,614)
Total nonoperating revenues (expenses)	<u>(553,451)</u>	<u>(258,501)</u>	<u>(783,660)</u>	<u>(667,458)</u>	<u>(738,511)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	158,375	(38,027)	2,486,888	(577,294)	(723,401)
Operating transfers out	(34,636)	--	--	--	--
NET INCOME (LOSS)	123,739	(38,027)	2,486,888	(577,294)	(723,401)
RETAINED EARNINGS:					
Beginning of year, as restated ⁽²⁾	4,150,736	4,274,475	4,236,448	6,854,989	6,277,695
End of year	<u>\$4,274,475</u>	<u>\$4,236,448</u>	<u>6,723,336</u>	<u>\$6,277,695</u>	<u>\$5,554,294</u>

⁽¹⁾ Beginning fiscal year 1999, the "Interest revenue" was amended to "Investment earnings."

⁽²⁾ Reconciling amount constitutes prior year adjustments.

Source: City of Sanger.

CITY OF SANGER
PROJECTED OPERATING RESULTS
WATER SYSTEM
FISCAL YEARS ENDED JUNE 30, 2002 THROUGH JUNE 30, 2007

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues:						
Charges for Services	\$1,250,000	\$1,287,500	\$1,326,125	\$1,365,909	\$1,406,886	\$1,449,093
Other	5,000	5,000	5,000	5,000	5,000	5,000
Total Revenues	\$1,255,000	\$1,292,500	\$1,331,125	\$1,370,909	\$1,411,886	\$1,454,093
Operating Expenses						
Personnel Service	\$225,000	\$361,000	\$371,830	\$382,985	\$394,474	\$406,309
Supplies and Services	447,000	348,000	358,440	369,193	380,269	391,677
Maintenance and Repair	335,000	84,000	87,000	87,000	89,000	89,000
Operation	356,880	356,880	356,880	356,880	356,880	356,880
Other	0	190,000	190,000	190,000	190,000	190,000
Depreciation	150,000	150,000	150,000	150,000	150,000	150,000
Total Operating Expenses	\$1,513,880	\$1,489,880	\$1,514,150	\$1,536,058	\$1,560,623	\$1,583,866
Operating Income (Loss)	(258,880)	(197,380)	(183,025)	(165,149)	(148,737)	(129,773)
Nonoperating Revenues (Expenses)						
Investment Earnings	475,000	525,000	580,000	600,000	600,000	600,000
Income (Loss) Before Operating Transfers	\$216,120	\$327,620	\$396,975	\$434,851	\$451,263	\$470,227
Operating Transfers Out	(600,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Net Income (Loss)	\$(383,880)	\$(172,380)	\$(103,025)	\$(65,149)	\$(48,737)	\$(29,773)

Source: City of Sanger and Public Asset Management, Inc.

CITY OF SANGER
 PROJECTED OPERATING RESULTS
 WASTEWATER SYSTEM
 FISCAL YEARS ENDED JUNE 30, 2002 THROUGH JUNE 30, 2007

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues:						
Charges for Services	\$2,055,000	\$2,055,000	\$2,322,150	\$2,391,815	\$2,463,569	\$2,537,476
Rate Adjustments	0	205,500	0	0	0	0
Projected Growth	0	61,650	69,665	71,754	73,907	76,124
Other	20,000	20,000	20,000	20,000	20,000	20,000
Total Revenues	\$2,075,000	\$2,342,150	\$2,411,815	\$2,483,569	\$2,557,476	\$2,633,600
Operating Expenses						
Personnel Service	\$200,000	\$425,000	\$437,750	\$450,883	\$464,409	\$478,341
Supplies and Services	684,500	579,500	596,885	614,792	633,235	652,232
Maintenance and Repair	143,000	100,000	103,000	106,090	109,273	112,551
Operation	375,700	375,700	375,700	375,700	375,700	375,700
Other (In-Lieu Taxes)	190,000	190,000	190,000	190,000	190,000	190,000
Depreciation	550,000	550,000	550,000	550,000	550,000	550,000
Total Operating Expenses	\$2,143,200	\$2,220,200	\$2,253,335	\$2,287,464	\$2,322,617	\$2,358,824
Operating Income (Loss)	(68,200)	121,950	158,480	196,105	234,859	274,776
Nonoperating Revenues (Expenses)						
Investment Earnings	70,000	70,000	70,000	70,000	70,000	70,000
Income (Loss) Before Operating Transfers	\$1,800	\$191,950	\$228,480	\$266,105	\$304,859	\$344,776
Operating Transfers In/(Out)	600,000	0	0	0	0	0
Net Income (Loss)	\$601,800	\$191,950	\$228,480	\$266,105	\$304,859	\$344,776

Source: City of Sanger and Public Asset Management, Inc.

CITY OF SANGER
 PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
 COMBINED ENTERPRISE
 FISCAL YEARS ENDED JUNE 30, 2002 THROUGH JUNE 30, 2007

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues:						
Charges for Services	\$3,305,000	\$3,342,500	\$3,648,275	\$3,757,723	\$3,870,455	\$3,986,569
Rate Adjustments	0	205,500	0	0	0	0
Projected Growth	0	61,650	69,665	71,754	73,907	76,124
Other	25,000	25,000	25,000	25,000	25,000	25,000
Total Revenues	\$3,330,000	\$3,634,650	\$3,742,940	\$3,854,478	\$3,969,362	\$4,087,693
Operating Expenses						
Personnel Service	\$425,000	\$786,000	\$809,580	\$833,867	\$858,883	\$884,650
Supplies and Services	1,131,500	927,500	955,325	983,985	1,013,504	1,043,909
Maintenance and Repair	478,000	184,000	190,000	193,090	198,273	201,551
Operation	732,580	732,580	732,580	732,580	732,580	732,580
Other	190,000	380,000	380,000	380,000	380,000	380,000
Depreciation	700,000	700,000	700,000	700,000	700,000	700,000
Total Operating Expenses	\$3,657,080	\$3,710,080	\$3,767,485	\$3,823,522	\$3,883,240	\$3,942,690
Operating Income (Loss)	(327,080)	(75,430)	(24,546)	30,956	86,122	145,003
Nonoperating Revenues (Expenses)						
Investment Earnings	545,000	595,000	650,000	670,000	670,000	670,000
Income (Loss) Before Operating Transfers	217,920	519,570	625,455	700,956	756,122	815,003
Operating Transfers In/(Out)	0	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Net Income (Loss)	\$217,920	\$19,570	\$125,455	\$200,956	\$256,122	\$315,003
Depreciation	700,000	700,000	700,000	700,000	700,000	700,000
Subordinated Expenses	732,580	732,580	732,580	732,580	732,580	732,580
Total Revenues for Debt Service	\$1,650,500	\$1,452,150	\$1,558,035	\$1,633,536	\$1,688,702	\$1,747,583
Projected Debt Service	1,202,914	242,333	527,806	572,293	569,383	806,473
Projected Remarketing Fees	N/A	8,300	24,900	24,900	24,900	24,900
Projected Letter of Credit Charges	N/A	55,333	166,000	166,000	166,000	166,000
Total Projected Debt Service	\$1,202,914	\$305,967	\$718,706	\$763,193	\$760,283	\$997,373
Projected Coverage	137%	475%	217%	214%	222%	175%

Source: City of Sanger and Public Asset Management, Inc.

Utility Rate Comparisons

The following tables compare the annual wastewater and water service rates for various cities within the Fresno area.

**CITY OF SANGER
WASTEWATER SYSTEM RATE COMPARISONS
2001**

City	Residential Rate	Commercial Rate	Industrial Rate
Fresno	\$16.50/mo. \$14.85/mo. (senior)	\$16.50/mo. Min. w/low/med/high consumption	\$16.50/mo. Min. w/low/med/high consumption
Clovis	\$15.82/mo.	\$15.03 min. \$1.24/1000 gal (low) \$1.88/1000 gal (med) \$4.72/1000 gal (high)	\$15.03 min. \$1.24/1000 gal (low) \$1.45/100 gal (high)
Madera	\$11.07/mo.	\$11.07/mo. min. Based on charge per parameter (sq ft, # of beds, # of rooms)	\$11.07/mo. min. Based on charge per parameter (sq ft, # of beds, # of rooms)
Visalia	\$11.92/mo.	\$11.92/mo. Min. Based on charge per parameter (sq ft, # of beds, # of rooms)	\$11.92/mo. Min. Based on charge per parameter (sq ft, # of beds, # of rooms)
Dinuba	\$14.18/mo.	\$1.515/ccf	Flow BOD SS \$.742/ccf \$1.54/lb 1.45/lb
Sanger	\$24.41/mo.	\$24.41 min. \$2.22/1000 gals	(1) Flow BOD SS \$0.76/1000 gals. \$0.0290/avg. lb \$0.0716/avg. lb (2) Fixed charge: Flow BOD SS \$39.01/1000 gals used on avg day of peak month based on flow recorded per month over last 12 months \$1.23/avg. lb of BOD contributed on avg day of the peak month based on avg lbs recorded per month over last 12 months \$3.71/avg. lb of SS contributed on avg day of the peak month based on avg lbs recorded per month over last 12 months

The total of these figures are divided by twelve and added to the monthly charges.(1)

**CITY OF SANGER
WATER SYSTEM RATE COMPARISONS
2001**

City	Non-Metered	Rate	Metered	Rate
Fresno	Per two months Residential:		Per two months Commercial:	
	1 st 6,000 sq. ft.	\$26.16	Consumption	\$0.427 p/HCF
	Each 100 Add'l sq. ft.	\$0.262		
Clovis	Per two months - up to six months New construction utilizing water service must install a meter within a six (6) month period. Customer is billed a flat rate for this period until a meter is installed. If no meter is installed, the water service will be discontinued.	\$33.25	Per two months Residential:	\$9.50
			10,000 gals or less	\$0.95 per 1,000 gal
			+10,000 but less than 35,000 gals	\$1.18 per gal over 35,000 gal
			+35,000 gals	
			Commercial: Per two months	\$10.00
			10,000 gals or less	\$1.00 per 1,000 gal
			+10,000 gals	
Madera	Residential:		Residential/Commercial:	
	Basic monthly charge	\$10.94	Uniform monthly service charge	\$2.2500
	Monthly charge-Capital Development	\$1.41	Volume rate for water used	\$0.4200
	Monthly charge-Electric Utility	\$0.72	CDC charge component (\$/hcf)	\$0.0434
	Total	\$13.07	Electric utility surcharge (\$/hcf)	\$0.0222
			Total	\$2.7356
	Commercial:		Service Charge	\$2.25
	Service Charge	\$2.25	Monthly charge-Capital Development	\$0.00 - \$2.38 (class parameters)
	Monthly charge-Capital Development	\$0.00 - \$2.38 (class parameters)	Monthly charge-Electric Utility	\$0.01 - \$1.22 (class parameters)
	Monthly charge-Electric Utility	\$0.01 - \$1.22 (class parameters)	Monthly Rate per Parameter	\$0.03 - \$22.89 (class parameter)
Monthly Rate per Parameter	\$0.03 - \$22.89 (class parameter)			
Visalia	Residential Flat Rate (pre 1987 homes):		General Metered Service:	
	6,000 sq. ft., or less	\$14.15	Quantity Rate:	
	6,001 to 10,000 sq. ft.	\$19.35	Per 100 cu. ft.	\$0.5093
	10,001 to 16,000 sq. ft.	\$24.55	Service Charge:	
	16,001 to 25,000 sq. ft.	\$30.70	5/8 x 3/4 inch meter	\$5.75
			1 inch meter	\$10.90
			1-1/2 inch meter	\$24.00
			2 inch meter	\$30.70
			3 inch meter	\$57.50
			4 inch meter	\$80.00
			6 inch meter	\$132.00
			8 inch meter	\$198.00
			10 inch meter	\$661.25
			12 inch meter	\$948.75
			14 inch meter	\$1,293.75
Dinuba	Per month:			
	First 1,200 cu. ft.	\$12.93		
	Next 880 cu. ft.	\$0.554 per 100 cu. ft.		
	Over 880 cu. ft.	\$0.416 per 100 cu. ft.		
Sanger	No meter - inside city limits	\$21.40	Consumption Rate:	
	No meter - outside city limits	\$51.00	0.0 - 6,000 gals	\$0.27
			6,000 - 30,000 gals	\$0.44
			30,000 - 100,000	\$0.68
			100,000 - 500,000	\$0.72
			500,000 - +	\$0.79
			Service Charge:	
			5/8 x 3/4 inch meter	\$7.70
			1 inch meter	\$15.00
			1-1/2 inch meter	\$38.50
		2 inch meter	\$61.60	
		3 inch meter	\$115.50	
		4 inch meter	\$192.50	
		6 inch meter	\$385.00	
		8 inch meter	\$673.75	

Largest Customers

The following tables reflect ten largest customers of the wastewater and water systems.

CITY OF SANGER
TEN LARGEST CUSTOMERS
For the Fiscal Year Ended June 30, 2001

Wastewater System:

Rank	Customer Name	Avg Monthly Usage	Avg Yearly Usage	Avg Yearly Billing	% of Ttl Sewer Revenue
1	Glacier Foods #1	4,582,750	54,993,000	\$77,093.76	3.74%
2	SangerPower & Feed (Dynamis)	4,494,170	53,930,040	50,268.84	2.44
3	Gibson Winery	1,229,250	14,751,000	49,251.96	2.39
4	Glacier Foods #3	1,208,420	14,501,040	26,835.36	1.30
5	Willamette Industries Inc.	628,820	7,545,840	16,751.76	0.81
6	Toter Incorporated	619,450	7,433,400	16,502.28	0.80
7	General Cable	402,730	4,832,760	10,728.60	0.52
8	Merri Mart	319,640	3,835,680	8,515.08	0.41
9	C. Powell - Laundramat	245,550	2,946,600	6,541.32	0.32
10	Save-Mart #60	212,270	2,547,240	5,655.00	0.27
Total		13,943,050	167,316,600	\$268,143.96	13.01%

Water System:

Rank	Customer Name	Avg Monthly Usage	Avg Yearly Usage	Avg Yearly Billing	% of Ttl Sewer Revenue
1	Glacier Foods #1	4,582,750	54,993,000	\$25,930.20	2.11%
2	SangerPower & Feed (Dynamis)	4,494,170	53,930,040	26,193.74	2.13
3	Glacier Foods #3	1,208,420	14,501,040	13,910.11	1.13
4	Willamette Industries Inc.	628,820	7,545,840	8,942.28	0.73
5	Toter Incorporated	619,450	7,433,400	5,233.21	0.43
6	General Cable	402,730	4,832,760	4,659.74	0.38
7	Merri Mart	319,640	3,835,680	2,036.83	0.17
8	C. Powell - Laundramat	245,550	2,946,600	1,846.99	0.15
9	Adco Manufacturing	235,730	2,828,760	2,678.47	0.22
10	Save-Mart #60	212,270	2,547,240	2,218.32	0.18
Total		12,737,260	152,847,120	\$91,431.57	7.61%

Source: City of Sanger.

Outstanding Enterprise Indebtedness

A portion of the proceeds of the Bonds will be used to provide for the economic defeasance of all of the outstanding Refunded Bonds. See "PLAN OF REFUNDING." On the Redemption Date of the Refunded Bonds, there will be no other obligations of the Enterprise.

Future Capital Improvements

The following table sets forth future capital improvements to be made to the Enterprise for the next five Fiscal Years.

Water Enterprise

Water Well No. 15 - G.A.C. Filtration:

G.A.C. Water filtration system to replace contaminated wells that cannot support filtration systems due to age, size constraints, etc.

Year Planned	2004-05
Budgeted	\$80,000.00
Funding Source	Water Utility Fund (DBCP)

Water Line Replacements:

To replace and upgrade substandard water lines primarily on the east of the city.

Year Planned	2001-02 through 2003-04
Budgeted	\$750,000.00
Funding Source	Water Utility Fund

Well No. 2A:

Installation of G.A.C. filtration system at existing well at Greenwood Park.

Year Planned	2001-02
Budgeted	\$800,000.00
Funding Source	Water Utility Fund (DBCP)

Water Wells - Carbon:

Replacement of spent carbon in 4 filtration tanks at well No. 8.

Year Planned	2003-04 and 2005-06
Budgeted	\$80,000.00 each year
Funding Source	Water Utility Fund (DBCP)

North Avenue Water Improvements:

The extension of 200 feet of 12 inch water main in North Avenue from Faller to Newmark Avenues and in Millwood Avenue from North Avenue 1300 feet south.

Year Planned	2004-05
Budgeted	\$113,750.00
Funding Source	Redevelopment Funds

Muscat Avenue Water Improvements - Phase I:

The extension of 500 feet of 12 inch water main in Muscat Avenue from Lone Tree canal east approximately 500 feet.

Year Planned	2004-05
Budgeted	\$29,950.00
Funding Source	Redevelopment Funds

Academy Avenue Water Improvements - Phase II:

The extension of 1620 feet of 12 inch water main in Academy Avenue from Commerce Avenue south to Central Avenue.

Year Planned	2002-03
Budgeted	\$65,650.00
Funding Source	Redevelopment Funds

Academy Avenue Water Improvements - Phase III:

The extension of 2800 feet of 12 inch water main from Commerce Avenue 1300 feet to Central Avenue and 12 inch water main in Central Avenue from Academy Avenue 1500 feet east.

Year Planned	2003-04
Budgeted	\$113,750.00
Funding Source	Redevelopment Funds

Well No.9:

Installation of G.A.C. filtration system at existing well at north end of Greenwood Avenue.

Year Planned	2001-02
Budgeted	\$800,000.00
Funding Source	DBCP Water Fund

Sewer Enterprise

Sewer Interceptor (Eastside):

The Design and construction of an 18 to 36 inch sewer interceptor to serve development on the east side of the City. The interceptor will begin in the vicinity of Church and Academy Avenues, travel south and east to Faller Avenue and 8th Street and east on 8th Street to Newmark Avenue, then south on Newmark Avenue and terminate at the Wastewater Treatment Plant.

Year Planned	2003-04
Budgeted	\$3,000,000.00
Funding Source	Unfunded

Sewer Interceptor - North Avenue:

The installation of additional or larger sewer line between the existing lift station at Greenwood and North Avenues and Academy Avenue. The project will increase the capacity for the expansion primarily on the north and west.

Year Planned	2004-05
Budgeted	\$500,000.00
Funding Source	Development Impact Fees and Sewer Fund

North Avenue Sewer Improvements:

The extension of 100 feet of 8 inch sewer line in Millwood Avenue from North Avenue south.

Year Planned	2004-05
Budgeted	\$31,460.00
Funding Source	Redevelopment Funds

Muscat Avenue Sewer Improvements - Phase II:

The extension of 800 feet of 8 inch sewer line in Millwood Avenue from Muscat Avenue north.

Year Planned	2003-04
Budgeted	\$22,880.00
Funding Source	Redevelopment Funds

Academy Avenue Sewer Improvements - Phase II:

Extension of 1320 feet of 10 inch sewer main in Academy Avenue from Commerce south to Central Avenue.

Year Planned	2002-03
Budgeted	\$42,900.00
Funding Source	Redevelopment Funds

Academy Avenue Sewer Improvements - Phase III:

Extension of 1200 feet of 10 inch sewer main from Commerce Avenue south to Central Avenue.

Year Planned	2003-04
Budgeted	\$39,000.00
Funding Source	Redevelopment Funds

Sewer Line Replacement (Various Locations):

The replacement of pre-1931 sewer lines that are deteriorated, collapsed, or have root intrusion in alleys at various locations throughout the City. Work will be done in phases. At some locations, water line replacements will be done concurrently.

Year Planned	2001-02 and 2002-03
Budgeted	\$330,500.00 and \$300,00.00
Funding Source	CDBG Funds

8th Street Sewer Line Replacement:

Replacement of deteriorated 8" sewer line between Faller and Harrison Avenues.

Year Planned	2002-03
Budgeted	\$125,000.00
Funding Source	CDBG Funds

5th Street Sewer Line Replacement:

Replacement of deteriorated 8" sewer line in 5th Street between Faller and Harrison Avenues.

Year Planned	2002-03
Budgeted	\$125,000.00
Funding Source	CDBG Funds

Management and Employee Relations

The Public Works Director has overall responsibility for the Enterprise. The Chief Plant Operator is responsible for the day-to-day operation and maintenance of the wastewater treatment plant, laboratory and collection system. The following is a detailed list of employees responsible for the operation and maintenance of the Enterprise.

Wastewater System:

John A. White - Public Works Director:

Overall responsibility for the Enterprise. Currently certified Grade T5 Water Treatment Plant Operator, Grade V Wastewater Treatment Plant Operator, Grade III Sewer Collection System Maintenance, and Grade D3 Water Distribution Operator.

Wallace M. Blomquist – Chief Plant Operator:

Responsible for day-to-day operations. Currently certified Grade III Wastewater Treatment Plant Operator and Grade D3 Water Distribution Operator.

Pamela A. Neronha – Industrial Inspector/Shift Supervisor/Operator:

Responsible for preparation/implementation of City Industrial Pretreatment Program. Currently certified Grade II Wastewater Treatment Plant Operator, Grade T2 Water Treatment Plant Operator, Grade D2 Water Distribution Operator, Grade 1 Environmental Compliance Inspector, Grade 1 Laboratory Analyst.

Edward Paradez – Plant Operator:

Currently certified Grade I Wastewater Treatment Plant Operator, Grade D1 Water Distribution Operator.

Carole S. Rowley – Lab Tech/Operator:

Currently certified Grade II Lab Analyst – CWEA, Grade I Wastewater Treatment Plant Operator.

Granville Alcorn – Operator/Collection System:

Currently Grade I Wastewater Operator in Training.

Saul Anaya – Maintenance Tech:

No certification required.

Water System:

John A. White - Public Works Director:

Overall responsibility for the Enterprise. Currently certified Grade T5 Water Treatment Plant Operator, Grade V Wastewater Treatment Plant Operator, Grade III Sewer Collection System Maintenance, and Grade D3 Water Distribution Operator.

Frank Sani – Public Works Supervisor:

Responsible for day-to-day operations. Currently certified Grade III Wastewater Treatment Plant Operator and Grade D3 Water Distribution Operator.

Wallace M. Blomquist – Shift Operator:

Currently certified Grade III Wastewater Treatment Plant Operator and Grade D3 Water Distribution Operator.

George Jasso – Shift Operator:

Currently certified Grade T2 Water Treatment Plant Operator and Grade D3 Water Distribution Operator.

Insurance

The City is a member of the Central San Joaquin Valley Risk Management Authority (the “CSJVRMA”), a joint powers authority, which shares losses in the areas of general liability and workers’ compensation. The CSJVRMA provides coverage up to \$1,000,000 per occurrence for general liability coverage (bodily injury and/or property damage to third parties). In addition, the CSJVRMA participates in an excess joint powers authority, the California Affiliated Risk Management Authorities, for general liability coverage of \$14,000,000 in excess of \$1,000,000 per occurrence. The City jointly purchases all risk property coverage for its buildings and structures that provides full replacement value for any loss. Workers Compensation coverage is provided through the CSJVRMA up to \$250,000 and through another excess joint powers authority called the Local Agency Workers Compensation Excess Authority up to statutory limits.

BONDOWNERS’ RISKS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating an investment in the Bonds.

Bonds are Limited Obligations

THE BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY), AND NONE OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY) IS LIABLE THEREFOR. THE INSTALLMENT SALE AGREEMENT IS NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE CITY) IS LIABLE THEREFOR. THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES, CONSISTING PRIMARILY OF INSTALLMENT PAYMENTS MADE BY THE CITY PURSUANT TO THE INSTALLMENT SALE AGREEMENT AND AMOUNTS HELD IN THE FUNDS AND ACCOUNTS ESTABLISHED BY THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

No Liability of the Authority to the Bondowners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Bondowners with respect to the payment when due of the Installment Payments, or with respect to the observance or performance of other agreements, conditions, covenants and terms required to be observed or performed by the City under the Installment Sale Agreement or any related documents or with respect to the performance by the Trustee of any duty required to be performed by it under the Indenture.

Limitations on Remedies Available to Owners of the Bonds and the Trustee

The enforceability of the rights and remedies of the Owners of the Bonds and the Trustee, and the obligations incurred by the City, may be subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Enterprise serves an essential public purpose.

Limited Recourse on Default

If the City defaults on its obligations to make Installment Payments, the Trustee, as assignee of the Authority, has the right to accelerate the Installment Payments. However, in the event of a default and such acceleration, there can be no assurance that the Trustee will have sufficient revenues to pay the Bonds.

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION" herein, interest with respect to the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the execution and delivery of the Bonds as a result of future acts or omissions of the Authority or the City in violation of its covenants contained in the Indenture or the Installment Sale Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the 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.

Forecasts

Although the Authority and the City believe that the projections herein of future operating results of the Enterprise are reasonable, there can be no assurance that actual operating results will match the projections due to changes in general economic conditions and similar factors. In addition, the Enterprise and economic development within the service area of the City are subject to federal, State and local regulations. There can be no assurance that the Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the City.

Enterprise Expenses And Collections

There can be no assurance that the City's expenses for the Enterprise will remain at the levels described in this Official Statement. Changes in technology, energy or other expenses would reduce the City's net income and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Although the City has covenanted to fix, prescribe, revise and collect rates, fees and charges for the Enterprise at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the time necessary to make timely payments with respect to the Bonds.

Casualty Risk

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Revenues through damage to the Enterprise and/or adversely affecting the economy of the surrounding area. The Installment Sale Agreement requires the City to maintain insurance or self-insurance, but only if and to the extent available at reasonable cost from reputable insurers. In the event of total loss of the Enterprise, there can be no assurance that insurance proceeds will be adequate to redeem all Outstanding Bonds or that losses in excess of the insured amount will not occur.

California Constitution Article XIII C and Article XIII D

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. Such provisions could adversely affect the financial condition of the Enterprise and the ability of the City to comply with covenants under the Installment Sale Agreement and/or its ability to pay Installment Payments. In such event, there can be no assurance that remedies will be available to fully protect the interests of Bondowners.

Article XIII D contains several new provisions affecting the ability of local governments to impose or increase "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." "Property related service" means a public service having a direct relationship to property ownership (which term may include tenancies). All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The City does not believe that its wastewater charges are fees or charges imposed as an incident of property ownership within the meaning of Article XIII D, although no assurance can be given that a court would not determine otherwise. The City believes that its wastewater charges, even if considered a "fee" or "charge" for purposes of Article XIII D, would satisfy all of these requirements. However, in any legal action contesting the validity of a fee or charge, the City would have the burden of proving compliance with Article XIII D, and no assurance can be given that a court would not determine otherwise. Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee and charge, including any increase in its wastewater charges.

Article XIII D states that, beginning July 1, 1997, all "fees" or "charges" must comply with its provisions. It is unclear how the provisions of Article XIII D will be applied to fees or charges established prior to such date. The City does not plan to conduct any new hearings, elections or other proceedings with respect to any of its existing fees or charges for wastewater service.

In addition to the provisions described above, Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters within the City's jurisdiction could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge" are not defined in Article XIII C and it is unclear whether the definitions of such terms contained in Article XIII D (which are generally property-related as described above) apply with respect to Article XIII C. No assurance can be given that such voters will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges. The City believes that the initiative power cannot be used to alter covenants

in the Installment Sale Agreement concerning the imposition of the City's wastewater charges or reduce or repeal such charges to the extent that the City could not meet its Installment Payment obligations.

In addition to the foregoing, the general financial condition of the City may be affected by other provisions of Article XIIC and Article XIID, including (A) provisions of Article XIIC (i) requiring taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into general fund, to be approved by a two-thirds vote and (ii) subjecting all taxes, assessments, fees and charges to reduction or repeal at any time through the initiative process (as mentioned above), and (B) provisions of Article XIID that could reduce the ability of such City to fund certain services or programs that it may be required or chooses to fund from its general fund, such as provisions (1) adding requirements making it generally more difficult to levy and maintain "assessments," defined to mean a levy or charge upon real property for a particular and distinct benefit to the property over and above general benefits conveyed to property located in the assessment district or to the public at large, (2) requiring any imposition or increase of property related fees or charges other than for sewer, water and refuse collection services or fees for electrical or gas service (which are not treated as property related to purposes of Article XIID) to be approved by "majority of the property owners" subject to the fee or charge or, at the option of the local government, two-thirds vote of the electorate reside in the affected area.

The interpretation and application of Article XIIC and Article XIID will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible to predict the outcome of such determination.

The ability of the City to comply with the covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay all Installment Payments in a timely manner 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 payers of assessments, fees and charges. Furthermore, any remedies available to the Bondowners upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Voter Initiatives -- State Constitutional Amendment

California's voter initiative process allows measures which qualify for the ballot to be approved or disapproved by voters in a State of California statewide election. From time to time initiative measures could be adopted which adversely affect the ability of the City to generate Net Revenues.

THE AUTHORITY

The Authority is a joint powers authority of the State organized and existing under and by virtue of Article 1, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the California Government Code, as amended (the "Bond Law"). The City of Sanger and the Sanger Redevelopment Agency entered into a Joint Exercise of Powers Agreement dated as of June 1, 1995 (the "Joint Powers Agreement") to establish the Authority. The Authority is governed by a Commission of five members comprised of the same individuals who comprise the City Council of the City. The Authority was created for the purpose of providing financing for public capital improvements for the City through the acquisition by the Authority of such public capital improvements and/or the purchase by the Authority of local obligations within the meaning of the Bond Law. Under the Bond Law, the Authority has the power to issue bonds to pay the costs of public capital improvements.

UNDERWRITING

The Underwriter has agreed to purchase the Bonds at a purchase price of \$16,507,050 (which price is equal to the aggregate principal amount of the Bonds less an underwriter's discount of \$82,950). The Underwriter intends to offer the Bonds to the public initially at the price of 100%, which price may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price, and such dealers may reallocate any such discounts on sales to other dealers.

FINANCIAL ADVISOR

The Authority has retained Public Asset Management, Inc., of San Rafael, California, as financial advisor (the "Financial Advisor") in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Asset Management, Inc. is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Bonds, the Indenture and the Installment Sale Agreement, substantially in the form set forth in APPENDIX E hereto. Certain other legal matters will be passed upon for the Authority and the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, and for the Authority and the City by Dowling, Aron & Keeler, Fresno, California, City Attorney of the City of Sanger.

TAX EXEMPTION

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that the interest on the Bonds will

not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer", and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interest from the Owners. Further, the

disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

LITIGATION

There is no action, suit or proceeding known to the Authority to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Indenture or the Installment Sale Agreement or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority taken with respect to any of the foregoing.

The City has pending against it several claims and lawsuits arising in the normal course of City operations. The City is of the view that, if determined adversely to the City, the actual damage awards likely to be ultimately paid with respect to such claims and lawsuits would not, in the aggregate, materially impair the City's ability to make Installment Payments and Additional Payments when due.

RATING

Standard & Poor's has assigned the rating of "AAA/A-1+" to the Bonds with the understanding that upon delivery of the Bonds a Letter of Credit will be issued by the Credit Entity and a Confirming Letter of Credit will be issued by the Confirming Credit Entity. Such rating reflects only the views of the rating organization, and explanation of the significance of the rating may be obtained from Standard & Poor's. There is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

NO CONTINUING DISCLOSURE

With respect to any time prior to the Fixed Rate Conversion Date, neither the City nor the Authority has covenanted in the Indenture or the Installment Sale Agreement that it will undertake any continuing disclosure with respect to the Bonds.

MISCELLANEOUS

All of the preceding summaries of the Installment Sale Agreement, the Indenture, the Bond Law, other applicable legislation, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

The execution and delivery of this Official Statement by the Executive Director of the Authority have been duly authorized by the Board of Directors of the Authority.

SANGER PUBLIC FINANCING AUTHORITY

By /s/ Jim Drinkhouse
Executive Director

APPENDIX A

CERTAIN ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION CONCERNING THE CITY OF SANGER

The following information concerning the City of Sanger, the County of Fresno and surrounding areas is included only for the purpose of supplying general information regarding the community.

The Bonds are not an obligation of the general fund of the City of Sanger, and the taxing power of the City is not pledged to the payment of the Bonds.

Geography

The City is located in the San Joaquin Valley of California about 200 miles north and south of Los Angeles and San Francisco, respectively. The City, comprising about 2.8 square miles in south central Fresno County, is in the heart of one of the richest agricultural regions in the world. Consequently, the City's economy is primarily based on agriculture and agricultural industries. The City formed the Sanger Redevelopment Agency to assist in attracting other industries to the City. Located 15 miles east of the City of Fresno, the commercial center of the San Joaquin Valley, the City is also growing as a residential area serving the Fresno Metropolitan area.

Municipal Government

The City has a Council-Manager form of government, consisting of five council members who are elected at large to serve overlapping four year terms. The Mayor is selected from the Council Members. The City Manager, the City Clerk, and the City Attorney are all appointed by the Council. City functions are carried out by approximately 105 employees.

Population

Population data for both the City of Sanger and Fresno County are presented below.

<u>Year</u>	<u>City of Sanger</u>	<u>Fresno County</u>
1997	18,950	790,100
1998	19,000	795,000
1999	19,150	804,200
2000	19,350	810,300
2001	19,650	823,900

Sources: State of California Department of Finance, Population Research Unit.

Population Estimates For California Cities and Counties, published annually in May for the current year.

City's Taxable Valuation

Taxable valuation within the City is established by the Fresno County Assessor, except for utility property, which is assessed by the State Board of Equalization. Article XIII-A of the State Constitution provides that, beginning with the 1978-79 fiscal year, property taxes in California are limited to one percent full cash value, except for taxes to pay debt service on indebtedness approved by voters prior to July 1, 1978.

Article XIII-A defines full cash value as the County Assessor's valuation of real property as shown on the 1975-76 tax bill ("base year"), except in the case of newly-constructed property or property that undergoes a change in ownership. Yearly taxable value increases following the base year are limited to the growth in the consumer price index, but may not exceed two percent annually.

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

Beginning in 1988-89, pursuant to AB 454 enacted by the California Legislature, the unitary portion of the public utilities' valuations are reported by the State Board of Equalization on a County-wide basis only, rather than by separate tax rate areas as in previous years. The unitary valuation comprises all revenue-producing property of the various utilities and is over 90% of the total public utility tax roll. The ad valorem tax revenues from the utility valuation are distributed on a County-wide basis. As a result, only the non-unitary valuations of utilities are reported by any particular entity; hence, the substantial decrease in the utility roll valuation in 1988-89 and subsequent years.

The County has adjusted redevelopment project base year valuations downward to reflect this change in reporting utility variations.

A summary of the City's taxable valuation since 1996-97 is set forth below. These figures are presented for historical comparison, with reference only to the time frame of the years shown, inasmuch as Article XIII-A of the California Constitution, discussed previously, will have an effect upon future taxable valuation of the City.

City of Sanger Assessed Valuation

<u>Fiscal Year</u>	<u>Secured Property</u>	<u>Utility</u>	<u>Unsecured Property</u>	<u>Total Assessed Valuation</u>	<u>Percent Increase</u>
1996-97	\$427,367,498	\$809,548	\$21,567,440	\$449,744,486	--
1997-98	440,946,081	792,574	21,587,829	463,326,484	3.0%
1998-99	450,862,850	762,704	20,507,057	472,132,611	1.9
1999-00	460,816,069	482,152	21,614,351	482,912,572	2.3
2000-01	485,862,244	303,792	20,381,768	506,547,804	4.9

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

The Fresno County Tax Collector collects secured tax levies for each fiscal year representing taxes levied for each fiscal year on taxable real and personal property that is situated in the County as of the preceding March 1. Unsecured taxes are assessed and payable ore March 1 and become delinquent on August 31, in the next fiscal year. One-half of the secured tax levy is due March 1 and November 1, and becomes delinquent on April 10 and December 10, respectively. A ten percent (10%) penalty is added to any late installment. On June 30, delinquent properties are sold to the State.

Property owners may redeem property upon payment of delinquent taxes and penalties. Properties sold to the State incur a redemption penalty of one and one-half percent per month of the tax due. Properties may be redeemed under an installment plan by paying current taxes, plus twenty percent (20%) of delinquent taxes for five years. Interest accrues at one and one-half percent per month on the unpaid balance. If no payments have been made on delinquent taxes at the end of the five fiscal years, the property is deeded to the State. Such properties may thereafter be conveyed to the County Tax Collector as provided by law.

Agriculture

The City is located in one of the world's leading agriculture regions, the San Joaquin Valley. The County has led the nation for many years in the value of the annual agricultural production.

The County's agricultural diversity is reflected by the fact that it produces 7 of the top 50 commercially produced crops in the State. Agriculture continues as the leading industry in the County, and through its multiplier effect, has a major economic impact within the County and the City. In addition, the Fresno area is the major agri-business, crop processing and shipping center for the eight-county San Joaquin Valley, which routinely accounts for about one-half of California's total agricultural production. About 500 manufacturing plants are located in the County of which approximately 400 are situated within 25 miles of the City. Major crop processors and shippers in the area include many internationally known companies such as Del Monte Corporation and Zacky Farms.

The tabulation below presents the value of leading crops or products produced in the county along with total valuations for the years 1996 through 2000.

Fresno County
Gross Production Value of Total Agricultural Products
(,000's omitted)

Commodities	1996	1997	1998	1999	2000
Field	\$674,854	\$626,737	\$466,556	\$485,640	\$507,952
Seed	28,011	24,075	33,202	43,332	35,068
Vegetable	692,178	681,390	691,940	882,648	791,607
Fruit & Nut	1,200,374	1,362,560	1,211,362	1,191,094	1,244,736
Nursery	16,847	36,837	29,576	32,531	28,905
Livestock	693,122	685,664	809,503	917,722	800,984
Apiary	7,988	8,486	9,008	10,874	9,209
Industrial	11,512	10,695	6,566	6,187	8,940
Total	\$3,324,886	\$3,436,444	\$3,257,713	\$3,570,028	\$3,427,401

Source: Fresno County Department of Agriculture.

Industry

The City has 697 acres of land zoned for industrial or agricultural use. The average cost of unimproved land is \$20,000-\$25,000/acre and of improved land is \$35,000-\$40,000/acre. In addition to the City property, residents can easily reach a wide range of employment opportunities throughout the Fresno Metropolitan Area.

The following table lists the principal industrial and non-industrial employers in Sanger:

**City of Sanger
Largest Employers**

<u>Name of Company/ Institution</u>	<u>Products or Service</u>	<u>Number of Employees</u>
Del Monte Fresh Produce	Fruit Packaging/Shipping	199
Toter, Inc.	Plastic Refuse Containers	136
Willamette Industries	Corrugated Packaging	133
General Cable (BICC)	Electric Wire Cabels	119
ADCO Manufacturing	Machine Fabrication	110
Clovis-Sanger Cabinets	Custom Cabinets	102
J.R. Woods	Food Processing	89
Hart & Cooley	Sheet Metal Ducts	76
Ak-Mak Bakeries	Food Processing	45
Products Carousel	Pet Products	38

Source: City of Sanger.

Construction Activity

The total valuation of building permits issued in the City during fiscal years 1997 through 2001 are shown below.

**City of Sanger
Building Permit Valuations**

<u>Type of Units</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
New Dwelling Units:					
Single-family/condos	26	47	38	64	100
Multi-family	0	0	1	0	2
Commercial/Industrial	5	5	3	3	4
Total Units	31	52	42	67	106
Total Valuation	\$4,750,759	\$5,282,218	\$4,814,864	\$7,676,063	\$12,762,937

Source: City of Sanger Building Department

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the City since 1997.

**City of Sanger
Taxable Transactions
(,000's omitted)**

<u>Year</u>	<u>Retail Stores</u>	<u>% Change</u>	<u>Total Outlets</u>	<u>% Change</u>
1997	\$ 89,026	--	\$121,776	--
1998	90,264	1.4%	128,088	5.2%
1999	97,055	7.5	136,931	6.9
2000	103,145	6.3	156,942	14.6

Source: California State Board of Equalization.

Utilities

Utilities services in the City are provided by the following companies:

Electricity:	Pacific Gas & Electric
Natural Gas:	Pacific Gas & Electric
Telephone:	Verizon and most long-distance providers
Water:	City of Sanger
Sewers:	City of Sanger

Education

Public schools in the City are operated by the Sanger School District (Grades K-12). This district operates 10 elementary, one junior high, and two high schools, plus a continuation school. In addition, there is one private school in the City.

Within convenient commuting distance of the City is California State University at Fresno with four year degree programs and Fresno City College and Kings River Community College, both with two-year degree programs. There is also a church-affiliated college and a school of professional psychology in the area.

Community Facilities

The City offers a wide range of recreational and cultural opportunities, including 11 parks totaling 44 acres, a library, numerous civic clubs, and a country club. Nearby are Yosemite, Sequoia and Kings Canyon National Parks, Millerton and Shaver Lakes, Pine Flat Reservoir and countless mountain streams and lakes.

Transportation

The City is served by State Routes 99 (12 miles to the west), 145 and 180. A principal freeway between Los Angeles and San Francisco, Interstate 5, is 50 miles west of the City. All major trucking companies serve the City. The Sanger Transit provides local bus service. Orange Cove Transit provides bus service between the City and Fresno.

Fresno Yosemite International, 15 miles north, provides service nationwide. Alaska Airlines, Allegiant Airlines, American West/Mesa Airlines, American/American Eagle, Continental Airlines, Delta

Airlines, Hawaiian Airlines, Horizon Airlines, and Northwest Airlines serve it.

The City is directly served by the Union Pacific (SJVR) railroad. The Burlington Northern Santa Fe railroad is available at Fresno, 15 miles to the east. Amtrak passenger train service is also available at Fresno.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

City of Sanger

Sanger, California

*General Purpose Financial Statements,
Supplementary Information and
Independent Auditors' Reports*

For the year ended June 30, 2001

C&L
Caporicci, Cropper & Larson, LLP
Certified Public Accountants

City of Sanger
General Purpose Financial Statements
For the year ended June 30, 2001

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
 GENERAL PURPOSE FINANCIAL STATEMENTS:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types	8
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - All Proprietary Fund Types	11
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Budget and Actual - All Proprietary Fund Types	12
Combined Statement of Cash Flows - All Proprietary Fund Types	14
Index to Notes to General Purpose Financial Statements	15
Notes to General Purpose Financial Statements	17
Required Supplementary Information	48
 SUPPLEMENTARY INFORMATION:	
Combining, Individual Fund and Account Group Financial Statements and Schedules:	
<i>General Fund:</i>	
Description	51
Comparative Balance Sheets	52
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances	53

City of Sanger
General Purpose Financial Statements
For the year ended June 30, 2001

Table of Contents, Continued

Page

SUPPLEMENTARY INFORMATION, CONTINUED:

**Combining, Individual Fund and Account Group
Financial Statements and Schedules, Continued:**

Special Revenue Funds:

Description	55
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	60

Debt Service Funds:

Description	65
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	70

Capital Projects Funds:

Description	73
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	76

Enterprise Funds:

Description	79
Combining Balance Sheet	80
Combining Statement of Revenues, Expenses and Changes in Retained Earnings	82
Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Budget and Actual	84
Combining Statement of Cash Flows	86

City of Sanger
General Purpose Financial Statements
For the year ended June 30, 2001

Table of Contents, Continued

	<u>Page</u>
SUPPLEMENTARY INFORMATION, CONTINUED:	
Combining, Individual Fund and Account Group Financial Statements and Schedules, Continued:	
<i>Internal Service Funds:</i>	
Description	89
Combining Balance Sheet	90
Combining Statement of Revenues, Expenses and Changes in Retained Earnings	91
Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Budget and Actual	92
Combining Statement of Cash Flows	94
<i>Trust and Agency Funds:</i>	
Description	97
Combining Balance Sheet - Trust and Agency Funds	98
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Expendable Trust Fund	100
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	101
Combining Statement of Changes in Assets and Liabilities - Agency Funds	102
<i>General Fixed Assets Account Group:</i>	
Description	103
Comparative Schedules of General Fixed Assets - By Source	104
Schedule of Changes in General Fixed Assets	105
<i>General Long-Term Debt Account Group:</i>	
Description	107
Schedule of General Long - Term Debt	108
INDEPENDENT AUDITORS' REPORT – MEASURE C COMPLIANCE	109

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Caporicci, Cropper & Larson, LLP
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Sanger
Sanger, California

We have audited the accompanying general purpose financial statements of the City of Sanger, California (City), as of and for the year ended June 30, 2001, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity to generally accepted accounting principles in the United States.

As discussed in Note 1 to the general purpose financial statements, the City changed in 2001 its method of accounting and financial reporting for non-exchange transactions to conform to Governmental Accounting Standards Board Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2001, on our consideration of the City's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying combining, individual fund and account group financial statements and schedules listed in the foregoing table of contents as Supplementary Information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. This additional information is the responsibility of the management of the City. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

Caporicci, Cropper & Larson, LLP

Costa Mesa, California
December 7, 2001

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**GENERAL PURPOSE
FINANCIAL STATEMENTS**

City of Sanger
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001
(With comparative totals for June 30, 2000)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash and investments (Note 2)	\$ 3,348,877	\$ 3,170,794	\$ 752,921	\$ 1,277,586
Cash with fiscal agents (Note 2)	-	-	966,053	-
Accounts receivable	266,346	43,220	750	-
Notes receivable (Note 3)	-	414,338	19,650,000	125,864
Prepaid claims (Note 9)	-	-	-	-
Other receivables	-	169,824	-	-
Due from other funds (Note 10)	-	-	-	-
Advances to other funds (Note 10)	-	-	595,144	217,000
Land held for resale	-	720,785	-	557,383
Other assets	-	-	-	-
Property and equipment, net (Note 4)	-	-	-	-
Amount for retirement of general long-term debt:				
Available	-	-	-	-
To be provided	-	-	-	-
Total assets	\$ 3,615,223	\$ 4,518,961	\$ 21,964,868	\$ 2,177,833
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 270,245	\$ 162,562	\$ -	\$ 33,286
Accrued wages	-	-	-	-
Accrued interest payable	-	-	-	-
Workers' Compensation (Note 9)	-	-	-	-
Due to other funds (Note 10)	-	125,919	64,526	47,390
Due to bondholders	-	-	-	-
Advances from other funds (Note 10)	-	-	595,144	-
Deposits	-	-	-	-
Deferred revenue	-	414,338	19,650,000	598,424
Long-term obligations (Notes 5 and 6)	-	-	-	-
Other liabilities	-	128,389	-	-
Total liabilities	270,245	831,208	20,309,670	679,100
Fund Equity:				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	-
Fund balances (Note 7)	3,344,978	3,687,753	1,655,198	1,498,733
Total fund equity	3,344,978	3,687,753	1,655,198	1,498,733
Total liabilities and fund equity	\$ 3,615,223	\$ 4,518,961	\$ 21,964,868	\$ 2,177,833

See accompanying notes to general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust & Agency	General Fixed Assets	General Long-Term Debt	2001	2000
\$ 10,478,575	\$ 619,652	\$ 570,446	\$ -	\$ -	\$ 20,218,851	\$ 19,334,649
1,653,084	-	1,950,086	-	-	4,569,223	4,679,674
1,009,589	-	-	-	-	1,319,905	1,636,601
813,398	-	-	-	-	21,003,600	21,693,020
-	217,617	-	-	-	217,617	350,774
-	880	-	-	-	170,704	-
1,456,538	-	-	-	-	1,456,538	1,289,244
-	-	-	-	-	812,144	812,144
-	-	-	-	-	1,278,168	1,200,380
250,110	5,454	-	-	-	255,564	262,019
22,233,928	66,345	-	9,788,561	-	32,088,834	32,126,293
-	-	-	-	1,655,198	1,655,198	1,619,559
-	-	-	-	5,677,949	5,677,949	5,960,095
<u>\$ 37,895,222</u>	<u>\$ 909,948</u>	<u>\$ 2,520,532</u>	<u>\$ 9,788,561</u>	<u>\$ 7,333,147</u>	<u>\$ 90,724,295</u>	<u>\$ 90,964,452</u>
\$ 187,710	\$ 47,739	\$ 2,301	\$ -	\$ -	\$ 703,843	\$ 552,448
-	-	279,794	-	-	279,794	221,598
398,957	-	-	-	-	398,957	410,657
-	80,843	-	-	-	80,843	-
1,216,320	2,383	-	-	-	1,456,538	1,289,244
-	-	1,950,086	-	-	1,950,086	2,103,656
-	-	-	-	217,000	812,144	812,144
94,504	3,460	220,596	-	-	318,560	346,704
188,152	-	-	-	-	20,850,914	21,501,267
14,462,454	-	-	-	7,116,147	21,578,601	22,224,833
2,226	-	62,319	-	-	192,934	263,111
<u>16,550,323</u>	<u>134,425</u>	<u>2,515,096</u>	<u>-</u>	<u>7,333,147</u>	<u>48,623,214</u>	<u>49,725,662</u>
-	-	-	9,788,561	-	9,788,561	9,582,841
21,344,899	775,523	-	-	-	22,120,422	23,128,261
-	-	5,436	-	-	10,192,098	8,527,688
<u>21,344,899</u>	<u>775,523</u>	<u>5,436</u>	<u>9,788,561</u>	<u>-</u>	<u>42,101,081</u>	<u>41,238,790</u>
<u>\$ 37,895,222</u>	<u>\$ 909,948</u>	<u>\$ 2,520,532</u>	<u>\$ 9,788,561</u>	<u>\$ 7,333,147</u>	<u>\$ 90,724,295</u>	<u>\$ 90,964,452</u>

City of Sanger

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Fund

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES:				
Property taxes	\$ 723,072	\$ -	\$ 1,175,074	\$ -
Other taxes	3,170,770	775,533	-	-
Licenses and permits	155,510	10,000	-	-
Intergovernmental	1,959,253	889,046	-	-
Charges for services	186,445	-	-	-
Fines and forfeitures	15,822	53,130	-	-
Use of money and property	-	179,540	84,794	54,942
Other	461,958	322,707	-	-
Total revenues	6,672,830	2,229,956	1,259,868	54,942
EXPENDITURES:				
Current:				
General government	1,555,898	367,749	131,932	240,611
Public safety	3,235,685	-	-	-
Streets and roads	623,384	-	-	-
Parks and recreation	533,208	-	-	-
Capital outlay	201,804	1,380,751	-	99,827
Debt service:				
Principal	-	-	373,200	-
Interest	-	-	528,627	-
Total expenditures	6,149,979	1,748,500	1,033,759	340,438
REVENUES OVER (UNDER) EXPENDITURES	522,851	481,456	226,109	(285,496)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes	-	39,652	-	-
Operating transfers in (Note 10)	1,108,592	190,470	16,383	-
Operating transfers out (Note 10)	-	(508,592)	(206,853)	-
Total other financing sources (uses)	1,108,592	(278,470)	(190,470)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,631,443	202,986	35,639	(285,496)
FUND BALANCES:				
Beginning of year, as restated	1,713,535	3,484,767	1,619,559	1,784,229
End of year	<u>\$ 3,344,978</u>	<u>\$ 3,687,753</u>	<u>\$ 1,655,198</u>	<u>\$ 1,498,733</u>

See accompanying notes to general purpose financial statements.

Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
	2001	2000
\$ -	\$ 1,898,146	\$ 1,852,189
-	3,946,303	3,289,071
-	165,510	147,819
-	2,848,299	3,067,015
-	186,445	207,558
-	68,952	42,886
-	319,276	319,476
2,050	786,715	680,409
<u>2,050</u>	<u>10,219,646</u>	<u>9,606,423</u>
-	2,296,190	2,715,232
-	3,235,685	3,343,395
-	623,384	341,404
-	533,208	483,654
-	1,682,382	2,305,039
-	373,200	348,200
-	528,627	547,462
-	9,272,676	10,084,386
<u>2,050</u>	<u>946,970</u>	<u>(477,963)</u>
-	39,652	498,183
-	1,315,445	1,360,666
-	(715,445)	(860,666)
-	639,652	998,183
2,050	1,586,622	520,220
3,386	8,605,476	8,007,468
<u>\$ 5,436</u>	<u>\$ 10,192,098</u>	<u>\$ 8,527,688</u>

City of Sanger

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Governmental Fund Types

For the year ended June 30, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Property taxes	\$ 717,000	\$ 723,072	\$ 6,072	\$ -	\$ -	\$ -
Other taxes	2,725,000	3,170,770	445,770	555,500	775,533	220,033
Licenses and permits	120,600	155,510	34,910	10,000	10,000	-
Intergovernmental	1,955,910	1,959,253	3,343	813,000	889,046	76,046
Charges for services	215,050	186,445	(28,605)	-	-	-
Fines and forfeitures	9,000	15,822	6,822	15,000	53,130	38,130
Use of money and property	-	-	-	83,500	179,540	96,040
Other	331,700	461,958	130,258	1,390,000	322,707	(1,067,293)
Total revenues	6,074,260	6,672,830	598,570	2,867,000	2,229,956	(637,044)
EXPENDITURES:						
Current:						
General government	1,640,641	1,555,898	84,743	220,045	367,749	(147,704)
Public safety	3,381,487	3,235,685	145,802	-	-	-
Streets and roads	712,077	623,384	88,693	-	-	-
Parks and recreation	594,805	533,208	61,597	-	-	-
Capital outlay	964,455	201,804	762,651	4,869,120	1,380,751	3,488,369
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	7,293,465	6,149,979	1,143,486	5,089,165	1,748,500	3,340,665
REVENUES OVER (UNDER) EXPENDITURES	(1,219,205)	522,851	1,742,056	(2,222,165)	481,456	2,703,621
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes	-	-	-	-	39,652	39,652
Operating transfers in (Note 10)	1,142,300	1,108,592	(33,708)	175,000	190,470	15,470
Operating transfers out (Note 10)	-	-	-	(545,000)	(508,592)	36,408
Total other financing sources (uses)	1,142,300	1,108,592	(33,708)	(370,000)	(278,470)	91,530
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (76,905)	1,631,443	\$ 1,708,348	\$ (2,592,165)	202,986	\$ 2,795,151
FUND BALANCES:						
Beginning of year, as restated		1,713,535			3,484,767	
End of year		<u>\$ 3,344,978</u>			<u>\$ 3,687,753</u>	

See accompanying notes to general purpose financial statements.

Debt Service Funds			Capital Projects Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,122,845	\$ 1,175,074	\$ 52,229	\$ -	\$ -	\$ -	\$ 1,839,845	\$ 1,898,146	\$ 58,301
-	-	-	-	-	-	3,280,500	3,946,303	665,803
-	-	-	-	-	-	130,600	165,510	34,910
-	-	-	-	-	-	2,768,910	2,848,299	79,389
-	-	-	-	-	-	215,050	186,445	(28,605)
-	-	-	-	-	-	24,000	68,952	44,952
39,000	84,794	45,794	104,000	54,942	(49,058)	226,500	319,276	92,776
-	-	-	1,265,000	-	(1,265,000)	2,986,700	784,665	(2,202,035)
<u>1,161,845</u>	<u>1,259,868</u>	<u>98,023</u>	<u>1,369,000</u>	<u>54,942</u>	<u>(1,314,058)</u>	<u>11,472,105</u>	<u>10,217,596</u>	<u>(1,254,509)</u>
100,400	131,932	(31,532)	447,868	240,611	207,257	2,408,954	2,296,190	112,764
-	-	-	-	-	-	3,381,487	3,235,685	145,802
-	-	-	-	-	-	712,077	623,384	88,693
-	-	-	-	-	-	594,805	533,208	61,597
-	-	-	1,833,110	99,827	1,733,283	7,666,685	1,682,382	5,984,303
373,200	373,200	-	-	-	-	373,200	373,200	-
534,545	528,627	5,918	-	-	-	534,545	528,627	5,918
<u>1,008,145</u>	<u>1,033,759</u>	<u>(25,614)</u>	<u>2,280,978</u>	<u>340,438</u>	<u>1,940,540</u>	<u>15,671,753</u>	<u>9,272,676</u>	<u>6,399,077</u>
153,700	226,109	72,409	(911,978)	(285,496)	626,482	(4,199,648)	944,920	5,144,568
-	-	-	-	-	-	-	39,652	39,652
-	16,383	16,383	-	-	-	1,317,300	1,315,445	(1,855)
(205,000)	(206,853)	(1,853)	-	-	-	(750,000)	(715,445)	34,555
<u>(205,000)</u>	<u>(190,470)</u>	<u>14,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>567,300</u>	<u>639,652</u>	<u>72,352</u>
<u>\$ (51,300)</u>	<u>35,639</u>	<u>\$ 86,939</u>	<u>\$ (911,978)</u>	<u>(285,496)</u>	<u>\$ 626,482</u>	<u>\$ (3,632,348)</u>	<u>1,584,572</u>	<u>\$ 5,216,920</u>
	<u>1,619,559</u>			<u>1,784,229</u>			<u>8,602,090</u>	
	<u>\$ 1,655,198</u>			<u>\$ 1,498,733</u>			<u>\$ 10,186,662</u>	

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City of Sanger
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
All Proprietary Fund Types
For the year ended June 30, 2001
(With comparative totals for the year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal	2001	2000
		Service		
OPERATING REVENUES:				
Charges for services	\$ 6,019,980	\$ 1,906,150	\$ 7,926,130	\$ 7,789,304
Other	26,540	96,424	122,964	349,400
Total operating revenues	6,046,520	2,002,574	8,049,094	8,138,704
OPERATING EXPENSES:				
Personnel services	1,304,153	544,766	1,848,919	1,644,212
Supplies and services	1,843,898	1,413,943	3,257,841	3,197,829
Capital outlay	28,324	13,201	41,525	87,319
Operations	1,163,003	-	1,163,003	729,436
Other	843,670	475,566	1,319,236	2,229,696
Depreciation	790,553	22,216	812,769	209,943
Total operating expenses	5,973,601	2,469,692	8,443,293	8,098,435
OPERATING INCOME (LOSS)	72,919	(467,118)	(394,199)	40,269
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	799,947	-	799,947	829,099
Interest expense	(813,587)	-	(813,587)	(837,905)
Total nonoperating revenues (expenses), net	(13,640)	-	(13,640)	(8,806)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	59,279	(467,118)	(407,839)	31,463
Operating transfers in (Note 10)	-	-	-	50,000
Operating transfers out (Note 10)	(600,000)	-	(600,000)	(550,000)
NET INCOME (LOSS)	(540,721)	(467,118)	(1,007,839)	(468,537)
RETAINED EARNINGS:				
Beginning of year	21,885,620	1,242,641	23,128,261	23,596,798
End of year	\$ 21,344,899	\$ 775,523	\$ 22,120,422	\$ 23,128,261

See accompanying notes to general purpose financial statements.

City of Sanger

Combined Statement of Revenues, Expenses and Changes in Retained Earnings -

Budget and Actual - All Proprietary Fund Types

For the year ended June 30, 2001

	Enterprise Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Charges for services	\$ 5,925,300	\$ 6,019,980	\$ 94,680
Other	1,000	26,540	25,540
Total operating revenues	5,926,300	6,046,520	120,220
OPERATING EXPENSES:			
Personnel service	1,461,073	1,304,153	156,920
Supplies and services	1,805,400	1,843,898	(38,498)
Capital outlay	2,821,056	28,324	2,792,732
Operations	1,163,003	1,163,003	-
Other	1,206,877	843,670	363,207
Depreciation	470,000	790,553	(320,553)
Total operating expenses	8,927,409	5,973,601	2,953,808
OPERATING INCOME (LOSS)	(3,001,109)	72,919	3,074,028
NONOPERATING REVENUES (EXPENSES):			
Investment earnings	656,000	799,947	143,947
Interest expense	(813,590)	(813,587)	(3)
Total nonoperating revenues (expenses)	(157,590)	(13,640)	143,944
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(3,158,699)	59,279	3,217,978
Operating transfers out (Note 10)	(600,000)	(600,000)	-
NET INCOME (LOSS)	\$ (3,758,699)	(540,721)	\$ 3,217,978
RETAINED EARNINGS:			
Beginning of year		21,885,620	
End of year		\$ 21,344,899	

See accompanying notes to general purpose financial statements.

Internal Service Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 2,273,420	\$ 1,906,150	\$ (367,270)	\$ 8,198,720	\$ 7,926,130	\$ (272,590)
242,000	96,424	(145,576)	243,000	122,964	(120,036)
<u>2,515,420</u>	<u>2,002,574</u>	<u>(512,846)</u>	<u>8,441,720</u>	<u>8,049,094</u>	<u>(392,626)</u>
631,673	544,766	86,907	2,092,746	1,848,919	243,827
1,620,517	1,413,943	206,574	3,425,917	3,257,841	168,076
15,000	13,201	1,799	2,836,056	41,525	2,794,531
-	-	-	1,163,003	1,163,003	-
272,850	475,566	(202,716)	1,479,727	1,319,236	160,491
5,200	22,216	(17,016)	475,200	812,769	(337,569)
<u>2,545,240</u>	<u>2,469,692</u>	<u>75,548</u>	<u>11,472,649</u>	<u>8,443,293</u>	<u>3,029,356</u>
(29,820)	(467,118)	(437,298)	(3,030,929)	(394,199)	2,636,730
-	-	-	656,000	799,947	143,947
-	-	-	(813,590)	(813,587)	(3)
-	-	-	(157,590)	(13,640)	143,944
(29,820)	(467,118)	(437,298)	(3,188,519)	(407,839)	2,780,680
-	-	-	(600,000)	(600,000)	-
<u>\$ (29,820)</u>	<u>(467,118)</u>	<u>\$ (437,298)</u>	<u>\$ (3,788,519)</u>	<u>(1,007,839)</u>	<u>\$ 2,780,680</u>
	1,242,641			23,128,261	
	<u>\$ 775,523</u>			<u>\$ 22,120,422</u>	

City of Sanger
Combined Statement of Cash Flows
All Proprietary Fund Types
For the year ended June 30, 2001
(With comparative totals for the year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ 72,919	\$ (467,118)	\$ (394,199)	\$ 40,269
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	790,553	22,216	812,769	209,943
Prior period adjustments	-	-	-	273,855
Changes in assets and liabilities:				
Accounts receivable	132,411	-	132,411	388,064
Notes receivable	75,658	-	75,658	85,614
Prepaid claims	-	133,157	133,157	239,240
Other receivables	-	(880)	(880)	106,751
Due from other funds	(167,294)	-	(167,294)	99,821
Other assets	11,909	(5,454)	6,455	11,922
Accounts payable	(745)	11,416	10,671	(17,037)
Accrued interest payable	(11,701)	-	(11,701)	(8,575)
Workers' Compensation	-	80,843	80,843	-
Due to other funds	-	2,383	2,383	(32,353)
Deposits	28,982	513	29,495	28,221
Deferred revenue	103,250	-	103,250	25,599
Compensated absences	22,418	-	22,418	(9,207)
Net cash provided (used) by operating activities	1,058,360	(222,924)	835,436	1,442,127
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in	-	-	-	50,000
Operating transfers out	(600,000)	-	(600,000)	(550,000)
Net cash provided (used) by noncapital financing activities	(600,000)	-	(600,000)	(500,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Reduction of debt	(422,143)	-	(422,143)	(390,324)
Acquisition of fixed assets	(564,061)	(5,529)	(569,590)	(473,724)
Interest expense	(813,587)	-	(813,587)	(837,905)
Net cash provided (used) by capital and related financing activities	(1,799,791)	(5,529)	(1,805,320)	(1,701,953)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment earnings	799,947	-	799,947	829,099
Net cash provided (used) by investing activities	799,947	-	799,947	829,099
Net increase (decrease) in cash	(541,484)	(228,453)	(769,937)	69,273
CASH AND INVESTMENTS:				
Beginning of year	12,673,143	848,105	13,521,248	13,451,975
End of year	\$ 12,131,659	\$ 619,652	\$ 12,751,311	\$ 13,521,248

See accompanying notes to general purpose financial statements

City of Sanger
Index to Notes to General Purpose Financial Statements
For the year ended June 30, 2001

	<u>Page</u>
Note 1 - Summary of Significant Accounting Policies	
Reporting Entity	17
Description of Funds	17
Basis of Accounting	19
Accounting Standards	19
Budgetary Policies	20
Encumbrances	20
Cash and Investments	20
Land Held for Resale	21
Property, Plant and Equipment	21
Long-Term Liabilities	22
Fund Equity	22
Compensated Absences	23
Property Taxes	23
Interfund Transactions	23
"Totals (Memorandum Only)" Columns	23
Use of Estimates	23
Reclassifications	24
Implementation of New GASB Pronouncement	24
Note 2 - Cash and Investments	
External Investment Pool	24
Cash Deposits	25
Investments	25
Cash with Fiscal Agents	27

City of Sanger
Index to Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

	<u>Page</u>
Note 3 - Notes Receivables	29
Note 4 - Property, Plant and Equipment	32
Note 5 - General Long-Term Debt Account Group	
Long-Term Debt with City Commitment	33
Long-Term Debt without City Commitment	37
Note 6 - Proprietary Funds Long-Term Debt	38
Note 7 - Fund Equity	
Fund Reserves	40
Note 8 - Excess of Expenditures over Appropriations	40
Note 9 - Risk Management	41
Note 10 - Interfund Transactions	
Due from/Due to	42
Advances to/Advances from	43
Operating Transfers	43
Note 11 - Public Employee Retirement System	44
Note 12 - Segment Information for Enterprise Funds	46
Note 13 - Prior Period Adjustments	46
Note 14 - Contingencies	46

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The financial reporting entity consists of (a) the primary government, City of Sanger (City), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following is a brief review of the component units included in the accompanying general purpose financial statements of the City.

Redevelopment Agency of the City of Sanger

Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City.

Sanger Public Financing Authority

Its purpose is to act as a vehicle for various financing activities of the City. The Authority's Board of Directors is the Sanger City Council.

The above component units are included in the City's general purpose financial statements using the blended method since the governing body of these component units are substantially the same as the governing body of the City and these component units provided services entirely to the City.

Detailed financial statements are available for the above component units from the City's Finance Department.

Description of Funds - The accounts of the City are organized and operated on the basis of funds and account groups, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. These funds and account groups are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

City of Sanger

Notes to General Purpose Financial Statements, Continued

For the year ended June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In accordance with the City's municipal code and budget, several different types of funds and account groups are used to record the City's financial transactions. For financial reporting purposes, the City's funds and account groups have been grouped and are presented in the accompanying general purpose financial statements as follows:

Governmental Fund Types

General Fund - The purpose of this fund is to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds - The purpose of these funds is to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Funds - The purpose of these funds is to account for the accumulation of resources for, and the payment of, principal and interest on general obligation bonds, tax increment bonds and certificates of participation.

Capital Projects Funds - The purpose of these funds is to account for the acquisition of and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Proprietary Fund Types

Enterprise Funds - The purpose of these funds is to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

Internal Service Fund - The purpose of this fund is to account for the financing of goods and services provided by one department to other departments of the City on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds - The purpose of these funds is to account for assets which are held by the City in a trustee capacity or as an agency for individuals, private organizations and other governmental units or other funds. This fund is custodial in nature and does not involve the measurement of results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Account Groups

General Fixed Assets Account Group - The purpose of this account group is to maintain control and cost information on capital assets owned by the City, other than those accounted for in proprietary funds.

General Long-Term Debt Account Group - The purpose of this account group is to account for the unmatured long-term obligations of the City, other than those accounted for in proprietary funds.

Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for on a spending or "current financial resources" measurement focus. Accordingly, only current assets and current liabilities generally are included on the balance sheets. Operating statements of governmental funds present increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in net current assets.

All governmental and fiduciary fund types are accounted for using the modified accrual basis of accounting wherein revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Revenues considered susceptible to accrual include property taxes collected generally within 60 days of year-end, charges for services, Federal and State grants, sales taxes and interest. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for principal and interest on general long-term debt which is recognized when due.

All proprietary fund types are accounted for on a flow of "economic resources" measurement focus, meaning that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Operating statements of the proprietary fund types present increases (revenues) and decreases (expenses) in net total assets.

Proprietary fund types are maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period incurred.

Accounting Standards - Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Budgetary Policies - The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

The City Council may amend the budget by motion during the fiscal year. The Finance Director is authorized to transfer budgeted amounts within an activity, within any fund. However, any revisions that alter total expenditures of any fund must be approved by the City Council.

Expenditures may not legally exceed appropriations at the fund level. Appropriations lapse at the end of the fiscal year. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Budget information is presented on a consistent basis with generally accepted accounting principles. Budgeted revenue and expenditure amounts represent the original budget modified for adjustments during the year.

Encumbrances - Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances. Unexpended appropriations lapse at year-end.

Cash and Investments - The City pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Equity in City Treasury Cash in All Funds or Cash and Investments.

Land Held for Resale - Land held for resale is recorded at the lower of acquisition cost or net realizable value.

Property, Plant and Equipment - General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets acquired or constructed for proprietary funds are capitalized in their respective individual funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Depreciation of property and equipment is provided using the straight-line method over the following estimated useful lives:

Building and structures	20-50 years
Improvements	15-25 years
Sewer mains	50 years
Equipment, machinery and vehicles	3-20 years

Depreciation of all exhaustible property and equipment used by proprietary funds is charged as an expense against their respective operations. No interest costs were capitalized during the fiscal year. The City has elected not to depreciate the assets in the General Fixed Assets Account Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-Term Liabilities - Liabilities for long-term debt are recognized as a liability of a governmental fund when due. For other long-term obligations, only the portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of the obligation is reported in the General Long-Term Debt Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Equity - Reservations of fund balances of governmental funds and retained earnings of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures.

- **Reserved for Encumbrances** represents commitments for materials and services on purchase orders and contracts which are unperformed.
- **Reserved for Noncurrent Assets** represents funds for replacement of noncurrent assets.
- **Reserved for Land Held for Resale** is provided to indicate that land held for resale is not "available" as a resource to meet expenditures of the current year.
- **Reserved for Debt Service** represents amounts accumulated in accordance with a bond indenture or similar covenant.
- **Reserved for Maintenance** represents funds for replacement of fixed assets in the proprietary funds.
- **Reserved for Workers' Compensation** represents funds set aside for payment of workers' compensation claims.
- **Reserved for Liability Insurance** represents funds set aside to cover general liability claims and settlements.
- **Reserved for Health Insurance** represents funds for the payment of health insurance premiums and costs.
- **Reserved for Advances to Other Funds** represents funds held by the Sanger Public Financing Authority for the 1995 Series A Bonds represent the reserve requirement.
- **Reserved for Ambulance** represents funds for the acquisition of an ambulance vehicle that was budgeted in the 1998-99 fiscal year with delivery scheduled in the subsequent fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences - City employees have vested interests in varying levels of vacation, sick leave and compensatory time based on their length of employment. Sick leave is payable only when an employee is unable to work due to personal or family illness. Unused sick leave does not vest and is forfeited upon termination. The liabilities for compensated absences of the governmental fund types are recorded in the General Long-Term Debt Account Group. The liabilities for compensated absences of proprietary funds are recorded in those funds when incurred.

Property Taxes - Taxes are levied on January 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of Fresno, California (County) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes as revenues at June 30 available taxes or those collected within 60 days.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy proportionate to what it received during the years 1976 to 1978.

Interfund Transactions - Quasi-external transactions are accounted for as revenues, expenditures (governmental fund types) or expenses (proprietary fund types). Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recovered as a reduction in expenditures/expenses in the user fund. All other interfund transactions are reported as operating transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

"Totals (Memorandum Only)" Columns - Columns of the accompanying financial statements captioned "Totals (Memorandum Only)" do not present consolidated financial information and are presented only to facilitate financial analysis. The data in these columns do not present financial position, results of operations, cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

City of Sanger

Notes to General Purpose Financial Statements, Continued For the year ended June 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to prior year financial data in order to conform to the current year presentation.

Implementation of New GASB Pronouncement - In 2001, the City adopted a new accounting standard in order to conform to Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

GASB No. 33 established recording assets and revenues when the underlying exchange occurred, enforceable legal claim had arisen, all eligibility requirements had been met or when resources were received, whichever was first. By adopting this Standard, the City recognized assets and revenues from Non-Exchange Transactions which included sales taxes, property taxes, other taxes, fines and forfeitures, certain grants and entitlements, and certain government mandates. These Non-Exchange Transactions were accounted for as susceptible to accrual using the measurable and available criteria.

2. CASH AND INVESTMENTS

The City pools its cash and investments of all funds with the City Treasurer for investing, except for certain restricted funds, which are held and invested by independent outside custodians through contractual agreements. These restricted funds include cash held by trustee and deferred compensation plan deposits.

The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy that is more conservative than that allowed by State statute. The City's Investment Policy allows investing in U.S. Treasury obligations, obligations of State and local agencies, investment funds of State and local agencies and certificates of deposit.

External Investment Pool

The City's investments with LAIF at June 30, 2001 include a portion of the pool funds invested in structured notes and asset-backed securities and similar transactions. These investments may include the following:

- **Structured Notes** are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or that have embedded forwards or options.

2. CASH AND INVESTMENTS, Continued

- **Asset-backed Securities**, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

As of June 30, 2001, the City had \$11,510,960 invested in LAIF, which had invested 4.506% of the pool investment funds in structured notes and asset-backed securities.

Cash Deposits

The City's cash deposits at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Cash deposits which are insured by the FDIC.

Category 2 - Cash deposits which are collateralized. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits, or by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.

Category 3 - Cash deposits which are uninsured or uncollateralized.

Investments

The City's investments at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Investments which are insured by the Securities Investors Protection Corporation (SIPC), or investments which are held in definitive form by the City or the City's agent in the City's name, or investments which are acquired through the federal reserve book-entry system where the financial institution or broker/dealer associated with the purchase is adequately segregated from the custodial safekeeping agent on the same investments, and where the investments are recorded on the books and records of the financial institution or broker/dealer in the name of the City.

City of Sanger

Notes to General Purpose Financial Statements, Continued

For the year ended June 30, 2001

2. CASH AND INVESTMENTS, Continued

Category 2 - Investments which are uninsured, where the investments are acquired through a financial institution's investment or trading department, but are held in the same financial institution's trust department and are recorded in the City's name in the trust department's systems and records.

Category 3 - Investments which are uninsured, 1) where the investments are acquired through a financial institution's investments department but are held for custodial purposes in the same financial institution's safekeeping department, or 2) where the investments are acquired through a financial institution's trust department, and held for custodial safekeeping by the same trust department, or 3) where the investments are acquired through, and held for safekeeping by, the same broker/dealer or 4) where investments are not held in the City's name in the systems and records of the financial institution or broker/dealer.

At June 30, 2001, the City's pooled cash and investments, including restricted funds, classified by risk category consisted of the following:

	<u>Category 1</u>	<u>Category 3</u>	<u>Not required to be categorized</u>	<u>Fair Value</u>
Cash Deposits:				
Demand Accounts	\$ 1,140,883	\$ -	\$ -	\$ 1,140,883
Investments:				
DBCP Time Deposit	2,583,000	-	-	2,583,000
Repurchase Agreements	-	4,984,008	-	4,984,008
Local Agency Investment Fund	-	-	11,510,960	11,510,960
Total cash and investments	<u>\$ 3,723,883</u>	<u>\$ 4,984,008</u>	<u>\$ 11,510,960</u>	<u>\$ 20,218,851</u>
Cash with Fiscal Agents			<u>\$ 4,569,223</u>	<u>\$ 4,569,223</u>

The City had no Risk Category 2 cash and investments.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

2. CASH AND INVESTMENTS, Continued

Cash With Fiscal Agents

At June 30, 2001, the City's cash with fiscal agents consisted of the following:

Debt Service Funds:	
1974 Civic Center Bonds	\$ 131
1998 Community Facilities District 1 Bonds	113,142
Improvement District 79-1 Bonds	238,587
1995 Tax Increment Revenue Bonds	614,193
	<u>966,053</u>
Enterprise Fund:	
1996 Series A Revenue Bonds	<u>1,653,084</u>
Agency Fund:	
1991 Community Facilities District 1 Bonds	<u>1,950,086</u>
Total	<u><u>\$ 4,569,223</u></u>

1991 and 1998 Community Facilities District 1 Bonds

In September 1991, the Community Facilities District No. 1 was formed and issued limited obligation bonds of \$2,410,000 (Prior Bonds). In June 1998, the City issued Refunding Special Tax Bonds, Series 1998 of \$2,225,000 to refund the Prior Bonds. The Prior Bonds are callable October 1, 2001.

The escrow to refund the Prior Bonds has been invested in a qualified investment (State and Local Government Securities "SLGs") which allow for payment of interest, principal and premiums on the Prior Bonds as they become due for payment on October 1, 1998 and thereafter on any interest payment date through October 1, 2001.

The bonds are not general obligations of the City but are limited obligation bonds payable solely from the proceeds of the special tax to be levied on real property within the district boundaries. The City is acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

The bonds indenture requires the City to establish an improvement fund, a special tax fund, an administrative fund and a cost of issuance fund to account for the special tax revenues received and certain expenditures authorized by the bond agreement.

City of Sanger

Notes to General Purpose Financial Statements, Continued For the year ended June 30, 2001

2. CASH AND INVESTMENTS, Continued

Improvement District 79-1 Bonds

The indenture of the Improvement District 79-1 requires a special fund which is kept by the County of Fresno. This fund is used to deposit the special assessment revenue and to pay the principal and interest on the bonds.

1995 Tax Increment Revenue Bonds

In June 1995, the Sanger Public Financing Authority (Authority) issued limited obligation bonds of \$6,180,000. The bonds are not general obligations of the City but are limited obligation bonds payable solely from the proceeds of the special tax to be levied on real property within the district boundaries.

1996 Series A Revenue Bonds

In October 1996, the Authority issued limited obligation bonds of \$15,700,000 to finance the capital improvements to the wastewater treatment plant of the City. The bonds are payable from and secured by a first pledge of payments received by the Authority from the City's Sewer Enterprise Fund of the revenue generated from the operation of the wastewater treatment.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

3. NOTES RECEIVABLE

At June 30, 2001, the City's notes receivable consisted of the following:

Special Revenue Funds:	
Low Income Housing Loans	\$ 311,380
Down Payment Assistance Program	102,958
	<u>414,338</u>
Debt Service Funds:	
1995 Tax Increment Revenue Bonds	5,340,000
1996 Series A Revenue Bonds	14,310,000
	<u>19,650,000</u>
Capital Projects Funds:	
Loan to Richard Lawson Products Carousel	60,590
Business Façade Improvement Loans	65,274
	<u>125,864</u>
Enterprise Funds:	
Loans from Water Fund to Redevelopment Agency Fund	765,000
1985 COPs Refinancing	34,072
1997 Loans from Water Fund to General Fund	14,326
	<u>813,398</u>
Total	<u><u>\$ 21,003,600</u></u>

- A. At June 30, 2001, the Sanger Redevelopment Agency (Agency) was owed \$311,380 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.
- B. At June 30, 2001, the Agency was owned \$102,958 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.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

3. NOTES RECEIVABLE, Continued

C. At June 30, 2001, the Sanger Public Financing Authority (Authority) was owed \$5,340,000 under a loan agreement from the Agency. The Authority issued 1995 Tax Increment Revenue Bonds and subsequently loaned the proceeds to the Agency. The bonds were issued to refund outstanding bonds and finance certain obligations of the Agency relating to the Project Areas No. 1 and 2. See Note 5 for further discussion.

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

Year Ending June 30,	Principal	Interest	Total
2002	\$ 215,000	\$ 371,179	\$ 586,179
2003	230,000	357,155	587,155
2004	245,000	341,711	586,711
2005	260,000	324,786	584,786
2006	275,000	306,321	581,321
Thereafter	4,115,000	1,521,106	5,636,106
Total	\$ 5,340,000	\$ 3,222,258	\$ 8,562,258

D. At June 30, 2001, the Authority was owed \$14,310,000 under an installment sale agreement from the Sewer Fund. The Authority issued 1996 Series A Revenue Bonds and subsequently loaned the proceeds to the Sewer Fund. The bonds were issued to refinance the capital improvements to the wastewater treatment plant of the City. See Note 6 for further discussion.

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

Year Ending June 30,	Principal	Amortization of Bond Discount	Interest	Total
2002	\$ 415,000	\$ (4,710)	\$ 797,913	\$ 1,208,203
2003	425,000	(4,710)	773,013	1,193,303
2004	365,000	(4,710)	747,514	1,107,804
2005	395,000	(4,710)	726,070	1,116,360
2006	510,000	(4,710)	706,320	1,211,610
Thereafter	12,200,000	(75,360)	6,668,060	18,792,700
Total	\$ 14,310,000	\$ (98,910)	\$ 10,418,890	\$ 24,629,980

City of Sanger

Notes to General Purpose Financial Statements, Continued For the year ended June 30, 2001

3. NOTES RECEIVABLE, Continued

- E. At June 30, 2001, the City was owed \$60,590 under the provisions of an agreement with Richard Lawson/Products Carousel. The terms of the ten-year \$227,500 promissory note call for interest at 8% per annum. Principal and interest payments of \$8,281 shall be paid quarterly. Payment shall be deemed paid provided Products Carousel, Inc. meets the employment agreement with the City, dated September 17, 1993. Products Carousel satisfied the employment agreement for the year ended June 30, 2001.
- G. At June 30, 2001, the City was owed \$65,274 from various business façade improvement loans, which are non-interest bearing and secured by deeds of trust. Maturities vary according to terms.
- H. At June 30, 2001, the City's Water Enterprise Fund was owed \$765,000 under terms of a loan agreement. During 1994-95, the Sanger Public Financing Authority borrowed money from the Water Fund. See Note 5 for further discussion.

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

Year Ending June 30,	Principal	Interest	Total
2002	\$ 35,000	\$ 38,250	\$ 73,250
2003	35,000	36,500	71,500
2004	35,000	34,750	69,750
2005	40,000	33,000	73,000
2006	40,000	31,000	71,000
Thereafter	580,000	177,250	757,250
Total	\$ 765,000	\$ 350,750	\$ 1,115,750

- I. During June 1997, the 1985 COP's were refinanced through a loan from the Water Fund in the amount of \$216,100, which was split between the General Fund and the Disposal Enterprise Fund. At June 30, 2001, the total loan amount was \$48,398, of which the proportion of General Fund was \$14,326 with annual payments of \$15,185 and the proportion of Disposal Fund was \$34,072 with annual payments of \$36,116 and both are due to expire in 2002. See Notes 5 and 6 for further discussion.

The annual debt service requirements by year are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 48,398	\$ 2,904	\$ 51,302
Total	\$ 48,398	\$ 2,904	\$ 51,302

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

4. PROPERTY, PLANT AND EQUIPMENT

Proprietary Fund Types

Property, plant and equipment of the enterprise funds at June 30, 2001, consisted of the following:

	Water	Sewer	Disposal	Ambulance	Total
Land	\$ 17,285	\$ 1,310,057	\$ -	\$ -	\$ 1,327,342
Structures and improvements	7,201,703	22,005,305	-	-	29,207,008
Machinery and equipment	227,849	575,549	2,434,288	360,748	3,598,434
	7,446,837	23,890,911	2,434,288	360,748	34,132,784
Less accumulated depreciation	(4,366,250)	(4,972,004)	(2,279,349)	(281,253)	(11,898,856)
Total	\$ 3,080,587	\$ 18,918,907	\$ 154,939	\$ 79,495	\$ 22,233,928

Changes in property, plant and equipment of the internal service funds, at June 30, 2001, consisted of the following:

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Machinery and equipment	\$ 538,426	\$ 5,529	\$ -	\$ 543,955
Less accumulated depreciation	(455,394)	(22,216)	-	(477,610)
Total	\$ 83,032	\$ (16,687)	\$ -	\$ 66,345

Depreciation expense of the proprietary fund types was \$812,769 for the year ended June 30, 2001.

General Fixed Assets Account Group

Activity in the General Fixed Assets Account Group for the year ended June 30, 2001, was as follows:

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Land	\$ 421,715	\$ -	\$ -	\$ 421,715
Buildings	3,041,998	-	-	3,041,998
Improvements	2,744,317	93,269	-	2,837,586
Machinery and equipment	3,374,811	154,240	(41,789)	3,487,262
Total	\$ 9,582,841	\$ 247,509	\$ (41,789)	\$ 9,788,561

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

5. GENERAL LONG-TERM DEBT ACCOUNT GROUP

Long-Term Debt With City Commitment

Activity in the General Long-Term Debt Account Group with City Commitment for the year ended June 30, 2001, was as follows:

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Notes Payable	\$ 16,000	\$ -	\$ (3,200)	\$ 12,800
1995 Tax Increment Revenue Bonds	5,545,000	-	(205,000)	5,340,000
Loans Payable	822,841	-	(43,515)	779,326
Advances from Redevelopment Agency	217,000	-	-	217,000
Capital Lease Obligations	409,979	-	(32,504)	377,475
Compensated absences	568,834	79,313	(41,601)	606,546
Total	\$ 7,579,654	\$ 79,313	\$ (325,820)	\$ 7,333,147

Notes Payable

The Sanger Redevelopment Agency (Agency) entered a reimbursement agreement with Clovis-Sanger Cabinet Manufacturing for the partial return of the tax increment. The Agency is making annual installments of \$3,200 to the developer. The note carries no interest rate and matures on May 30, 2005.

The annual debt service requirements by year are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 3,200	\$ -	\$ 3,200
2003	3,200	-	3,200
2004	3,200	-	3,200
2005	3,200	-	3,200
Total	\$ 12,800	\$ -	\$ 12,800

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

5. GENERAL LONG-TERM DEBT ACCOUNT GROUP, Continued

1995 Tax Increment Revenue Bonds

The bonds were issued to loan funds to the Sanger Redevelopment Agency (the Agency) to refund outstanding bonds and finance certain obligations of the Agency relating to the Project Areas No. 1 and 2. The \$6,180,000 bonds mature annually each August 1, 1998 to 2015, in amounts ranging from \$95,000 to \$550,000. The bonds bear interest between 6.0% and 8.0% and are payable semi-annually each February 1 and August 1.

The bonds are special obligations of the Sanger Public Financing Authority (the Authority) payable from and secured by revenues received by the Authority pursuant to two Loan Agreements by and between the Authority and the Agency relating to the Project Areas No. 1 and 2. Payment by the Agency under the respective Loan Agreements is secured by a first pledge of and lien on the tax revenues from the Project Area to which the Loan Agreement pertains.

The annual debt service requirements by year are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 215,000	\$ 371,179	\$ 586,179
2003	230,000	357,155	587,155
2004	245,000	341,711	586,711
2005	260,000	324,786	584,786
2006	275,000	306,321	581,321
Thereafter	4,115,000	1,521,106	5,636,106
Total	\$ 5,340,000	\$ 3,222,258	\$ 8,562,258

Loans Payable

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
1985 loans from Water Fund to General Fund	\$ 27,841	\$ -	\$ (13,515)	\$ 14,326
Loans from Water Fund to Redevelopment Agency Fund	795,000	-	(30,000)	765,000
	\$ 822,841	\$ -	\$ (43,515)	\$ 779,326

City of Sanger

Notes to General Purpose Financial Statements, Continued

For the year ended June 30, 2001

5. GENERAL LONG-TERM DEBT ACCOUNT GROUP, Continued

- A. During June 1997, the 1985 COP's were refinanced through a loan from the Water Fund in the amount of \$216,100 which was split between the General Fund and Disposal Enterprise Fund. At June 30, 2001, the proportion of General Fund was \$14,326 with annual payments of \$15,185 and is due to expire in 2002.

The annual debt service requirements by year are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 14,326	\$ 859	\$ 15,185
Total	\$ 14,326	\$ 859	\$ 15,185

- B. During 1994-95, the Authority borrowed money from the Water Fund and subsequently loaned the proceeds to the Sanger Redevelopment Agency (Agency) to refund outstanding bonds and finance certain obligations of the Agency relating to the Project Area No. 1 and 2. Principal payments are to be made by the Agency to the Water Fund each August 1, 1997 to June 1, 2015, in amounts ranging from \$15,000 to \$75,000. The loan bears interest of 5.0% and is payable annually each August 1.

The annual debt service requirements by year are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 35,000	\$ 38,250	\$ 73,250
2003	35,000	36,500	71,500
2004	35,000	34,750	69,750
2005	40,000	33,000	73,000
2006	40,000	31,000	71,000
Thereafter	580,000	177,250	757,250
Total	\$ 765,000	\$ 350,750	\$ 1,115,750

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

5. GENERAL LONG-TERM DEBT ACCOUNT GROUP, Continued

Advances from Redevelopment Agency

During October 1996, the Agency agreed to transfer land from the Agency, through the City, to Toter, Inc. in full settlement of Toter's utility users tax dispute with the City. With the transfer of this property, the City is obligated to the Agency for \$217,000 with annual interest rate of 3%.

Capital Lease Obligations

On May 6, 1999, the City of Sanger entered into a Lease with Option to Purchase agreement with Honeywell for an energy efficient upgrade of the heating, ventilation air conditioning systems and traffic signal lighting upgrades. The City refinanced this lease with another Lease with Option to Purchase agreement with Saulsbury Hill Financial. The lease bears an interest rate of 5.06% and terminates in May 6, 2010.

Outstanding capital lease payments as of June 30, 2001 are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 34,149	\$ 19,100	\$ 53,249
2003	35,877	17,372	53,249
2004	37,692	15,557	53,249
2005	39,599	13,650	53,249
2006	41,603	11,646	53,249
Thereafter	188,555	24,441	212,996
Total	\$ 377,475	\$ 101,766	\$ 479,241

Compensated Absences

Employees accrue annual leave between 20 to 38 days a year depending on the length of service. The amount of the City's estimated cost for unused annual leave benefits due to employees which is not anticipated to be liquidated with available expendable resources is reflected as a long-term obligation. The portion of the obligation accounted for in the General Long-Term Debt Account Group was \$606,546 as of June 30, 2001.

City of Sanger

Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

5. GENERAL LONG-TERM DEBT ACCOUNT GROUP, Continued

Long-Term Debt Without City Commitment

At June 30, 2001, the following Special Assessment Bonds are payable from the proceeds of the Special Tax levied and collected on all real property within the Special Districts. The City is in no way obligated to repay the debt in the event of a default and the debt is not recorded in the accompanying financial statements.

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
1998 Community Facilities District 1 - Refunding Special Assessment Bonds	\$ 2,100,000	\$ -	\$ (135,000)	\$ 1,965,000
	<u>\$ 2,100,000</u>	<u>\$ -</u>	<u>\$ (135,000)</u>	<u>\$ 1,965,000</u>

1998 Community Facilities District 1 Refunding Special Assessment Bonds

In June 1998, the Community Facility District No. 1, Refunding Special Assessment Bonds, Series 1998, were issued for the purpose of refunding the 1991 Special Assessment bonds. The bonds mature annually each October 1, 1999 to 2011, in amounts ranging from \$125,000 to \$230,000. The bonds bear interest ranging from 4.30% to 5.55% and are payable semi-annually each April 1 and October 1.

The bonds and the interest thereon are payable from and secured by a first pledge of the proceeds of the Special Tax to be levied and collected on all real property within the District.

The annual debt service requirements by year are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 140,000	\$ 98,590	\$ 238,590
2003	145,000	91,891	236,891
2004	150,000	84,810	234,810
2005	160,000	77,212	237,212
2006	165,000	69,086	234,086
Thereafter	1,205,000	207,680	1,412,680
Total	<u>\$ 1,965,000</u>	<u>\$ 629,269</u>	<u>\$ 2,594,269</u>

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

6. PROPRIETARY FUNDS LONG-TERM DEBT

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Refinancing 1985 COPs	\$ 66,215	\$ -	\$ (32,143)	\$ 34,072
1996 Series A Revenue Bonds	14,700,000	-	(390,000)	14,310,000
Compensated absences	95,964	22,418	-	118,382
Total	<u>\$ 14,862,179</u>	<u>\$ 22,418</u>	<u>\$ (422,143)</u>	<u>\$ 14,462,454</u>

1985 Certificates of Participation

The \$6,010,000 COP's were issued by the Association of Bay Area Governments dated October 15, 1985. The City's proportionate share of the agreement is \$1,240,000. The proceeds were used for the construction and acquisition of fixed assets. The assets of the project were split between the General Long-Term Debt Account Group (29.6%) and the Disposal Enterprise Fund (70.4%).

The COP's were refinanced in June, 1997 through a loan from the Water Fund in the amount of \$216,100 which was split between the General Fund and Disposal Fund, Enterprise Fund. At June 30, 2001, the proportion of Disposal Fund is \$34,072 with annual payments of \$36,116 and is due to expire in 2001.

The annual debt service requirements by year are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	\$ 34,072	\$ 2,044	\$ 36,116
Total	<u>\$ 34,072</u>	<u>\$ 2,044</u>	<u>\$ 36,116</u>

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

6. PROPRIETARY FUNDS LONG-TERM DEBT, Continued

1996 Series A Revenue Bonds

The Sanger Public Financing Authority (Authority) issued 1996 Series A Revenue Bonds and subsequently loaned the proceeds to the Sewer Fund. The bonds were issued to refinance the capital improvements to the wastewater treatment plant of the City. The bonds mature annually each January 1, 1998 to 2022, in amounts ranging from \$300,000 to \$1,110,000. The bonds bear interest of 5% to 6% and are payable semi-annually each January 1 and July 1.

The bonds are payable from, and secured by a first pledge of payments received by the Authority from the City under an Installment Sale Agreement. The obligation of the City to make such payments is payable solely from revenue received by the City from the ownership or operation of the plant.

The annual requirements to amortize the bonds payable are as follows:

Year Ending June 30,	Principal	Amortization of Bond Discount	Interest	Total
2002	\$ 415,000	\$ (4,710)	\$ 797,913	\$ 1,208,203
2003	425,000	(4,710)	773,013	1,193,303
2004	365,000	(4,710)	747,514	1,107,804
2005	395,000	(4,710)	726,070	1,116,360
2006	510,000	(4,710)	706,320	1,211,610
Thereafter	12,200,000	(75,360)	6,668,060	18,792,700
Total	\$ 14,310,000	\$ (98,910)	\$ 10,418,890	\$ 24,629,980

Compensated Absences

Employees accrue annual leave between 20 to 38 days a year depending on the length of service. The amount of the City's estimated cost for unused annual leave benefits due to employees which is not anticipated to be liquidated with available expendable resources is reflected as a long-term obligation. The portion of the obligation accounted for in the Enterprise Fund was \$118,382 as of June 30, 2001.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

7. FUND EQUITY

Fund Reserves

Fund balances and retained earnings at June 30, 2001, have been reserved for the following:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds	Trust and Agency Funds
Reserved for:							
Advances to other funds	\$ -	\$ -	\$ 595,144	\$ -	\$ -	\$ -	\$ -
Noncurrent assets	-	-	-	941,350	-	-	-
Land held for resale	-	720,785	-	557,383	-	-	-
Debt service	-	-	1,117,488	-	-	-	-
Maintenance	-	-	-	-	11,312,304	-	-
Ambulance	-	-	-	-	303,490	-	-
Worker's compensation	-	-	-	-	-	150,000	-
Liability insurance	-	-	-	-	-	100,000	-
Health insurance	-	-	-	-	-	200,000	-
Total reserved	-	720,785	1,712,632	1,498,733	11,615,794	450,000	-
Unreserved, Undesignated	3,344,978	2,966,968	(57,434)	-	9,729,105	325,523	5,436
Total	\$ 3,344,978	\$ 3,687,753	\$ 1,655,198	\$ 1,498,733	\$ 21,344,899	\$ 775,523	\$ 5,436

8. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Debt Service Funds

The expenditures of the Redevelopment Agency exceeded appropriations by \$42,735 because the Fresno County pass through distributions from property tax increments were under estimated.

9. RISK MANAGEMENT

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The Authority is comprised of 54 California member cities and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Each member city has a representative on the Board of Directors. Officers of the Authority are elected annually by the Board of Directors.

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:

Claims Payable:	
Workers' Compensation Insurance	
2000-2001	\$ 80,843
Prepaid Claims:	
General Liability Insurance	
2000-2001	\$ 217,617

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

9. RISK MANAGEMENT, Continued

This information presented above is as of June 30, 2001 and is the most current information available.

The latest audited financial information for CSJVRMA for fiscal year ended June 30, 2001 is as follows:

Total assets	<u>\$ 54,768,535</u>
Total liabilities	<u>\$ 38,550,569</u>
Total equities	<u>\$ 16,217,966</u>
Total revenues	<u>\$ 17,250,905</u>
Total expenses	<u>\$ 12,178,588</u>
Revenues over expenses	<u>\$ 5,072,317</u>

10. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2001 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Special Revenue Fund:		
Grant Funds	\$ -	\$ 116,866
Transportation Equity Act 21	-	9,053
Debt Service Funds:		
Improvement District 79-1 Bonds	-	2,337
Redevelopment Agency	-	57,434
Public Financing Authority	-	4,755
Capital Project Funds:		
Redevelopment Agency	-	47,390
Enterprise Funds:		
Water Fund	1,456,538	-
Sewer Fund	-	1,216,320
Internal Service Fund:		
Reprographics and Data Processing	-	2,383
Total	<u>\$ 1,456,538</u>	<u>\$ 1,456,538</u>

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

10. INTERFUND TRANSACTIONS, Continued

Interfund advances at June 30, 2001 were as follows:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
Debt Service Funds:		
Redevelopment Agency	\$ 595,144	\$ -
Public Financing Authority	-	595,144
Capital Projects Fund:		
Redevelopment Agency	217,000	-
Long-Term Debt Account Group	-	217,000
Total	<u>\$ 812,144</u>	<u>\$ 812,144</u>

Interfund transfers for the year ended June 30, 2001 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,108,592	\$ -
Special Revenue Funds:		
Gas Tax	-	282,592
Traffic Safety	-	10,000
Local Public Safety	-	60,000
Redevelopment Agency	190,470	-
Grant Funds	-	35,000
Landscape and Lighting	-	121,000
Debt Service Funds:		
Redevelopment Agency	16,383	190,470
Public Financing Authority	-	16,383
Enterprise Fund:		
Water	-	600,000
Total	<u>\$ 1,315,445</u>	<u>\$ 1,315,445</u>

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description - The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy - City employees are required by state statute to contribute 7% for miscellaneous employees and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account which amounted to \$179,269 for the year ended June 30, 2001. The City employer is required to contribute for fiscal year 2000-2001 at an actuarially determined rate; the current rate is 0.00% for miscellaneous employees, 0.00% for police employees, and 0.00% for fire employees of annual covered payroll. The contribution requirements of City employees and the City employer are established and may be amended by PERS.

Annual Pension Cost - For fiscal year 2000-2001, the City's annual pension cost of \$47,694 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases range from 3.75% to 14.20% depending on age, service, and type of employment; and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. PERS 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, 2000 was 9999 years for miscellaneous employees, 20 years for safety police employees, and 36 years for safety fire employees for prior and current service unfunded liability.

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued

THREE-YEAR TREND INFORMATION FOR PERS

Miscellaneous Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 8,441	100%	\$ -
6/30/00	None	100%	-
6/30/01	None	100%	-

Police Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 135,920	100%	\$ -
6/30/00	64,343	100%	-
6/30/01	47,694	100%	-

Fire Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 25,952	100%	\$ -
6/30/00	None	100%	-
6/30/01	None	100%	-

City of Sanger
Notes to General Purpose Financial Statements, Continued
For the year ended June 30, 2001

12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the City's four enterprise funds for the year ended June 30, 2001, was as follows:

	Water Fund	Sewer Fund	Disposal Fund	Ambulance Fund	Total
Operating revenue	\$ 1,230,309	2,060,403	\$ 1,801,060	\$ 954,748	\$ 6,046,520
Depreciation	184,055	527,206	29,448	49,844	790,553
Operating income (loss)	(33,314)	15,110	101,664	(10,541)	72,919
Operating transfers out	600,000	-	-	-	600,000
Net income (loss)	80,050	(723,401)	113,171	(10,541)	(540,721)
Property, plant and equipment, net	3,080,587	18,918,907	154,939	79,495	22,233,928
Net working capital	12,024,649	970,187	343,964	234,625	13,573,425
Total assets	15,277,366	21,656,048	643,964	317,844	37,895,222
Long-term debt	8,148	14,334,800	98,335	21,171	14,462,454
Total equity	15,097,088	5,554,294	400,568	292,949	21,344,899

13. PRIOR PERIOD ADJUSTMENTS

As of July 1, 2000 the City restated beginning fund balances for the following funds types in order to correct certain accounting errors.

	Capital Projects Fund Project Area #2
Fund Balance, beginning of year, as previously reported	\$ 1,706,441
Prior period adjustment	<u>77,788</u>
Fund Balance, beginning of year, as restated	<u>\$ 1,784,229</u>

14. CONTINGENCIES

The City is a defendant in a number of lawsuits which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the City Attorney, these actions when finally adjudicated will not have material adverse effect on the financial position of the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Sanger
Required Supplementary Information
For the year ended June 30, 2001

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

Miscellaneous Plan

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Overfunded Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/1998	\$ 9,733,295	\$ 6,807,880	\$ 2,925,415	143.0%	\$ 1,729,889	169.1%
6/30/1999	10,958,877	7,636,268	3,322,609	143.5%	1,533,642	216.6%
6/30/2000	12,065,748	8,973,534	3,092,214	134.5%	1,666,312	185.6%

Police Plan

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Overfunded Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/1998	\$ 5,987,132	\$ 5,624,482	\$ 362,650	106.4%	\$ 783,770	46.3%
6/30/1999	6,706,441	5,653,131	1,053,310	118.6%	725,203	145.2%
6/30/2000	7,357,686	6,051,606	1,306,080	121.6%	724,966	181.2%

Fire Plan

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Value Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Overfunded Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/1998	\$ 6,331,791	\$ 5,421,570	\$ 910,221	116.8%	\$ 633,681	143.6%
6/30/1999	7,082,181	5,803,715	1,278,466	122.0%	647,909	197.3%
6/30/2000	7,774,185	6,336,884	1,437,301	122.7%	723,741	198.6%

SUPPLEMENTARY INFORMATION

**COMBINING STATEMENTS,
INDIVIDUAL FUNDS
AND ACCOUNT GROUPS**

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GENERAL FUND

The General Fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds.

City of Sanger
Comparative Balance Sheets
General Fund
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Cash and investments	\$ 3,348,877	\$ 1,681,354
Accounts receivable	266,346	248,540
Total assets	<u>\$ 3,615,223</u>	<u>\$ 1,929,894</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 270,245	\$ 216,359
Total liabilities:	<u>270,245</u>	<u>216,359</u>
Fund Balances:		
Unreserved, undesignated	3,344,978	1,713,535
Total fund balances	<u>3,344,978</u>	<u>1,713,535</u>
Total liabilities and fund balances	<u>\$ 3,615,223</u>	<u>\$ 1,929,894</u>

City of Sanger
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the years ended June 30, 2001 and 2000

	2001	2000
REVENUES:		
Property taxes	\$ 723,072	\$ 713,719
Other taxes	3,170,770	2,758,132
Licenses and permits	155,510	147,819
Intergovernmental	1,959,253	1,719,850
Charges for services	186,445	207,558
Fines and forfeitures	15,822	18,915
Other	461,958	366,198
Total revenues	6,672,830	5,932,191
EXPENDITURES:		
Current:		
General government	1,555,898	1,722,084
Public safety	3,235,685	3,343,395
Streets and roads	623,384	341,404
Parks and recreation	533,208	483,654
Capital outlay	201,804	164,573
Total expenditures	6,149,979	6,055,110
REVENUES OVER (UNDER) EXPENDITURES	522,851	(122,919)
OTHER FINANCING SOURCES (USES):		
Proceeds from notes	-	440,823
Operating transfers in	1,108,592	921,970
Operating transfers out	-	-
Total other financing sources (uses)	1,108,592	1,362,793
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,631,443	1,239,874
FUND BALANCES:		
Beginning of year	1,713,535	473,661
End of year	\$ 3,344,978	\$ 1,713,535

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SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues derived from the specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision, local ordinance, or Federal grant regulation to record particular operating or capital functions of the City.

Traffic Congestion Relief Fund - This fund 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 congestions, provide additional funding for street and road deferred maintenance, and provide additional transportation and capacity in high growth areas of the state.

Gas Tax Fund - 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

Transportation and Street Maintenance Funds - These funds are used to account 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.

Traffic Safety Funds - These funds are used to account for vehicle code fines and forfeitures to be used for traffic control devices, maintenance of equipment, supplies for traffic law enforcement, traffic accident prevention and maintenance and improvement or construction of streets.

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

Air Quality Fund - 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.

Redevelopment Agency - These funds are used to account for the tax increment resources used to redevelop areas of the City. Redevelopment is accomplished through the reconstruction and rehabilitation of residential, commercial, industrial or rental property.

Grant Funds - These funds are used to account for the contributions of cash or other assets from the State of California to be used for a specified purpose, activity or facility.

Landscape and Lighting Funds - These funds are used to account for assessments levied for operation and maintenance of parks, street lighting and landscaping.

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

City of Sanger
Combining Balance Sheet
All Special Revenue Funds
June 30, 2001

(With comparative totals for June 30, 2000)

	Traffic Congestion Relief Fund	Gas Tax Fund	Transportation and Street Maintenance Funds	Traffic Safety Funds	Local Public Safety Funds
ASSETS					
Cash and investments	\$ 141,855	\$ 279,507	\$ 1,955,410	\$ 59,195	\$ 20,810
Accounts receivable	-	-	16,923	4,534	12,934
Notes receivable	-	-	-	-	-
Other receivables	-	-	-	-	-
Land held for resale	-	-	-	-	-
Total assets	\$ 141,855	\$ 279,507	\$ 1,972,333	\$ 63,729	\$ 33,744
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,477	\$ -	\$ 134,581	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	5,477	-	134,581	-	-
Fund Balances:					
Reserved for land held for resale	-	-	-	-	-
Unreserved, undesignated	136,378	279,507	1,837,752	63,729	33,744
Total fund balances	136,378	279,507	1,837,752	63,729	33,744
Total liabilities and fund balances	\$ 141,855	\$ 279,507	\$ 1,972,333	\$ 63,729	\$ 33,744

Air Quality Fund	Redevelopment Agency	Grant Funds	Landscape & Lighting Funds	Transportation Equity Act 21	Totals	
					2001	2000
\$ 45,321	\$ 304,801	\$ 323,636	\$ 31,206	\$ 9,053	\$ 3,170,794	\$ 2,907,513
-	-	3,853	4,976	-	43,220	205,536
-	414,338	-	-	-	414,338	420,379
-	-	169,824	-	-	169,824	-
-	720,785	-	-	-	720,785	720,785
<u>\$ 45,321</u>	<u>\$ 1,439,924</u>	<u>\$ 497,313</u>	<u>\$ 36,182</u>	<u>\$ 9,053</u>	<u>\$ 4,518,961</u>	<u>\$ 4,254,213</u>
\$ -	\$ 9,269	\$ 13,235	\$ -	\$ -	\$ 162,562	\$ 79,445
-	-	116,866	-	9,053	125,919	65,832
-	414,338	-	-	-	414,338	420,377
-	-	128,389	-	-	128,389	203,792
-	423,607	258,490	-	9,053	831,208	769,446
-	720,785	-	-	-	720,785	720,785
45,321	295,532	238,823	36,182	-	2,966,968	2,763,982
45,321	1,016,317	238,823	36,182	-	3,687,753	3,484,767
<u>\$ 45,321</u>	<u>\$ 1,439,924</u>	<u>\$ 497,313</u>	<u>\$ 36,182</u>	<u>\$ 9,053</u>	<u>\$ 4,518,961</u>	<u>\$ 4,254,213</u>

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

All Special Revenue Funds

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Traffic Congestion Relief Fund	Gas Tax Fund	Transportation and Street Maintenance Funds	Traffic Safety Fund	Local Public Safety Funds
REVENUES:					
Other taxes	\$ 135,706	\$ -	\$ 556,730		\$ 83,097
Licenses and permits	-	-	-	-	-
Intergovernmental	-	344,198	-	-	-
Fines and forfeitures	-	-	-	53,130	-
Use of money and property	6,149	13,383	126,534	2,076	871
Other	-	-	-	-	-
Total revenues	141,855	357,581	683,264	55,206	83,968
EXPENDITURES:					
General government	-	1,220	-	-	-
Capital outlay	5,477	-	981,350	-	-
Total expenditures	5,477	1,220	981,350	-	-
REVENUES OVER (UNDER) EXPENDITURES	136,378	356,361	(298,086)	55,206	83,968
OTHER FINANCING SOURCES (USES):					
Proceeds from notes	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(282,592)	-	(10,000)	(60,000)
Total other financing sources (uses)	-	(282,592)	-	(10,000)	(60,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	136,378	73,769	(298,086)	45,206	23,968
FUND BALANCES:					
Beginning of year	-	205,738	2,135,838	18,523	9,776
End of year	\$ 136,378	\$ 279,507	\$ 1,837,752	\$ 63,729	\$ 33,744

Air Quality Fund	Redevelopment Agency	Grant Funds	Landscape & Lighting Fund	Transportation Equity Act 21	Totals	
					2001	2000
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 775,533	\$ 530,939
10,000	-	-	-	-	10,000	-
-	-	544,848	-	-	889,046	1,347,165
-	-	-	-	-	53,130	23,971
-	12,760	17,767	-	-	179,540	-
-	59	-	123,408	199,240	322,707	229,384
10,000	12,819	562,615	123,408	199,240	2,229,956	2,131,459
-	163,666	202,863	-	-	367,749	459,025
-	-	194,684	-	199,240	1,380,751	1,770,474
-	163,666	397,547	-	199,240	1,748,500	2,229,499
10,000	(150,847)	165,068	123,408	-	481,456	(98,040)
-	39,652	-	-	-	39,652	57,360
-	190,470	-	-	-	190,470	173,696
-	-	(35,000)	(121,000)	-	(508,592)	(421,970)
-	230,122	(35,000)	(121,000)	-	(278,470)	(190,914)
10,000	79,275	130,068	2,408	-	202,986	(288,954)
35,321	937,042	108,755	33,774	-	3,484,767	3,773,721
\$ 45,321	\$ 1,016,317	\$ 238,823	\$ 36,182	\$ -	\$ 3,687,753	\$ 3,484,767

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Special Revenue Funds

For the year ended June 30, 2001

	Traffic Congestion Relief Fund			Gas Tax Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Other taxes	\$ -	\$ 135,706	\$ 135,706	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	341,000	344,198	3,198
Fines and forfeitures	-	-	-	-	-	-
Use of money and property	-	6,149	6,149	5,000	13,383	8,383
Other	-	-	-	-	-	-
Total revenues	-	141,855	141,855	346,000	357,581	11,581
EXPENDITURES:						
General government	-	-	-	1,000	1,220	(220)
Capital outlay	-	5,477	(5,477)	-	-	-
Total expenditures	-	5,477	(5,477)	1,000	1,220	(220)
REVENUES OVER (UNDER) EXPENDITURES	-	136,378	136,378	345,000	356,361	11,361
OTHER FINANCING SOURCES (USES):						
Proceeds from notes	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	(315,000)	(282,592)	32,408
Total other financing sources (uses)	-	-	-	(315,000)	(282,592)	32,408
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	136,378	\$ 136,378	\$ 30,000	73,769	\$ 43,769
FUND BALANCES:						
Beginning of year		-			205,738	
End of year		<u>\$ 136,378</u>			<u>\$ 279,507</u>	

Transportation and Street Maintenance Funds			Traffic Safety Funds			Local Public Safety Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 493,500	\$ 556,730	\$ 63,230	\$ -	\$ -	\$ -	\$ 62,000	\$ 83,097	\$ 21,097
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	15,000	53,130	38,130	-	-	-
75,500	126,534	51,034	-	2,076	2,076	-	871	871
-	-	-	-	-	-	-	-	-
<u>569,000</u>	<u>683,264</u>	<u>114,264</u>	<u>15,000</u>	<u>55,206</u>	<u>40,206</u>	<u>62,000</u>	<u>83,968</u>	<u>21,968</u>
-	-	-	-	-	-	-	-	-
2,612,515	981,350	1,631,165	-	-	-	-	-	-
<u>2,612,515</u>	<u>981,350</u>	<u>1,631,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(2,043,515)</u>	<u>(298,086)</u>	<u>1,745,429</u>	<u>15,000</u>	<u>55,206</u>	<u>40,206</u>	<u>62,000</u>	<u>83,968</u>	<u>21,968</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	(10,000)	(10,000)	-	(60,000)	(60,000)	-
-	-	-	(10,000)	(10,000)	-	(60,000)	(60,000)	-
<u>\$ (2,043,515)</u>	<u>(298,086)</u>	<u>\$ 1,745,429</u>	<u>\$ 5,000</u>	<u>45,206</u>	<u>\$ 40,206</u>	<u>\$ 2,000</u>	<u>23,968</u>	<u>\$ 21,968</u>
	<u>2,135,838</u>			<u>18,523</u>			<u>9,776</u>	
	<u>\$ 1,837,752</u>			<u>\$ 63,729</u>			<u>\$ 33,744</u>	

(Continued)

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Special Revenue Funds, Continued

For the year ended June 30, 2001

	Air Quality Fund			Redevelopment Agency		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	10,000	10,000	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Use of money and property	-	-	-	-	12,760	12,760
Other	-	-	-	-	59	59
Total revenues	10,000	10,000	-	-	12,819	12,819
EXPENDITURES:						
General government	-	-	-	199,045	163,666	35,379
Capital outlay	-	-	-	-	-	-
Total expenditures	-	-	-	199,045	163,666	35,379
REVENUES OVER (UNDER) EXPENDITURES	10,000	10,000	-	(199,045)	(150,847)	48,198
OTHER FINANCING SOURCES (USES):						
Proceeds from notes	-	-	-	-	39,652	39,652
Operating transfers in	-	-	-	175,000	190,470	15,470
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	175,000	230,122	55,122
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 10,000	10,000	\$ -	\$ (24,045)	79,275	\$ 103,320
FUND BALANCES:						
Beginning of year		35,321			937,042	
End of year		\$ 45,321			\$ 1,016,317	

Grant Funds			Landscape / Lighting Fund			Transportation Equity Act 21		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
472,000	544,848	72,848	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,000	17,767	14,767	-	-	-	-	-	-
-	-	-	125,000	123,408	(1,592)	1,265,000	199,240	(1,065,760)
475,000	562,615	87,615	125,000	123,408	(1,592)	1,265,000	199,240	(1,065,760)
20,000	202,863	(182,863)	-	-	-	-	-	-
808,545	194,684	613,861	-	-	-	1,448,060	199,240	1,248,820
828,545	397,547	430,998	-	-	-	1,448,060	199,240	1,248,820
(353,545)	165,068	518,613	125,000	123,408	(1,592)	(183,060)	-	183,060
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(35,000)	(35,000)	-	(125,000)	(121,000)	4,000	-	-	-
(35,000)	(35,000)	-	(125,000)	(121,000)	4,000	-	-	-
<u>\$ (388,545)</u>	130,068	<u>\$ 518,613</u>	<u>\$ -</u>	2,408	<u>\$ 2,408</u>	<u>\$ (183,060)</u>	-	<u>\$ 183,060</u>
	108,755			33,774			-	
	<u>\$ 238,823</u>			<u>\$ 36,182</u>			<u>\$ -</u>	

(Continued)

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Special Revenue Funds, Continued

For the year ended June 30, 2001

	Totals		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Other taxes	\$ 555,500	\$ 775,533	\$ 220,033
Licenses and permits	10,000	10,000	-
Intergovernmental	813,000	889,046	76,046
Fines and forfeitures	15,000	53,130	38,130
Use of money and property	83,500	179,540	96,040
Other	1,390,000	322,707	(1,067,293)
Total revenues	<u>2,867,000</u>	<u>2,229,956</u>	<u>(637,044)</u>
EXPENDITURES:			
General government	220,045	367,749	(147,704)
Capital outlay	4,869,120	1,380,751	3,488,369
Total expenditures	<u>5,089,165</u>	<u>1,748,500</u>	<u>3,340,665</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,222,165)</u>	<u>481,456</u>	<u>2,703,621</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from notes	-	39,652	39,652
Operating transfers in	175,000	190,470	15,470
Operating transfers out	(545,000)	(508,592)	36,408
Total other financing sources (uses)	<u>(370,000)</u>	<u>(278,470)</u>	<u>91,530</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (2,592,165)</u>	<u>202,986</u>	<u>\$ 2,795,151</u>
FUND BALANCES:			
Beginning of year		<u>3,484,767</u>	
End of year		<u>\$ 3,687,753</u>	

(Concluded)

DEBT SERVICE FUNDS

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

The Debt Service Funds of the City are listed below:

1971 Water Quality Control Bonds

1974 Civic Center Bonds

Community Facilities District 1 Bonds

Improvement District 79-1 Bonds

Redevelopment Agency

Public Financing Authority

City of Sanger
Combining Balance Sheet
All Debt Service Funds
June 30, 2001

(With comparative totals for June 30, 2000)

	1971 Water Quality Control Bonds	1974 Civic Center Bonds	Community Facilities District 1 Bonds	Improvement District 79-1 Bonds
ASSETS				
Cash and investments	\$ 17,117	\$ 10,154	\$ 206,107	\$ -
Cash with fiscal agents	-	131	113,142	238,587
Accounts receivable	6	10	734	-
Notes receivable	-	-	-	-
Advances to other funds	-	-	-	-
Total assets	\$ 17,123	\$ 10,295	\$ 319,983	\$ 238,587
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ 2,337
Advances from other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	2,337
Fund Balances:				
Reserved for:	-	-	-	-
Advances to other funds	-	-	-	-
Debt service	17,123	10,295	319,983	236,250
Unreserved, undesignated	-	-	-	-
Total fund balances	17,123	10,295	319,983	236,250
Total liabilities and fund balances	\$ 17,123	\$ 10,295	\$ 319,983	\$ 238,587

Redevelopment Agency	Public Financing Authority	Totals	
		2001	2000
\$ 519,543	\$ -	\$ 752,921	\$ 677,109
-	614,193	966,053	949,016
-	-	750	525
-	19,650,000	19,650,000	20,245,000
595,144	-	595,144	595,144
<u>\$ 1,114,687</u>	<u>\$ 20,264,193</u>	<u>\$ 21,964,868</u>	<u>\$ 22,466,794</u>
\$ 57,434	\$ 4,755	\$ 64,526	\$ 7,091
-	595,144	595,144	595,144
-	19,650,000	19,650,000	20,245,000
<u>57,434</u>	<u>20,249,899</u>	<u>20,309,670</u>	<u>20,847,235</u>
595,144	-	595,144	595,144
519,543	14,294	1,117,488	1,024,415
(57,434)	-	(57,434)	-
<u>1,057,253</u>	<u>14,294</u>	<u>1,655,198</u>	<u>1,619,559</u>
<u>\$ 1,114,687</u>	<u>\$ 20,264,193</u>	<u>\$ 21,964,868</u>	<u>\$ 22,466,794</u>

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

All Debt Service Funds

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	1971 Water Quality Control Bonds	1974 Civic Center Bonds	Community Facilities District 1 Bonds	Improvement District 79-1 Bonds
REVENUES:				
Property taxes	\$ 14	\$ 134	\$ 222,578	\$ -
Use of money and property	-	-	7,714	14,433
Other	-	-	-	-
Total revenues	14	134	230,292	14,433
EXPENDITURES:				
General government	-	-	3,382	-
Debt service:				
Principal	-	-	135,000	-
Interest	-	-	104,882	-
Total expenditures	-	-	243,264	-
REVENUES OVER (UNDER) EXPENDITURES	14	134	(12,972)	14,433
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	14	134	(12,972)	14,433
FUND BALANCES:				
Beginning of year	17,109	10,161	332,955	221,817
End of year	\$ 17,123	\$ 10,295	\$ 319,983	\$ 236,250

Redevelopment Agency	Public Financing Authority	Totals	
		2001	2000
\$ 952,348	\$ -	\$ 1,175,074	\$ 1,138,470
43,599	19,048	84,794	-
-	-	-	48,275
<u>995,947</u>	<u>19,048</u>	<u>1,259,868</u>	<u>1,186,745</u>
128,550	-	131,932	95,755
238,200	-	373,200	348,200
<u>423,745</u>	<u>-</u>	<u>528,627</u>	<u>547,462</u>
<u>790,495</u>	<u>-</u>	<u>1,033,759</u>	<u>991,417</u>
<u>205,452</u>	<u>19,048</u>	<u>226,109</u>	<u>195,328</u>
16,383	-	16,383	125,000
<u>(190,470)</u>	<u>(16,383)</u>	<u>(206,853)</u>	<u>(343,696)</u>
<u>(174,087)</u>	<u>(16,383)</u>	<u>(190,470)</u>	<u>(218,696)</u>
31,365	2,665	35,639	(23,368)
<u>1,025,888</u>	<u>11,629</u>	<u>1,619,559</u>	<u>1,642,927</u>
<u>\$ 1,057,253</u>	<u>\$ 14,294</u>	<u>\$ 1,655,198</u>	<u>\$ 1,619,559</u>

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Debt Service Funds

For the year ended June 30, 2001

	1971 Water Quality Control Bonds			1974 Civic Center Bonds		
	Budget	Actual	Variance	Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)
REVENUES:						
Property taxes	\$ -	\$ 14	\$ 14	\$ -	\$ 134	\$ 134
Use of money and property	-	-	-	-	-	-
Total revenues	-	14	14	-	134	134
EXPENDITURES:						
General government	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	14	14	-	134	134
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	14	\$ 14	\$ -	134	\$ 134
FUND BALANCES:						
Beginning of year		17,109			10,161	
End of year		<u>\$ 17,123</u>			<u>\$ 10,295</u>	

Community Facilities District 1 Bonds			Improvement District 79-1 Bonds			Redevelopment Agency		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 241,845	\$ 222,578	\$ (19,267)	\$ -	\$ -	\$ -	\$ 881,000	\$ 952,348	\$ 71,348
3,000	7,714	4,714	-	14,433	14,433	11,000	43,599	32,599
244,845	230,292	(14,553)	-	14,433	14,433	892,000	995,947	103,947
7,500	3,382	4,118	-	-	-	79,900	128,550	(48,650)
135,000	135,000	-	-	-	-	238,200	238,200	-
104,885	104,882	3	-	-	-	429,660	423,745	5,915
247,385	243,264	4,121	-	-	-	747,760	790,495	(42,735)
(2,540)	(12,972)	(10,432)	-	14,433	14,433	144,240	205,452	61,212
-	-	-	-	-	-	-	16,383	16,383
-	-	-	-	-	-	(175,000)	(190,470)	(15,470)
-	-	-	-	-	-	(175,000)	(174,087)	913
<u>\$ (2,540)</u>	<u>(12,972)</u>	<u>\$ (10,432)</u>	<u>\$ -</u>	<u>14,433</u>	<u>\$ 14,433</u>	<u>\$ (30,760)</u>	<u>31,365</u>	<u>\$ 62,125</u>
	<u>332,955</u>			<u>221,817</u>			<u>1,025,888</u>	
	<u>\$ 319,983</u>			<u>\$ 236,250</u>			<u>\$ 1,057,253</u>	

(Continued)

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Debt Service Funds, Continued

For the year ended June 30, 2001

	Public Financing Authority			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Property taxes	\$ -	\$ -	\$ -	\$ 1,122,845	\$ 1,175,074	\$ 52,229
Use of money and property	25,000	19,048	(5,952)	39,000	84,794	45,794
Total revenues	25,000	19,048	(5,952)	1,161,845	1,259,868	98,023
EXPENDITURES:						
General government	13,000	-	13,000	100,400	131,932	(31,532)
Debt service:						
Principal	-	-	-	373,200	373,200	
Interest	-	-	-	534,545	528,627	5,918
Total expenditures	13,000	-	13,000	1,008,145	1,033,759	(25,614)
REVENUES OVER (UNDER) EXPENDITURES	12,000	19,048	7,048	153,700	226,109	72,409
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	-	16,383	16,383
Operating transfers out	(30,000)	(16,383)	13,617	(205,000)	(206,853)	(1,853)
Total other financing sources (uses)	(30,000)	(16,383)	13,617	(205,000)	(190,470)	14,530
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (18,000)	2,665	\$ 20,665	\$ (51,300)	35,639	\$ 86,939
FUND BALANCES:						
Beginning of year		11,629			1,619,559	
End of year		<u>\$ 14,294</u>			<u>\$ 1,655,198</u>	

(Concluded)

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The Capital Projects Funds of the City are outlined below:

Developers Fees Funds - These funds are used to account for fees placed on the development of land. Fees are an offset to the future impact that the development will have on either infrastructure.

Redevelopment Agency - These funds are used to account for the tax increment resources used to redevelop areas of the City. Redevelopment is accomplished through the reconstruction and rehabilitation of residential, commercial, industrial or rental property.

City of Sanger
Combining Balance Sheet
All Capital Projects Funds

June 30, 2001

(With comparative totals for June 30, 2000)

	Developers	Redevelopment	Totals	
	Fees Funds		Agency	2001
ASSETS				
Cash	\$ 565,403	\$ 712,183	\$ 1,277,586	\$ 1,691,555
Accounts receivable	-	-	-	40,000
Notes receivable	-	125,864	125,864	138,585
Advances to other funds	-	217,000	217,000	217,000
Land held for resale	-	557,383	557,383	479,595
Total assets	\$ 565,403	\$ 1,612,430	\$ 2,177,833	\$ 2,566,735
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 27,568	\$ 5,718	\$ 33,286	\$ 31,518
Due to other funds	-	47,390	47,390	-
Deposits	-	-	-	77,788
Deferred revenue	537,835	60,589	598,424	750,988
Total liabilities	565,403	113,697	679,100	860,294
Fund Balances:				
Reserved for:				
Noncurrent assets	-	941,350	941,350	1,226,846
Land held for resale	-	557,383	557,383	479,595
Total fund balances	-	1,498,733	1,498,733	1,706,441
Total liabilities and fund balances	\$ 565,403	\$ 1,612,430	\$ 2,177,833	\$ 2,566,735

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

All Capital Projects Funds

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Developers	Redevelopment	Totals	
	Fees Fund		Agency	2001
REVENUES:				
Use of money and property	\$ -	\$ 54,942	\$ 54,942	\$ 319,476
Other	-	-	-	36,402
Total revenues	-	54,942	54,942	355,878
EXPENDITURES:				
General government	-	240,611	240,611	438,368
Capital outlay	-	99,827	99,827	369,992
Total expenditures	-	340,438	340,438	808,360
REVENUES OVER (UNDER) EXPENDITURES	-	(285,496)	(285,496)	(452,482)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	140,000
Operating transfers out	-	-	-	(95,000)
Total other financing sources uses	-	-	-	45,000
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	(285,496)	(285,496)	(407,482)
FUND BALANCES:				
Beginning of year, as restated	-	1,784,229	1,784,229	2,113,923
End of year	\$ -	\$ 1,498,733	\$ 1,498,733	\$ 1,706,441

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual - All Capital Projects Funds

For the year ended June 30, 2001

	<u>Developers Fees Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Use of money and property	\$ 50,000	\$ -	\$ (50,000)
Other	1,265,000	-	(1,265,000)
Total revenues	<u>1,315,000</u>	<u>-</u>	<u>(1,315,000)</u>
EXPENDITURES:			
General government	-	-	-
Capital outlay	1,798,110	-	1,798,110
Total expenditures	<u>1,798,110</u>	<u>-</u>	<u>1,798,110</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (483,110)</u>	<u>-</u>	<u>\$ 483,110</u>
FUND BALANCES:			
Beginning of year, as restated		<u>-</u>	
End of year		<u>\$ -</u>	

Redevelopment Agency			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 54,000	\$ 54,942	\$ 942	\$ 104,000	\$ 54,942	\$ (49,058)
-	-	-	1,265,000	-	(1,265,000)
54,000	54,942	942	1,369,000	54,942	(1,314,058)
447,868	240,611	207,257	447,868	240,611	207,257
35,000	99,827	(64,827)	1,833,110	99,827	1,733,283
482,868	340,438	142,430	2,280,978	340,438	1,940,540
<u>\$ (428,868)</u>	(285,496)	<u>\$ 143,372</u>	<u>\$ (911,978)</u>	(285,496)	<u>\$ 626,482</u>
	<u>1,784,229</u>			<u>1,784,229</u>	
	<u>\$ 1,498,733</u>			<u>\$ 1,498,733</u>	

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ENTERPRISE FUNDS

Enterprise Funds are established to account for operations that are financed and operated in a manner similar to private business enterprises and where periodic determinations of net income is desired. Expenses, including depreciation, of providing goods or services to the general public are recovered primarily through user charges.

The Enterprise funds of the City include the following:

Water Fund - This fund is used to account for the operations related to the City's water delivery system.

Sewer Fund - This fund is used to account for financial activity relative to construction, maintenance and repair of the sanitary sewer system.

Disposal Fund - This fund is used to account for activities related to refuse collection, street sweeping and City recycling services.

Ambulance Fund - This fund is used to account for the operations related to the delivery of emergency medical services and transportation to a hospital.

City of Sanger
Combining Balance Sheet
All Enterprise Funds

June 30, 2001

(With comparative totals for June 30, 2000)

	Water	Sewer	Disposal	Ambulance
ASSETS				
Current assets:				
Cash and investments	\$ 9,592,342	\$ 588,366	\$ 253,335	\$ 44,532
Cash with fiscal agents	-	1,653,084	-	-
Accounts receivable	334,501	245,581	235,690	193,817
Notes receivable	813,398	-	-	-
Due from other funds	1,456,538	-	-	-
Other assets	-	250,110	-	-
Total current assets	12,196,779	2,737,141	489,025	238,349
Property and equipment, net of accumulated depreciation	3,080,587	18,918,907	154,939	79,495
Total assets	\$ 15,277,366	\$ 21,656,048	\$ 643,964	\$ 317,844
LIABILITIES AND FUND EQUITY				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 44,439	\$ 86,120	\$ 53,427	\$ 3,724
Accrued interest payable	-	398,957	-	-
Due to other funds	-	1,216,320	-	-
Deposits	94,504	-	-	-
Deferred revenue	30,961	65,557	91,634	-
Other liabilities	2,226	-	-	-
Total current liabilities	172,130	1,766,954	145,061	3,724
Long-term liabilities:				
Loans payable	-	-	34,072	-
Revenue bonds payable	-	14,310,000	-	-
Compensated absences	8,148	24,800	64,263	21,171
Total long-term liabilities	8,148	14,334,800	98,335	21,171
Total liabilities	180,278	16,101,754	243,396	24,895
Fund Equity:				
Retained earnings:				
Reserved for:	11,312,304	-	-	-
Maintenance	-	-	-	-
Ambulance	-	-	-	303,490
Unreserved, undesignated	3,784,784	5,554,294	400,568	(10,541)
Total fund equity	15,097,088	5,554,294	400,568	292,949
Total liabilities and fund equity	\$ 15,277,366	\$ 21,656,048	\$ 643,964	\$ 317,844



Totals	
2001	2000
\$ 10,478,575	\$ 11,046,141
1,653,084	1,627,002
1,009,589	1,142,000
813,398	889,056
1,456,538	1,289,244
250,110	262,019
<u>15,661,294</u>	<u>16,255,462</u>
<u>22,233,928</u>	<u>22,460,420</u>
<u>\$ 37,895,222</u>	<u>\$ 38,715,882</u>

\$ 187,710	\$ 188,455
398,957	410,657
1,216,320	1,216,321
94,504	65,522
188,152	84,902
2,226	2,226
<u>2,087,869</u>	<u>1,968,083</u>
34,072	66,215
14,310,000	14,700,000
118,382	95,964
<u>14,462,454</u>	<u>14,862,179</u>
<u>16,550,323</u>	<u>16,830,262</u>

11,312,304	11,312,304
303,490	6,049
9,729,105	10,567,267
<u>21,344,899</u>	<u>21,885,620</u>
<u>\$ 37,895,222</u>	<u>\$ 38,715,882</u>

City of Sanger

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

All Enterprise Funds

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Water	Sewer	Disposal	Ambulance
OPERATING REVENUES:				
Charges for services	\$ 1,229,707	\$ 2,054,171	\$ 1,790,262	\$ 945,840
Other	602	6,232	10,798	8,908
Total operating revenues	1,230,309	2,060,403	1,801,060	954,748
OPERATING EXPENSES:				
Personnel services	125,090	287,399	335,673	555,991
Supplies and services	408,296	653,771	699,396	82,435
Capital outlay	1,691	1,942	17,346	7,345
Operations	345,880	355,000	383,556	78,567
Other	198,611	219,975	233,977	191,107
Depreciation	184,055	527,206	29,448	49,844
Total operating expenses	1,263,623	2,045,293	1,699,396	965,289
OPERATING INCOME (LOSS)	(33,314)	15,110	101,664	(10,541)
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	713,364	71,103	15,480	-
Interest expense	-	(809,614)	(3,973)	-
Total nonoperating revenues (expenses)	713,364	(738,511)	11,507	-
INCOME (LOSS) BEFORE OPERATING TRANSFERS	680,050	(723,401)	113,171	(10,541)
Operating transfers out	(600,000)	-	-	-
NET INCOME (LOSS)	80,050	(723,401)	113,171	(10,541)
RETAINED EARNINGS:				
Beginning of year	15,017,038	6,277,695	287,397	303,490
End of year	\$ 15,097,088	\$ 5,554,294	\$ 400,568	\$ 292,949

Totals	
2001	2000
\$ 6,019,980	\$ 5,843,697
26,540	44,421
<u>6,046,520</u>	<u>5,888,118</u>
1,304,153	1,137,114
1,843,898	1,683,116
28,324	71,813
1,163,003	729,436
843,670	1,901,093
790,553	213,101
<u>5,973,601</u>	<u>5,735,673</u>
72,919	152,445
799,947	829,099
<u>(813,587)</u>	<u>(837,905)</u>
(13,640)	(8,806)
59,279	143,639
<u>(600,000)</u>	<u>(500,000)</u>
(540,721)	(356,361)
21,885,620	22,241,981
<u>\$ 21,344,899</u>	<u>\$ 21,885,620</u>

City of Sanger

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Budget and Actual - All Enterprise Funds

For the year ended June 30, 2001

	Water			Sewer		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:						
Charges for services	\$ 1,246,000	\$ 1,229,707	\$ (16,293)	\$ 2,086,000	\$ 2,054,171	\$ (31,829)
Other	-	602	602	1,000	6,232	5,232
Total operating revenues	1,246,000	1,230,309	(15,691)	2,087,000	2,060,403	(26,597)
OPERATING EXPENSES:						
Personnel services	228,826	125,090	103,736	349,367	287,399	61,968
Supplies and services	392,294	408,296	(16,002)	544,400	653,771	(109,371)
Capital outlay	2,069,300	1,691	2,067,609	254,475	1,942	252,533
Operations	345,880	345,880	-	355,000	355,000	-
Other	196,526	198,611	(2,085)	595,000	219,975	375,025
Depreciation	150,000	184,055	(34,055)	145,000	527,206	(382,206)
Total operating expenses	3,382,826	1,263,623	2,119,203	2,243,242	2,045,293	197,949
OPERATING INCOME (LOSS)	(2,136,826)	(33,314)	2,103,512	(156,242)	15,110	171,352
NONOPERATING REVENUES (EXPENSES):						
Investment earnings	600,000	713,364	113,364	50,000	71,103	21,103
Interest expense	-	-	-	(809,615)	(809,614)	(1)
Total nonoperating revenues (expenses)	600,000	713,364	113,364	(759,615)	(738,511)	21,102
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(1,536,826)	680,050	2,216,876	(915,857)	(723,401)	192,456
Operating transfers out	(600,000)	(600,000)	-	-	-	-
NET INCOME (LOSS)	\$ (2,136,826)	80,050	\$ 2,216,876	\$ (915,857)	(723,401)	\$ 192,456
RETAINED EARNINGS (DEFICIT):						
Beginning of year		15,017,038			6,277,695	
End of year		<u>\$ 15,097,088</u>			<u>\$ 5,554,294</u>	

Disposal			Ambulance			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,798,300	\$ 1,790,262	\$ (8,038)	\$ 795,000	\$ 945,840	\$ 150,840	\$ 5,925,300	\$ 6,019,980	\$ 94,680
-	10,798	10,798	-	8,908	8,908	1,000	26,540	25,540
<u>1,798,300</u>	<u>1,801,060</u>	<u>2,760</u>	<u>795,000</u>	<u>954,748</u>	<u>159,748</u>	<u>5,926,300</u>	<u>6,046,520</u>	<u>120,220</u>
353,310	335,673	17,637	529,570	555,991	(26,421)	1,461,073	1,304,153	156,920
772,451	699,396	73,055	96,255	82,435	13,820	1,805,400	1,843,898	(38,498)
481,681	17,346	464,335	15,600	7,345	8,255	2,821,056	28,324	2,792,732
383,556	383,556	-	78,567	78,567	-	1,163,003	1,163,003	-
270,151	233,977	36,174	145,200	191,107	(45,907)	1,206,877	843,670	363,207
150,000	29,448	120,552	25,000	49,844	(24,844)	470,000	790,553	(320,553)
<u>2,411,149</u>	<u>1,699,396</u>	<u>711,753</u>	<u>890,192</u>	<u>965,289</u>	<u>(75,097)</u>	<u>8,927,409</u>	<u>5,973,601</u>	<u>2,953,808</u>
(612,849)	101,664	714,513	(95,192)	(10,541)	84,651	(3,001,109)	72,919	3,074,028
6,000	15,480	9,480	-	-	-	656,000	799,947	143,947
(3,975)	(3,973)	(2)	-	-	-	(813,590)	(813,587)	(3)
<u>2,025</u>	<u>11,507</u>	<u>9,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(157,590)</u>	<u>(13,640)</u>	<u>143,944</u>
(610,824)	113,171	723,995	(95,192)	(10,541)	84,651	(3,158,699)	59,279	3,217,978
-	-	-	-	-	-	(600,000)	(600,000)	-
<u>\$ (610,824)</u>	<u>113,171</u>	<u>\$ 723,995</u>	<u>\$ (95,192)</u>	<u>(10,541)</u>	<u>\$ 84,651</u>	<u>\$ (3,758,699)</u>	<u>(540,721)</u>	<u>\$ 3,217,978</u>
	<u>287,397</u>			<u>303,490</u>			<u>21,885,620</u>	
	<u>\$ 400,568</u>			<u>\$ 292,949</u>			<u>\$21,344,899</u>	

City of Sanger
Combining Statement of Cash Flows
All Enterprise Funds
For the year ended June 30, 2001
(With comparative totals for the year ended June 30, 2000)

	Water	Sewer	Disposal	Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (33,314)	\$ 15,110	\$ 101,664	\$ (10,541)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	184,055	527,206	29,448	49,844
Prior period adjustments-fixed assets	-	-	-	-
Changes in current assets and liabilities:				
Accounts receivable	72,750	99,507	108,210	(148,056)
Notes receivable	75,658	-	-	-
Other receivables	-	-	-	-
Due from other funds	(167,294)	-	-	-
Other assets	-	11,909	-	-
Accounts payable	(6,216)	12,159	(6,946)	258
Accrued interest payable	-	(11,701)	-	-
Deposits	28,982	-	-	-
Deferred revenue	11,867	65,557	25,826	-
Compensated absences	1,033	6,219	9,799	5,367
Net cash provided (used) by operating activities	<u>167,521</u>	<u>725,966</u>	<u>268,001</u>	<u>(103,128)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out	(600,000)	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(600,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Reduction of debt	-	(390,000)	(32,143)	-
Acquisition of fixed assets	(232,169)	(159,784)	(172,107)	(1)
Interest expense	-	(809,614)	(3,973)	-
Net cash provided (used) by capital and related financing activities	<u>(232,169)</u>	<u>(1,359,398)</u>	<u>(208,223)</u>	<u>(1)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment earnings	713,364	71,103	15,480	-
Net cash provided (used) by investing activities	<u>713,364</u>	<u>71,103</u>	<u>15,480</u>	<u>-</u>
Net increase (decrease) in cash	48,716	(562,329)	75,258	(103,129)
CASH AND INVESTMENTS:				
Beginning of year	9,543,626	2,803,779	178,077	147,661
End of year	<u>\$ 9,592,342</u>	<u>\$ 2,241,450</u>	<u>\$ 253,335</u>	<u>\$ 44,532</u>



<u>Totals</u>	
<u>2001</u>	<u>2000</u>
\$ 72,919	\$ 152,445
790,553	213,101
-	218,117
132,411	385,859
75,658	85,614
-	106,751
(167,294)	99,821
11,909	11,922
(745)	(15,933)
(11,701)	(8,575)
28,982	25,274
103,250	25,599
22,418	(9,207)
<u>1,058,360</u>	<u>1,290,788</u>
<u>(600,000)</u>	<u>(500,000)</u>
<u>(600,000)</u>	<u>(500,000)</u>
(422,143)	(390,324)
(564,061)	(441,753)
<u>(813,587)</u>	<u>(837,905)</u>
<u>(1,799,791)</u>	<u>(1,669,982)</u>
<u>799,947</u>	<u>829,099</u>
<u>799,947</u>	<u>829,099</u>
(541,484)	(50,095)
<u>12,673,143</u>	<u>12,723,238</u>
<u>\$ 12,131,659</u>	<u>\$ 12,673,143</u>

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INTERNAL SERVICE FUNDS

Internal Service Funds are established to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government units, on a cost reimbursement basis.

The Internal Service Funds of the City include the following:

Reprographics and Data Processing Fund - 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 Fund - This fund is used to account for bulk gasoline purchases and consumption by the departments of the City.

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

City of Sanger
Combining Balance Sheet
All Internal Service Funds

June 30, 2001

(With comparative totals for June 30, 2000)

	Reprographics and Data Processing	Equipment Maintenance	Self- Insurance Program	Totals	
				2001	2000
ASSETS					
Current assets:					
Cash and investments	\$ 494,108	\$ 1,729	\$ 123,815	\$ 619,652	\$ 848,105
Prepaid claims	-	-	217,617	217,617	350,774
Grants receivable	-	880	-	880	-
Other assets	-	5,454	-	5,454	-
Total current assets	494,108	8,063	341,432	843,603	1,198,879
Property and equipment, net of accumulated depreciation	66,345	-	-	66,345	83,032
Total assets	\$ 560,453	\$ 8,063	\$ 341,432	\$ 909,948	\$ 1,281,911
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 36,815	\$ 7,058	\$ 3,866	\$ 47,739	\$ 36,323
Workers' Compensation	-	-	80,843	80,843	-
Due to other funds	2,383	-	-	2,383	-
Deposits	-	-	3,460	3,460	2,947
Total liabilities	39,198	7,058	88,169	134,425	39,270
Fund Equity:					
Retained earnings:					
Reserved for:					
Encumbrances	-	-	-	-	7,802
Worker's compensation	-	-	150,000	150,000	150,000
Liability insurance	-	-	100,000	100,000	100,000
Health insurance	-	-	200,000	200,000	200,000
Unreserved, undesignated	521,255	1,005	(196,737)	325,523	784,839
Total fund equity	521,255	1,005	253,263	775,523	1,242,641
Total liabilities and fund equity	\$ 560,453	\$ 8,063	\$ 341,432	\$ 909,948	\$ 1,281,911

City of Sanger

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

All Internal Service Funds

For the year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Reprographics	Equipment	Self-	Totals	
	and Data		Insurance	2001	2000
	Processing	Maintenance	Program		
OPERATING REVENUES:					
Charges for services	\$ 1,084,014	\$ 88,317	\$ 733,819	\$ 1,906,150	\$ 1,945,607
Other	1,318	880	94,226	96,424	304,979
Total operating revenues	1,085,332	89,197	828,045	2,002,574	2,250,586
OPERATING EXPENSES:					
Personnel service	544,766	-	-	544,766	507,098
Supplies and services	512,509	94,991	806,443	1,413,943	1,514,713
Capital outlay	13,201	-	-	13,201	15,506
Other	19,566	-	456,000	475,566	328,603
Depreciation	22,216	-	-	22,216	(3,158)
Total operating expenses	1,112,258	94,991	1,262,443	2,469,692	2,362,762
OPERATING INCOME (LOSS)	(26,926)	(5,794)	(434,398)	(467,118)	(112,176)
OPERATING TRANSFERS:					
Operating transfers in	-	-	-	-	50,000
Operating transfers out	-	-	-	-	(50,000)
Total operating transfers	-	-	-	-	-
NET INCOME (LOSS)	(26,926)	(5,794)	(434,398)	(467,118)	(112,176)
RETAINED EARNINGS (DEFICIT):					
Beginning of year	548,181	6,799	687,661	1,242,641	1,354,817
End of year	\$ 521,255	\$ 1,005	\$ 253,263	\$ 775,523	\$ 1,242,641

City of Sanger

Combining Statement of Revenues, Expenses and Changes in Retained Earnings -

Budget and Actual - All Internal Service Funds

For the year ended June 30, 2001

	Reprographics and Data Processing			Equipment Maintenance		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:						
Charges for services	\$ 1,086,567	\$ 1,084,014	\$ (2,553)	\$ 130,000	\$ 88,317	\$ (41,683)
Other	-	1,318	1,318	-	880	880
Total operating revenues	<u>1,086,567</u>	<u>1,085,332</u>	<u>(1,235)</u>	<u>130,000</u>	<u>89,197</u>	<u>(40,803)</u>
OPERATING EXPENSES:						
Personnel services	631,673	544,766	86,907	-	-	-
Supplies and services	433,242	512,509	(79,267)	130,000	94,991	35,009
Capital outlay	15,000	13,201	1,799	-	-	-
Other	30,850	19,566	11,284	-	-	-
Depreciation	5,200	22,216	(17,016)	-	-	-
Total operating expenses	<u>1,115,965</u>	<u>1,112,258</u>	<u>3,707</u>	<u>130,000</u>	<u>94,991</u>	<u>35,009</u>
OPERATING INCOME (LOSS)	<u>\$ (29,398)</u>	<u>(26,926)</u>	<u>\$ 2,472</u>	<u>\$ -</u>	<u>(5,794)</u>	<u>\$ (5,794)</u>
RETAINED EARNINGS (DEFICIT):						
Beginning of year		<u>548,181</u>			<u>6,799</u>	
End of year		<u>\$ 521,255</u>			<u>\$ 1,005</u>	

Self-Insurance Program			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,056,853	\$ 733,819	\$ (323,034)	\$ 2,273,420	\$ 1,906,150	\$ (367,270)
242,000	94,226	(147,774)	242,000	96,424	(145,576)
1,298,853	828,045	(470,808)	2,515,420	2,002,574	(512,846)
-	-	-	631,673	544,766	86,907
1,057,275	806,443	250,832	1,620,517	1,413,943	206,574
-	-	-	15,000	13,201	1,799
242,000	456,000	(214,000)	272,850	475,566	(202,716)
-	-	-	5,200	22,216	(17,016)
1,299,275	1,262,443	36,832	2,545,240	2,469,692	75,548
<u>\$ (422)</u>	<u>(434,398)</u>	<u>\$ (433,976)</u>	<u>\$ (29,820)</u>	<u>(467,118)</u>	<u>\$ (437,298)</u>
	687,661			1,242,641	
	<u>\$ 253,263</u>			<u>\$ 775,523</u>	

City of Sanger
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2001
(With comparative totals for the year ended June 30, 2000)

	Reprographics and Data Processing	Equipment Maintenance	Self- Insurance Program
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ (26,926)	\$ (5,794)	\$ (434,398)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	22,216	-	-
Prior period adjustments - fixed assets	-	-	-
Changes in current assets and liabilities:			
Accounts receivable	-	-	-
Prepaid claims	-	-	133,157
Grant receivable	-	(880)	-
Other assets	-	(5,454)	-
Accounts payable	7,638	25	3,753
Workers' Compensation	-	-	80,843
Due to other funds	2,383	-	-
Deposits	-	-	513
Net cash provided (used) by operating activities	5,311	(12,103)	(216,132)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of fixed assets	(5,529)	-	-
Net cash provided (used) by capital and related financing activities	(5,529)	-	-
Net increase (decrease) in cash	(218)	(12,103)	(216,132)
CASH AND INVESTMENTS:			
Beginning of year	494,326	13,832	339,947
End of year	<u>\$ 494,108</u>	<u>\$ 1,729</u>	<u>\$ 123,815</u>



<u>Totals</u>	
<u>2001</u>	<u>2000</u>
\$ (467,118)	\$ (112,176)
22,216	(3,158)
-	55,738
-	2,205
133,157	239,240
(880)	-
(5,454)	-
11,416	(1,104)
80,843	-
2,383	(32,353)
513	2,947
<u>(222,924)</u>	<u>151,339</u>
-	50,000
<u>-</u>	<u>(50,000)</u>
-	-
<u>(5,529)</u>	<u>(31,971)</u>
<u>(5,529)</u>	<u>(31,971)</u>
(228,453)	119,368
<u>848,105</u>	<u>728,737</u>
<u>\$ 619,652</u>	<u>\$ 848,105</u>

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TRUST AND AGENCY FUNDS

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

The Trust and Agency Funds of the City include the following:

Cash Deposits Trust Fund - This fund is used to account for donations to specific programs such as recreation, tree planting, protection of the environment and senior citizen activities. Security and performance deposits are also included in this fund.

Special Police Fund - This fund is used to account for the graffiti removal program.

CFD Dynamis Fund - This fund is used to account for the escrow of 1991 Community Facilities District 1 Special Assessment bonds which was refunded in June 1998 but are not callable until October 1, 2001.

Asset Forfeiture Fund - This fund is used to account for the City's allocation of assets confiscated by the Fresno County Narcotics Enforcement Team (FCNET).

Payroll Services Fund - This fund is used to account for payroll costs throughout the year. This fund segregates cash allocated for payroll.

City of Sanger
Combining Balance Sheet
Trust and Agency Funds
June 30, 2001

(With comparative totals June 30, 2000)

	Expendable Trust Funds		Agency Funds		
	Cash Deposits Trust	Special Police	CFD Dynamis	Asset Forfeiture	Payroll Services
ASSETS					
Cash and investments	\$ 232,827	\$ 5,436	\$ -	\$ 51,036	\$ 281,147
Cash with fiscal agents	-	-	1,950,086	-	-
Total assets	\$ 232,827	\$ 5,436	\$ 1,950,086	\$ 51,036	\$ 281,147
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 2,301	\$ -	\$ -	\$ -	\$ -
Accrued wages	-	-	-	-	279,794
Due to bondholders	-	-	1,950,086	-	-
Deposits	168,207	-	-	51,036	1,353
Other liabilities	62,319	-	-	-	-
Total liabilities	232,827	-	1,950,086	51,036	281,147
Fund Equity:					
Retained earnings:					
Unreserved, undesignated	-	5,436	-	-	-
Total fund equity	-	5,436	-	-	-
Total liabilities and fund equity	\$ 232,827	\$ 5,436	\$ 1,950,086	\$ 51,036	\$ 281,147

Totals	
2001	2000
\$ 570,446	\$ 482,872
1,950,086	2,103,656
<u>\$ 2,520,532</u>	<u>\$ 2,586,528</u>

\$ 2,301	\$ 348
279,794	221,598
1,950,086	2,103,656
220,596	200,447
62,319	57,093
<u>2,515,096</u>	<u>2,583,142</u>

<u>5,436</u>	<u>3,386</u>
5,436	3,386
<u>\$ 2,520,532</u>	<u>\$ 2,586,528</u>

City of Sanger

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Expendable Trust Fund

For the years ended June 30, 2001 and 2000

	Cash Deposits Trust	Special Police Fund	Totals	
			2001	2000
REVENUES:				
Other	\$ -	\$ 2,050	\$ 2,050	\$ 150
Total revenues	<u>-</u>	<u>2,050</u>	<u>2,050</u>	<u>150</u>
FUND BALANCES:				
Beginning of year	-	3,386	3,386	3,236
End of year	<u>\$ -</u>	<u>\$ 5,436</u>	<u>\$ 5,436</u>	<u>\$ 3,386</u>

City of Sanger
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
June 30, 2001

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
<u>ALL AGENCY FUNDS</u>				
Assets:				
Cash and investments	\$ 249,848	\$ 82,335	\$ -	\$ 332,183
Cash with fiscal agents	2,103,656	-	(153,570)	1,950,086
Total assets	\$ 2,353,504	\$ 82,335	\$ (153,570)	\$ 2,282,269
Liabilities:				
Accrued wages	\$ 221,598	\$ 58,196	\$ -	\$ 279,794
Due to bondholders	2,103,656	-	(153,570)	1,950,086
Deposits	28,250	24,139	-	52,389
Total liabilities	\$ 2,353,504	\$ 82,335	\$ (153,570)	\$ 2,282,269

City of Sanger
Combining Statement of Changes in Assets and Liabilities
Agency Funds
June 30, 2001

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
<u>CDF DYNAMIS</u>				
Assets:				
Cash with fiscal agents	\$ 2,103,656	\$ -	\$ (153,570)	\$ 1,950,086
Total assets	\$ 2,103,656	\$ -	\$ (153,570)	\$ 1,950,086
Liabilities:				
Due to bondholders	\$ 2,103,656	\$ -	\$ (153,570)	\$ 1,950,086
Total liabilities	\$ 2,103,656	\$ -	\$ (153,570)	\$ 1,950,086
<u>ASSET FORFEITURE</u>				
Assets:				
Cash and investments	\$ 27,261	\$ 23,775	\$ -	\$ 51,036
Total assets	\$ 27,261	\$ 23,775	\$ -	\$ 51,036
Liabilities:				
Deposits	\$ 27,261	\$ 23,775	\$ -	\$ 51,036
Total liabilities	\$ 27,261	\$ 23,775	\$ -	\$ 51,036
<u>PAYROLL SERVICES FUND</u>				
Assets:				
Cash and investments	\$ 222,857	\$ 58,290	\$ -	\$ 281,147
Total assets	\$ 222,857	\$ 58,290	\$ -	\$ 281,147
Liabilities:				
Accrued wages	\$ 221,598	\$ 58,196	\$ -	\$ 279,794
Deposits	989		-	1,353
Total liabilities	\$ 222,587	\$ 58,196	\$ -	\$ 281,147

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is comprised of those fixed assets of the City which are not accounted for in a proprietary fund.

City of Sanger

Comparative Schedules of General Fixed Assets - By Source

June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
GENERAL FIXED ASSETS:		
Land	\$ 421,715	\$ 421,715
Buildings	3,041,998	3,041,998
Improvements	2,837,586	2,744,317
Machinery and equipment	<u>3,487,262</u>	<u>3,374,811</u>
Total general fixed assets	<u>\$ 9,788,561</u>	<u>\$ 9,582,841</u>
 INVESTMENTS IN GENERAL FIXED ASSETS:		
Governmental funds	\$ 9,743,895	\$ 9,551,694
Redevelopment Agency funds	<u>44,666</u>	<u>31,147</u>
Total investments in general fixed assets	<u>\$ 9,788,561</u>	<u>\$ 9,582,841</u>

City of Sanger
Schedule of Changes in General Fixed Assets
June 30, 2001

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
GENERAL FIXED ASSETS:				
Land	\$ 421,715	\$ -	\$ -	\$ 421,715
Buildings	3,041,998	-	-	3,041,998
Improvements	2,744,317	93,269	-	2,837,586
Machinery and equipment	3,374,811	154,240	(41,789)	3,487,262
Total general fixed assets	\$ 9,582,841	\$ 247,509	\$ (41,789)	\$ 9,788,561

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GENERAL LONG-TERM DEBT ACCOUNT GROUP

Capital lease obligations and other forms of general long-term debt are secured by the full faith and credit of the City, and not its individual funds. The amount of such unmatured long-term indebtedness is accounted for in this separate self-balancing account group.

City of Sanger
Schedule of General Long-Term Debt
June 30, 2001 and 2000

	2001	2000
Amount available for retirement of general long-term debt	\$ 1,655,198	\$ 1,619,559
Amount to be provided for retirement of general long-term debt	5,677,949	5,960,095
Totals	\$ 7,333,147	\$ 7,579,654
GENERAL LONG-TERM DEBT PAYABLE:		
Notes payable	\$ 12,800	\$ 16,000
1995 Tax Increment Revenue Bonds	5,340,000	5,545,000
Loans payable	779,326	822,841
Advances from Redevelopment Agency	217,000	217,000
Capital lease obligations	377,475	409,979
Compensated absences	606,546	568,834
Total general long-term debt payable	\$ 7,333,147	\$ 7,579,654

**INDEPENDENT AUDITORS' REPORT
ON MEASURE C COMPLIANCE**

To the Honorable Mayor and Members of City Council
of the City of Sanger
Sanger, California

We have audited the general purpose financial statements of the City of Sanger, California (City), as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001.

We conducted our audit in accordance with generally accepted auditing standards in the United States and *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget Circular A-133. Those standards require that we perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In connection with our audit referred to above, we performed tests of compliance with the California Public Utilities Code Section 142257 regulations as it applies to Local Transportation Purpose Funds. The results of our tests indicates that for the items tested, the City of Sanger complied with the Administrative Code requirements of the Fresno County Transportation Authority and the California Public Utilities Code Section 142257.

Caporicci, Cropper & Larson, LLP

Costa Mesa, California
December 7, 2001

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Oakland, California 94607

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777 Campus Commons Rd., Suite 200
Sacramento, California 95825

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture and the Installment Sale Agreement relating to the Bonds. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

INDENTURE

Definitions

“Additional Payments” means the payments so designated and required to be paid by the City pursuant to the Installment Sale Agreement.

“Alternate Confirming Bank” means a commercial bank, savings and loan association, insurance company, or other financial institution which has issued an Alternate Confirming Letter of Credit.

“Alternate Confirming Letter of Credit” means a Confirming Letter of Credit issued by an Alternate Confirming Bank.

“Alternate Credit Facility” means a credit facility delivered to the Trustee pursuant to the Indenture, including, but not limited to, an irrevocable letter of credit, an investment contract, a guaranty, a bond insurance policy, a surety bond or other financial arrangement which secures the payment of the principal of and interest on the Bonds when due, or such an instrument, together with a separate instrument such as an irrevocable letter of credit, a guaranty, a committed line of credit or an investment contract, issued by a financial institution pursuant to the Indenture which provides a method of purchasing Bonds tendered for purchase on a Tender Date.

“Authority” means the Sanger Public Financing Authority, established pursuant to the laws of the State of California, organized and created pursuant to the terms and conditions of the Joint Powers Agreement.

“Authorized Denominations” shall mean (i) with respect to the Bonds bearing interest at the Variable Rate, \$100,000 or any integral multiple of \$5,000 in excess thereof, (ii) with respect to redemption of the Bonds bearing interest at the Variable Rate, \$50,000 or any integral multiple of \$5,000 in excess thereof, and (iii) with respect to the Bonds bearing interest at the Fixed Rate or Fixed Rates, \$5,000 or any integral multiple of \$5,000.

“Authorized Investments” means, if and to the extent permitted by law:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as Stripped Treasury Coupons rated or assessed in the highest Rating Category by S&P and Moody’s and held by a custodian for safekeeping on behalf of holders of such securities.

(2) Bonds or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (1) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on when due have been irrevocably deposited with a trustee or other fiscal depository and which are rated in the highest Rating Category by S&P and Moody's.

(3) Obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; provided that with respect to the funds and accounts established under this Indenture, such obligations shall at no time exceed an amount equal to ten percent (10%) of the aggregate principal amount of the Bonds Outstanding.

(4) Deposit accounts, certificates of deposit or savings accounts (i) fully insured by the Federal Deposit Insurance Corporation or (ii) with banks whose short term obligations are rated no lower than A-1 by S&P and P-1 by Moody's.

(5) Federal funds or banker's acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" by Moody's and "A-1" or "A" or better by S&P (including the Trustee).

(6) Repurchase obligations with a term not exceeding 30 days pursuant to a written agreement between the Trustee and either a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the SIPC or a federally chartered commercial bank whose long-term debt obligations are rated A or better by S&P and Moody's, with respect to any security described in clause (1); provided that the securities which are the subject of such repurchase obligation (i) must be free and clear of all liens, (ii) in the case of a SIPC dealer, were not acquired pursuant to a repurchase or reverse repurchase agreement, (iii) must be deposited with the Trustee and maintained through weekly market valuations in an amount equal to 104% of the invested funds plus accrued interest; and further provided that the Trustee must have a valid first perfected security interest in such securities.

(7) Taxable government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, subject to a maximum permissible limit equal to six months of principal and interest on the Bonds.

(8) Tax-exempt government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities which are rated in the highest Rating Categories of S&P and Moody's subject to a maximum permissible limit equal to six months of principal and interest on the Bonds.

(9) Money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AA-Am-G or AA-Am and rated in one of the two highest Rating Categories of Moody's, including those managed or advised by the Trustee or its affiliates.

(10) 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.

“Authorized Representative” means the President, Vice President, Executive Director, Treasurer, Secretary or any other person designated as an Authorized Representative by a Written Certificate of the Authority signed as its President and filed with the Authority and the Trustee.

“Available Moneys” means (a) with respect to any Bond Payment Date occurring during the term of a Credit Facility, moneys (other than moneys received from draws under the Credit Facility or the Confirming Letter of Credit or remarketing proceeds) which have been on deposit with and pursuant to written direction of the Authority and segregated by the Trustee for at least 123 days, during or prior to which no Event of Bankruptcy shall have occurred, as evidenced by a certificate of the Authority to the Trustee, upon which the Trustee may conclusively rely, (b) moneys received from draws under the Credit Facility, the Confirming Letter of Credit and remarketing proceeds and (c) proceeds with respect to the refunding of any of the Bonds.

“Bond Counsel” means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the Authority.

“Bond Payment Date” means (a) until the Fixed Rate Conversion, the first Business Day of each month commencing May 1, 2002, to and including the Fixed Rate Conversion Date, and (b) after the Fixed Rate Conversion Date, each January 1 and July 1 commencing on the first January 1 or July 1 which is at least 75 days after the Fixed Rate Conversion Date.

“Bond Year” means each twelve-month period extending from January 2 in one calendar year to January 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to January 1, 2003.

“Bonds” means the Sanger Public Financing Authority Variable Rate Revenue Refunding Bonds, 2002 Series A (Utility System Financing), authorized by, and at any time Outstanding pursuant to the Indenture.

“Business Day” means any day other than a Saturday, Sunday, or a day on which banking institutions or governmental offices in the State are authorized or required to close, or a day on which the Federal Reserve System is closed.

“Certificate,” “Statement,” “Request,” “Requisition” or “Order” means, respectively, a written certificate, statement, request, requisition or order in its name by, with respect to the City, the City Manager, or by any other officer of the City duly authorized by the City for that purpose, and, with respect to the Authority, the President, Vice President, the Executive Director, Member, Treasurer or Secretary of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose. Any such instrument and supporting opinions or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall be the statement provided for in the Indenture.

“City” means the City of Sanger, California.

“Closing Date” means March 21, 2002, the date on which the Bonds are delivered by the Authority to the original purchaser thereof.

“Code” means the Internal Revenue Code of 1986, as amended and any regulations promulgated from time to time thereunder.

“Confirmation Agreement” means the Confirmation Agreement dated as of March 1, 2002, between Union Bank of California, N.A. and the California State Teachers’ Retirement System, providing for the Confirming Letter of Credit, or any similar agreement with respect to any Alternate Confirming Letter of Credit, in each case as such agreement is originally executed or as such document may be modified, supplemented or amended.

“Confirming Bank” means (i) California State Teachers’ Retirement System, and (ii) any Alternate Confirming Bank.

“Confirming Letter of Credit” means (i) the irrevocable letter of credit issued by the Confirming Bank in favor of the Trustee pursuant to the Confirmation Agreement, or (ii) any Alternate Confirming Letter of Credit.

“Continuing Disclosure Agreement” means any continuing disclosure agreement or continuing disclosure certificate by the City relating to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City, relating to the authorization, issuance, sale and delivery of the Bonds, including, but not limited to, printing expenses, rating agency fees, any premium or other fees with respect to insurance provided in connection with the issuance of the Bonds, including but not limited to, municipal bond insurance and other types of insurance as may be required by the Installment Sale Agreement, initial fees and charges and the first annual administrative fee of the Trustee, fees and costs associated with obtaining any Credit Facility or Confirming Letter of Credit in connection with the issuance of the Bonds, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, and any other costs, charges or fees in connection with the original issuance of the Bonds.

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

“Credit Entity” means Union Bank of California, N.A., as the issuer of the Credit Facility being delivered on the Closing Date with respect to the Bonds and the issuer of any Alternate Credit Facility delivered from time to time. All references and requirements with respect to notices or other communications to, or consents from, the Credit Entity shall include the providers of the Credit Facility.

“Credit Facility” means an irrevocable letter of credit, an investment contract, a guaranty, a bond insurance policy, a surety bond or other financial arrangement which secures the payment of the principal and interest on the Bonds when due, or such an instrument, together with a separate instrument, such as an irrevocable letter of credit, a guaranty, a committed line of credit, an investment contract or a standby purchase agreement, issued by a financial institution, which provides a method of purchasing Bonds tendered for purchase on a Tender Date, including an Alternate Credit Facility.

“Credit Facility Account” means the account by that name in the Debt Service Fund established in accordance with the Indenture.

“Credit Facility Bond” means any Bank Bond, as defined in the Reimbursement Agreement.

“Credit Facility Prepayment Account” means the account by that name in the Redemption Fund established in accordance with the Indenture.

“Debt Service Fund” means the fund so designated and established pursuant to the Indenture.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Escrow Agent” means Union Bank of California, N.A., its successors and assigns, acting as such under the Escrow Agreement.

“Escrow Agreement” means the agreement of that name, dated as of March 1, 2002, by and between the Authority and the Escrow Agent, relating to the defeasance and refunding of the 1996 Bonds.

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

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

“Financial Newspaper or Journal” means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language, customarily published on each Business Day and circulated in California, and selected by the Trustee.

“Fiscal Year” means the year beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereinafter selected and designated as the official fiscal year period of the Authority.

“Fixed Rate” means the fixed interest rate or rates applicable to the Bonds established in accordance with this Indenture.

“Fixed Rate Conversion Date” means the date on which the rate of interest borne by the Bonds is converted to the Fixed Rate.

“Indenture” means that certain Indenture, dated as of March 1, 2002, by and between the Authority and the Trustee.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Reports; S&P’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Installment Payment Account” means the account by that name in the Debt Service Fund established in accordance with the Indenture.

“Installment Payments” means the payments required to be paid by the City pursuant to the Indenture of the Installment Sale Agreement, including all prepayments thereof.

“Installment Prepayment Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Installment Sale Agreement” means that certain Installment Sale Agreement by and between the Authority as seller and the City as purchaser of the Facilities, dated as of March 1, 2002, 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.

“Interest Period” means the period from each Wednesday to and including the following Tuesday.

“Joint Powers Agreement” means that certain Joint Exercise of Powers Agreement, dated as of June 1, 1995, by and among the City and the Agency creating the Authority for the purposes, among other things, of assisting in the financing of Public Capital Improvements, as such term is defined in Section 6585(g) of the California Government Code, together with any amendments thereof and supplements thereto.

“Law” means Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code.

“Liquidity Account” means the account by that name in the Tender Fund established in accordance with the Indenture.

“Mandatory Tender Date” means (1) the Bond Payment Date on or prior to the date at least five days prior to the date on which the Credit Facility or Confirming Letter of Credit is scheduled to expire or terminate in accordance with its respective terms and the Trustee has not received notice at least 40 days prior to such Bond Payment Date that an Alternate Credit Facility or Alternate Confirming Letter of Credit, as applicable, will be provided, (2) the first Business Day to occur on or after the seventh day following receipt by the Trustee of notice from the Credit Entity or the Confirming Bank of the occurrence of an event of default under the Reimbursement Agreement or the Confirmation Agreement, as applicable, or that the Credit Entity will not reinstate the interest portion of the Credit Facility as provided in the Indenture, (3) the Fixed Rate Conversion Date, (4) the last Business Day prior to the effective date of any Alternate Credit Facility and/or Alternate Confirming Letter of Credit, and (5) the date of any draw on the Confirming Letter of Credit.

“Maximum Rate” means 12% per annum calculated on the basis of a 365-day year or 366-day year, as applicable, for actual days elapsed, during the Variable Rate Period and 12% per annum calculated on the basis of a 360-day year of twelve 30-day months on and after the Fixed Rate Conversion Date and “Maximum Rate” with respect to Credit Facilities Bond means the maximum rate allowed by law.

“Moody’s” means Moody’s Investors Service or any successor corporation thereto.

“Net Proceeds” means any insurance proceeds or condemnation award paid with respect to the Facilities remaining after payment therefrom of all expenses incurred in the collection thereof.

“Nominee” means the nominee of the Depository, which may be the Depository, or any nominee substituted by the Depository pursuant to the Indenture.

“Optional Tender Date” means the date designated by an Owner to the Tender Agent on which such Owner will tender his Bond in accordance with the Indenture.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the Indenture) all Bonds theretofore issued by the Authority except:

(1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which moneys or securities in the necessary amount (as provided in the Indenture) shall have been theretofore deposited in trust (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 the maturity thereof, notice of such redemption shall have been given as provided in the Indenture;

(3) Untendered Bonds; and

(4) Bonds in lieu of, or in substitution for, other Bonds which shall have been authorized, executed, issued and delivered by the Authority pursuant to the Indenture.

“Owner” or **“Bondowner”** means the Person or Persons whose name appears on the registration books maintained by the Trustee as the registered owner of a Bond or Bonds.

“Participant” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as a securities depository.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prepayment” means any payment made by the City pursuant to the Installment Sale Agreement as a prepayment of Installment Payments.

“Principal Office” means the principal corporate trust office of the Trustee in San Francisco, California, or the principal office of the Tender Agent in San Francisco, California, provided, however, for purposes of payment, redemption, surrender, cancellation, transfer and exchange of Bonds, such term means the principal corporate trust office of the Trustee or Tender Agent in Los Angeles, California, or the principal corporate trust office of any successor Trustee or Tender Agent.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met: (i) at all times during the term of such letter of credit or surety bond, the long-term credit rating of such bank is within the highest rating category of Moody’s and S&P, or the claims paying ability of such insurance company is rated within the highest rating category of A.M. Best & Company and S&P; (ii) such letter of credit or surety bond has a term which ends no earlier than the last Interest Payment Date of the series of Bonds to which the Reserve Requirement applies; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder amounts necessary to carry out the purposes specified in the Indenture, including the replenishment of the Installment Payment Account.

“Rating Category” means one of the general rating categories of S&P or Moody’s, as the case may be, without regard to any refinement or graduation of such rating category by numerical modifier or otherwise.

“Record Date” means, during the period during which the Bonds accrue interest at the Fixed Rate, the close of business on the fifteenth day of the month immediately preceding each Bond Payment Date, and, during the Variable Rate Period, the close of business on the Business Day immediately preceding the Bond Payment Date.

“Redemption Fund” means the fund so designated and established pursuant to the Indenture.

“Reimbursement Agreement” means the agreement or agreements entered into between the City and the Credit Entity setting forth the terms and conditions relating to the issuance of the Credit Facility and the City’s obligations to repay the Credit Entity in the event moneys are drawn under the Credit Facility.

“Remarketing Agent” means Gates Capital Corporation, New York, New York, in its capacity as remarketing agent for the Bonds while the Bonds bear interest at the Variable Rate, as “Variable Rate Remarketing Agent” and Seidler-Fitzgerald Public Finance, Los Angeles, California, as “Fixed Rate Remarketing Agent,” or any successor entity or entities appointed by the Authority to perform the duties of the Remarketing Agent hereunder.

“Remarketing Agreement” means the Remarketing Agreement, dated as of March 1, 2002, among the Authority, the Variable Rate Remarketing Agent and the Fixed Rate Remarketing Agent, and any other agreement relating to the services of the Remarketing Agent in effect at any time.

“Remarketing Proceeds Account” means the account by that name in the Tender Fund established in accordance with the Indenture.

“Reserve Fund” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the least of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service. For the purpose of calculating the initial Reserve Requirement, interest rate shall be assumed to be 6.0%.

“Revenues” means all amounts received by the Authority under the Installment Sale Agreement, including, without limiting the generality of the foregoing, scheduled Installment Payments, prepayments, and insurance and condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190, 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 falling due by their terms in specified years, for which no mandatory sinking account payments are provided.

“Special Record Date” means the date established by the Trustee pursuant to the Indenture.

“Supplemental Indenture” means any indenture 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 under the Indenture.

“S&P” means Standard & Poor’s or any successor corporation thereto.

“State” means the State of California.

“Tax Certificate” means the Tax Certificate delivered by the Authority and the City at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Tender Agent” means Union Bank of California, N.A., or any successor entity appointed by the Authority to perform the duties of the Tender Agent hereunder, which duties shall include those of acting as a co-transfer agent, co-paying agent for payment of principal and co-registrar hereunder.

“Tender Date” means a Mandatory Tender Date or an Optional Tender Date.

“Tender Fund” means the fund by that name established and held by the Tender Agent pursuant to the Indenture.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from mandatory sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Trustee” means Union Bank of California, N.A., or any successor trustee appointed pursuant to the provisions of the Indenture.

“Untendered Bonds” means Bonds for which a Tender Date has become effective and for which the purchase price thereof has been irrevocably deposited in trust with the Tender Agent but for which the Tender Agent has not yet received the Bonds.

“Variable Rate” means the interest rate with respect to the Variable Rate Period.

“Variable Rate Period” means the period from the Closing Date to the Fixed Rate Conversion Date.

“Written Certificate,” “Written Request” and “Written Requisition” of the Authority means, respectively, a written certificate, request or requisition signed in the name of the Authority 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.

Revenues and Funds

Establishment of Funds. In addition to the funds established in the Indenture, the Trustee shall further establish, maintain and hold in trust the following funds and accounts:

(a) Debt Service Fund, in which there is further established an Installment Payment Account and a Credit Facility Account.

(b) Redemption Fund in which there is further established an Installment Prepayment Account and a Credit Facility Prepayment Account.

(c) Reserve Fund.

Pledge and Assignment; Equal Security.

The Bonds are secured by a pledge of and lien on all of the Revenues (except as otherwise provided in the Indenture) and upon all of the moneys in the funds and accounts established in the Indenture. Except for the Revenues and such moneys, no funds or properties of the Authority shall be pledged to, or otherwise liable for, the payment of principal of, premium (if any) or interest on the Bonds.

The Authority and the City, as their interests may appear, hereby grant to the Credit Entity, the Confirming Bank and to the Trustee, for the benefit of the Owners, a lien on and a security interest in the Revenues, including all moneys in the funds held by the Trustee under the Indenture (excepting only the moneys set aside by the Trustee to satisfy the requirements of the Indenture and amounts in the Remarketing Proceeds Account to be applied to pay the purchase price of Bonds), including, without limitation, the Debt Service Fund and the Tender Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified herein; provided, however, that no security interest is granted to the Credit Entity, the Confirming Bank or to the Trustee for the purpose of paying its fees or expenses in money drawn by the Trustee under the Credit Facility or the Confirming Letter of Credit to the extent such moneys are applied to the payment of the amounts due to the Owners. 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.

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

Deposit of Revenues.

There shall be deposited in the Installment Payment Account of the Debt Service Fund all Installment Payments (other than Prepayments, which shall be deposited in the Installment Prepayment Account of the Redemption Fund pursuant to the Indenture) received by the Trustee.

There shall be deposited in the Credit Facility Account of the Debt Service Fund all amounts drawn under the Credit Facility or the Confirming Letter of Credit, except for amounts drawn thereunder with respect to Prepayments which shall be deposited in the Credit Facility Prepayment Account of the Redemption Fund pursuant to Section 4.01 hereof and amounts drawn thereunder with respect to the payment of the purchase price of tendered Bonds.

Application of Moneys.

Except as provided in the Indenture, all amounts in the Installment Payment Account of the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable, in accordance with the Indenture.

During the term of any Credit Facility or Confirming Letter of Credit, on each Bond Payment Date, following a draw on the Credit Facility or the Confirming Letter of Credit, as applicable, as provided in the Indenture, and receipt of the proceeds of such draw, the Trustee shall withdraw the amounts, if any, on deposit in the Installment Payment Account and, to the extent moneys are owed to the Credit Entity under the Reimbursement Agreement or the Confirming Bank under the Confirmation Agreement, pay such amounts to the Credit Entity or the Confirming Bank, as applicable; provided, however, the Trustee shall not be required to pay amounts to the Credit Entity in excess of the amount drawn on the Credit Facility unless the Credit Entity has certified to the Trustee and to the City, in writing, the additional amounts due and owing and specifying the section in the Reimbursement Agreement pursuant to which such additional amounts are due and such additional amounts are on deposit in the Installment Payment Account.

Sources of funds for the payment of the Bonds shall be applied in the following order of priority to pay principal and interest with respect to the Bonds:

- (i) moneys deposited in the Credit Facility Account or the Credit Facility Prepayment Account, as appropriate;
- (ii) draws under the Confirming Letter of Credit;
- (iii) other Available Moneys furnished to the Trustee;
- (iv) draws from the Reserve Fund; and
- (v) any other money made available to the Trustee for such purpose.

Payment of Bonds registered to or on behalf of the Credit Entity or the Confirming Bank, as applicable shall be made from amounts on deposit in the Installment Payment Account of the Debt Service Fund and the Installment Prepayment Account of the Redemption Fund, as applicable.

Draws Under Credit Facility.

The Trustee shall draw under the Credit Facility in accordance with the terms thereof no later than 9:00 a.m. California time on the Business Day prior to the day such funds are required by the Trustee (the "Drawing Date") at the times, in the manner and in an amount equal to the full amount of the installments of principal and interest coming due on each Bond Payment Date and each date that Bonds are to be redeemed as stated in the Indenture. The Trustee shall deposit the amounts so drawn: (i) in the Credit Facility Account and shall use the amounts therein solely to pay such principal and interest as it comes due and (ii) in the Credit Facility Prepayment Account and shall use the amounts therein solely to pay such redemption of Bonds in advance of their maturity, as appropriate; provided, however, the Trustee shall not draw on the Credit Facility to make payments due with respect to Bonds registered to or on behalf of the Credit Entity.

So long as a Credit Facility is available therefor, the Trustee shall draw under the Credit Facility in accordance with the terms thereof to the extent necessary to purchase, together with moneys in the

Remarketing Proceeds Account, all Bonds tendered on a Tender Date. The Trustee shall send the amounts so drawn to the Tender Agent for deposit in the Liquidity Account and the Tender Agent shall use the amounts therein solely to accomplish such purchase.

The Trustee shall return the Credit Facility to the Credit Entity following the termination or substitution of such Credit Facility.

Drawings Under the Confirming Letter of Credit. In the event that the Credit Entity wrongfully dishonors a properly presented and conforming draw on the Credit Facility or if the Credit Entity repudiates the Credit Facility (payment failure by 11:00 a.m. California time on the Drawing Date), in whole or in part, or the Trustee has received notice of the insolvency of the Credit Entity, the Trustee shall, as soon as is practicable, but not later than the time set forth in the Confirming Letter of Credit (1:00 p.m. California time on such date), draw upon the Confirming Letter of Credit in accordance with the terms thereof to assure payment of all amounts required to be paid by the Credit Entity in accordance with the Indenture and shall immediately declare a mandatory tender of the Bonds in accordance with the Indenture. In such event, the Confirming Bank shall succeed to all of the rights of the Credit Entity hereunder.

The Trustee shall return the Confirming Letter of Credit to the Confirming Bank following the termination or substitution of such Confirming Letter of Credit.

Surplus.

Any funds remaining in the Installment Payment Account after payment of all Bonds Outstanding, or provision made therefor satisfactory to the Trustee, shall be withdrawn by the Trustee and remitted to the Credit Entity or to the Confirming Bank to the extent moneys are owed to the Credit Entity or to the Confirming Bank under the Reimbursement Agreement or the Confirmation Agreement, as applicable, with the remainder, if any, being applied first to the payment of any fees and expenses owed to the Trustee, second to the replenishment of the Reserve Fund to the Reserve Requirement and then being remitted to the City.

Any funds remaining in the Credit Facility Account after payment of all Bonds Outstanding, or provision made therefor satisfactory to the Trustee, including accrued interest, shall be withdrawn by the Trustee and remitted, first, to the Credit Entity or to the Confirming Bank to pay amounts owing to it under the Reimbursement Agreement or the Confirmation Agreement, as applicable, and, second, to the Trustee for the payment of any applicable expenses owed to the Trustee, with any excess being paid to the City.

Reserve Fund. On or before each Interest Payment Date, the Trustee shall deposit in the Reserve Fund such amount as may be necessary to maintain a balance therein equal to the Reserve Requirement. No deposit shall be made in the Reserve Fund so long as there shall be on deposit an amount equal to the Reserve Requirement. All money in the Reserve Fund (or available to be drawn from a Qualified Reserve Fund Credit Instrument) shall be used and withdrawn by the Trustee solely for the purpose of reimbursing the Credit Entity for draws under the Letter of Credit to the extent necessary or paying the principal of and interest on the Bonds as the same shall become due and payable in the event of any deficiency at any time in the Installment Payment Account of the Debt Service Fund, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all Bonds then Outstanding.

Upon prior written notification to Moody's and S&P, the Reserve Requirement may be satisfied by crediting to the Reserve Fund moneys or a Qualified Reserve Fund Credit Instrument or any

combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement. Upon the deposit with the Trustee of such Qualified Reserve Fund Credit Instrument, the Trustee shall transfer any excess amounts then on deposit in the Reserve Fund into a segregated account of the Debt Service Fund to be established by the Trustee, which monies shall be applied at the written direction of the Authority either (i) to the payment within one year of the date of transfer of capital expenditures of the Authority permitted by law, or (ii) to the redemption of Bonds on the earliest succeeding date on which such redemption is permitted hereby, and pending such application shall in accordance with written direction of the Authority be held either not invested in investment property (as defined in section 148(b) of the Code), or invested in such property to produce a yield that is not in excess of the yield on the Bonds; provided, however, that the Authority may by written direction to the Trustee cause an alternative use of such amounts if the Authority shall first have obtained a written opinion of nationally recognized bond counsel substantially to the effect that such alternative use will not adversely affect the exclusion pursuant to section 103 of the Code of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In any case where the Reserve Fund is funded with a combination of cash and a Qualified Reserve Fund Credit Instrument, the Trustee shall deplete all cash balances before drawing on the Qualified Reserve Fund Credit Instrument. With regard to replenishment, any available moneys provided by the Authority or the City shall be used first to reinstate the Qualified Reserve Fund Credit Instrument and second, to replenish the cash in the Reserve Fund. In the event the Qualified Reserve Fund Credit Instrument is drawn upon, the Authority shall make payment of interest on amounts advanced under the Qualified Reserve Fund Credit Instrument after making any payments pursuant to the Indenture.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Indenture (other than the Credit Facility Account, Credit Facility Prepayment Account and the Tender Fund, which moneys shall be held uninvested) shall be invested by the Trustee solely in Authorized Investments. Upon telephonic request of an Authorized Representative of the Authority, the Trustee shall invest all moneys as directed by such Authority Representative, provided such moneys are invested solely in Authorized Investments; provided, however, that the Trustee shall have received at least two (2) Business Days prior to the date of any such proposed investment or reinvestment, written directions of the Authority specifying the Authority's request for investment or reinvestment. In the absence of Request from the Authority, the Trustee shall invest such moneys solely in the investments described in subparagraph (9) of the definition of "Authorized Investments." Authorized Investments may be purchased at such prices as the Authority may in its discretion determine. All Authorized Investments shall be acquired subject to the limitations set forth in the Indenture, the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority and are consistent with the fiduciary duties of the Trustee.

Moneys in the funds and accounts shall be invested in Authorized Investments maturing not later than the date on which it is estimated that such moneys will be required by the Trustee or the Authority. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Authorized Investments for repurchase under such agreement. Authorized Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. Except as otherwise provided in the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account shall be deposited therein. For the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at the lesser of (i) cost (exclusive of brokerage commissions or accrued interest, if any); (ii) the par amount thereof; or (iii) the market value thereof.

Except for moneys held by the Trustee in the Credit Facility Account, the Credit Facility Prepayment Account, the Tender Fund and the Remarketing Proceeds Account therein, the Trustee may commingle moneys on deposit in any of the funds or accounts established pursuant to the Indenture and held by the Trustee into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture. The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fees therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Authorized Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the Indenture, the Trustee shall not be liable or responsible for any loss on any investment made pursuant to the Indenture or resulting from any such sale which the Trustee reasonably makes in good faith. Any Authorized Investments that are registerable securities shall be registered in the name of the Trustee.

The Trustee shall, using its best efforts, sell or present for redemption, any Authorized Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Authorized Investment is credited. The Trustee shall conclusively be deemed to have used its best efforts if the Trustee obtains three bids and sells the Authorized Investments to the highest bidder.

The Trustee shall furnish to the Authority, not less than monthly, and to the Credit Entity upon request, an accounting of all investments made by the Trustee. The Trustee shall keep accurate records of all funds administered by it and all Bonds paid and discharged.

Investment earnings in the Debt Service Fund shall first be applied to the payment of Additional Payments. If no Additional Payment is owing, investment earnings within the Debt Service Fund shall be transferred to the City on January 2 of each year while the Bonds remain Outstanding. Unless otherwise directed, investment earnings in all other funds and accounts established under the Indenture shall remain in such funds and accounts.

Particular Covenants

Punctual Payment. The Authority covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds together with the premium thereon, if any, on the date, at the place and in the manner provided in said Bonds, solely from the Revenues and other funds as provided in the Indenture, and thereafter to amounts owing to the Credit Entity under the Reimbursement Agreement and the Confirming Bank under the Confirmation Agreement.

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 to a change in the amount or time of any mandatory sinking account payment or the time of payment of any claims for interest, whether by the purchase or funding of such Bonds or claims of interest or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of, or claims for, interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default, 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 Bonds.

Against Encumbrances. The Authority covenants and agrees that it will not issue any other obligations payable as to either principal or interest from the Revenues which have, or purport to have any lien upon the Revenues superior to or on a parity with the lien of the Bonds.

Against Additional Indebtedness. The Authority covenants and agrees that it will not issue any other bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable, as to either principal or interest, from all or any part of Revenues.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized 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 legally valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, 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 Bondowners under the Indenture against all claims and demands of all persons whomsoever.

The Authority shall preserve and protect the security of the Bonds and the rights of the Owners, the Credit Entity and the Confirming Bank and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay at maturity, or to call and redeem prior to maturity, all Outstanding Bonds plus unpaid interest thereon to maturity, and thereafter to pay amounts owing to the Credit Entity under the Reimbursement Agreement and all amounts owing to the Confirming Bank under the Confirmation Agreement, the Authority will (through its proper members, officers, agents or employees) faithfully perform and abide by all the covenants, undertakings and provisions contained in the Indenture or in any Bond issued hereunder for the benefit of the Owners, the Credit Entity and the Confirming Bank.

Accounting Records and Financial Statements. The Authority covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Revenues and of the funds and accounts provided for. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Credit Entity, the Confirming Bank or the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding or their representative authorized in writing. The parties acknowledge that any such books, records or accounts will be maintained by the Trustee so long as all Installment Payments are made directly from the City to the Trustee and that the Authority shall not be responsible for keeping such books, records or accounts unless Installment Payments are received by it.

Tax Covenant.

The Authority covenants that it shall not use, and shall not permit the use of, and shall not omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, could cause the interest on any Bond to fail to be excluded pursuant to Section 103(a) of the Code from the gross income of the owner thereof for federal income tax purposes.

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

Further Assurances. The Authority shall 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 and the Credit Entity and the Confirming Bank of the rights and benefits provided in the Indenture.

Events of Default and Remedies of Bondowners

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

(a) Default by the Authority in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

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

(c) Default by the Authority in the observance of any of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds if such default shall have continued for a period of sixty (60) 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, or to the Authority and the Trustee by the Credit Entity or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that such default shall not constitute an Event of Default if the Authority shall commence to cure such default within said sixty-day period and thereafter diligently and in good faith proceed to cure such default within a reasonable period of time.

Remedies on Default. Subject to the rights of the Credit Entity and provided that the Credit Entity is not in default under the Credit Facility and is in compliance with all terms of the Credit Facility, upon the occurrence and continuance of any Event of Default specified in the Indenture, the Trustee, upon the direction of the Credit Entity, shall proceed, or upon the occurrence and continuance of any Event of Default specified in the Indenture, the Trustee may proceed (and upon written request of the Credit Entity or upon written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding and the consent of the Credit Entity so long as the Credit Facility remains in effect and the Credit Entity is not in default thereunder and receipt of indemnity satisfactory to it, shall proceed), to exercise the remedies set forth in the Installment Sale Agreement or available to the Trustee; provided, however, that there shall be no right to accelerate maturities of the Bonds or otherwise to declare any Installment Payments not then in default to be immediately due and payable. Upon the occurrence and continuance of any Event of Default, the Trustee shall exercise the rights and remedies invested in it by the Indenture with the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds (other than moneys drawn under any Credit Facility or Confirming Letter of Credit which shall be deposited into the Credit Facility Account and moneys in the Remarketing Proceeds Account, such moneys in both such accounts to be applied only to the payment of principal and interest on the Bonds) 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 of priority:

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 all reasonable charges and expenses of the Trustee incurred in and about the performance of its powers and duties under the Indenture; and

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

First: To the payment to the Persons entitled thereto, including the Credit Entity or the Confirming Bank, of all interest then due and payable, and, if the amount available shall not be sufficient to pay in full all such interest, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto, including the Credit Entity or the Confirming Bank, of the unpaid principal of any Bonds which shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full all the principal of the Bonds due on any date, together with such interest, then to the payment first of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference; and

Third: To the payment of the interest on and the principal of the Bonds, the purchase and retirement of the Bonds and to the redemption of the Bonds, all in accordance with the provisions of the Indenture.

To the payment of any obligations due and owing to the Credit Entity under the Reimbursement Agreement or to the Confirming Bank under the Confirmation Agreement.

Trustee to Represent Bondowners. The Trustee is hereby 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 the Law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondowners, the Trustee in its discretion may with the consent of the Credit Entity so long as the Credit Facility remains in effect and the Credit Entity is not in default thereunder, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and with the consent of the Credit Entity so long as the Credit Facility remains in effect and the Credit Entity is not in default thereunder, 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 herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture or any 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 or the Bonds pending such proceedings.

All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondowners' Direction of Proceedings. Subject to the prior rights of the Credit Entity to direct proceedings, anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction.

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

Such notification, request, tender of indemnity and refusal or omission are hereby 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 whatsoever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided, 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 any other provision of 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 on the Bonds to the respective Owners of the Bonds at their respective dates of maturity or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, 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 Proceeding. In case any proceedings taken by the Trustee or any one or more Bondowners 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 Bondowners, then in every such case the Authority, the Trustee, the Credit Entity, the Confirming Bank and the Bondowners, 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, the Credit Entity, the Confirming Bank and the Bondowners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds or the Credit Entity 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 hereunder or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee, the Credit Entity 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 default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee, the Credit Entity or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Rights of Credit Entity.

Notwithstanding any other provision of the Indenture, so long as the Credit Facility has not been terminated and the Credit Entity is in compliance with all terms of the Credit Facility or any amounts remain owing to the Credit Entity, the rights of the Credit Entity shall be subrogated to the rights of any Owners to the extent that it has paid the principal or interest represented by the Bonds of such Owners.

Subject to the Indenture, if the Credit Entity wrongfully dishonors a properly presented and conforming draw on the Credit Facility or if the Credit Entity repudiates the Credit Facility, all rights of the Credit Entity under the Indenture, other than its right to receive payments on the Credit Facility, shall cease and all such rights shall be vested in the Confirming Bank, and all references to the Credit Entity and the Credit Facility shall be deemed to be references to the Confirming Bank and the Confirming Letter of Credit.

Modification or Amendment of Indenture and Installment Sale Agreement

Amendments Permitted.

After first requesting and obtaining the prior written approval of the Credit Entity, the Indenture and the rights and obligations of the Owners of the Bonds and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplement which shall become effective when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, shall have been filed with the Trustee and Moody's if the Bonds are rated by Moody's or S&P if the bonds are rated by S&P. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Bond or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Bond, or (2) reduce or have the effect of reducing the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Indenture or the Installment Sale Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Indenture.

The Indenture and the rights and obligations of the Owners of the Bonds, and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time

by a supplemental agreement, without the consent of any such Owners, but with the written consent of the Credit Entity and only to the extent permitted by law and only (1) to cure, correct or supplement any ambiguous or defective provision contained therein, and which shall not adversely affect the interest of the Owners of the Bonds, (2) to reflect the comments of S&P and/or Moody's in order to maintain any applicable rating on the Bonds, or (3) in regard to matters arising thereunder, as the parties thereto may deem necessary or desirable and which shall not adversely affect the interest of the Owners of the Bonds. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto as the case may be and shall be provided to Moody's, if the Bonds are rated by Moody's or S&P, if the Bonds are rated by S&P.

Procedure for Amendment with Written Consent of Bond Owners. The Indenture or the Installment Sale Agreement may be amended by supplemental agreement as provided in the Indenture in the event the consent of the Owners of the Bonds and the Credit Entity is required pursuant to the Indenture. A copy of such supplemental agreement, together with a request to the Owners of the Bonds for their consent thereto, shall be mailed first class mail by the Trustee to the Credit Entity, the Confirming Bank and to each Owner of a Bond at his address as set forth in the Bond registration books maintained, but failure to receive copies of such supplemental agreement and request so mailed shall not affect the validity of the supplemental agreement when assented to as provided in the Indenture.

Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and notices shall have been mailed. Each such consent by the Owners of the Bonds shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given. Any such consent shall be binding upon the Owner of the Bond giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the supplemental agreement has become effective.

After the Owners of the required percentage of Bonds shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Bonds in the manner provided in the Indenture for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Indenture (but failure to mail copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the Indenture to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved.

Disqualified Bonds. Bonds owned or held by or for the account of the City or the Authority or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the City of the Authority (except any Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Bonds provided for in the Indenture, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Agreement except that for purposes of determining whether the Trustee shall be protected in relying on such vote, consent, waiver or other action, only Bonds so owned of which the Trustee has knowledge shall be disqualified.

Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to the Indenture or the Installment Sale Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Bonds Outstanding, as the case may be, shall

thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of the Indenture or the Installment Sale Agreement, as the case may be, for any and all purposes.

The Authority or the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Indenture shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in the Indenture.

Endorsement or Replacement of Bonds Delivered After Amendments. The Trustee may determine that Bonds delivered after the effective date of any action taken as provided in the Indenture shall bear a notation, by endorsement, in form approved by the Trustee, as to such action. In that case, upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the Principal Office, a suitable notation shall be made on such Bond at the cost of the Authority. The Trustee may determine that new Bonds, so modified as in the opinion of the Trustee is necessary to conform to such Bond Owners' action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bond then Outstanding, such new Bond shall be exchanged in the Principal Office, without cost to such Owner, for a Bond of the same character then Outstanding, upon surrender of such Bond at the cost of the Authority.

Amendatory Endorsement of Bonds. The provisions of Article IX of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him, provided that due notification thereof is made on such Bonds.

Consent of Credit Entity and Confirming Bank Required. Notwithstanding anything in the Indenture to the contrary, no amendment or supplement to the Indenture or the Installment Sale Agreement shall become effective unless first approved by the Credit Entity and the Confirming Bank, which approval shall not be unreasonably withheld.

Defeasance

Discharge of Indenture. The Bonds may be paid, in whole or in part, by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

(a) by well and truly paying or causing to be paid the principal of and interest and redemption premiums, if any, on such Bond, as and when the same become due and payable;

(b) if prior to maturity and having given notice of redemption by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which, together with amounts then on deposit in the Installment Payment Account and available for such purpose, is sufficient to pay in Available Moneys or from the proceeds of a draw under the Credit Facility all principal of and interest and redemption premiums, if any, on such Bonds; or

(c) by irrevocably depositing with the Trustee, in trust, noncallable Authorized Investments described in paragraph (1) or (2) of the definition thereof purchased with Available Moneys, or draws under the Credit Facility together with cash, if required, in such amount as will in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Installment Payment Account and available for such purpose, together with the interest to accrue thereon, be fully sufficient to pay and discharge in Available Moneys or draws under the Credit

Facility such Bond (including all principal and interest represented thereby and redemption premiums, if any).

If all Outstanding Bonds shall be discharged and paid in one or more of the preceding ways and all Additional Payments shall have been paid or arrangements satisfactory to the Trustee shall have been made for the payment of such Additional Payments, then, notwithstanding that any Bonds shall not have been surrendered for payment, all obligations of the Authority, the Trustee and the City with respect to all Outstanding Bonds shall cease and terminate, except only the covenants of the Authority hereunder to comply with the Code and the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (b) and (c) of this Section, to the Owners of the Bonds not so surrendered and paid all sums due with respect thereto, provided, however, during the Variable Rate Period no such defeasance shall be deemed to have occurred unless the Trustee shall receive written evidence from any rating agency then rating the Bonds that such defeasance will not cause a reduction or withdrawal of any then existing rating on the Bonds.

Any funds held by the Trustee, at the time of the defeasance of all Outstanding Bonds, which are not required for payment as required therein, shall be paid over to the Credit Entity or the Confirming Bank to the extent of any amounts owed under the Reimbursement Agreement or the Confirmation Agreement, as applicable, then to the Trustee to pay any amounts owed to the Trustee under the Indenture, and the remainder, if any, shall be paid over to the City.

During the term of any Credit Facility, prior to or at the time of a deposit pursuant to paragraph (b) or (c) of this Section, there shall be delivered to the Trustee an opinion of nationally recognized bankruptcy counsel to the effect that payments to the Owners of Bonds defeased from such Available Moneys or draws under the Credit Facility on deposit with the Trustee will not constitute avoidable preferences under Title 11 and Title 9 of the United States Bankruptcy Code upon the occurrence of an Event of Bankruptcy.

Payment of Bonds After Discharge of Indenture. In any event any Bond shall not be presented for payment when the principal with respect thereof becomes due, either at maturity, or at the date fixed for redemption thereof, if moneys sufficient to pay such Bond shall have been deposited in the Credit Facility Account or if Available Moneys sufficient to pay such Bond shall have been deposited in the Installment Payment Account, all liability of the Authority to the Owner thereof for payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Bond who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Indenture or on, or with respect to, said Bond.

Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within two (2) years after the date on which the same were deposited with the Trustee due shall be paid by the Trustee to the City. Thereafter, Owners shall be entitled to look only to the City for payment, and then only to the extent of the amount so disbursed by the Trustee. The City shall not be liable for any interest on the sums paid to it pursuant to this section and shall not be regarded as a trustee or trustees of such money. Any moneys held in accordance with the Indenture shall be held uninvested.

INSTALLMENT SALE AGREEMENT

Definitions

“Additional Payments” means the amounts payable by the City pursuant to the Installment Sale Agreement.

“Additional Revenues” means, with respect to the issuance of any Parity Obligations, any or all of the following amounts:

An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be financed from the proceeds of such Parity Obligations or from any other source, all in an amount equal to seventy-five percent (75%) of the estimated additional Net Revenues to be derived from such additions, improvements and extensions for the first twelve (12) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Accountant.

“Agreement” means the Installment Sale Agreement, together with any duly authorized and executed amendments.

“Connection Charges” means all amounts levied by the City as a fee for connecting to the Enterprise, as such fee shall be established from time to time pursuant to Section 54991 of the Government Code of the State.

“Enterprise” means the entire water and wastewater supply, treatment, storage and distribution systems of the City, but only including all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment, storage and distribution of water and wastewater, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Event of Default” means any of the events described in the Installment Sale Agreement.

“Facilities” means the improvements and other property of the wastewater system financed with the proceeds of the 1996 Bonds.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited to investment earnings thereon and any loans, grants or other transfer from the City; but excluding (a) Connection Charges, (b) the proceeds of any *ad valorem* property taxes levied for the purposes of paying general obligation bonds of the City related to the Enterprise, and (c) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprise.

“Installment Payment Date” means the twenty-fifth (25th) day the month immediately preceding each Bond Payment Date.

“Installment Payments” means the amounts payable by the City pursuant to the Installment Sale Agreement, including any prepayments thereof.

“Maximum Annual Debt Service” means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the maximum sum obtained for the current or any future Bond Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Bond Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year pursuant hereto, except to the extent payable from any security deposit pursuant to the Installment Sale Agreement;

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Bond Year; and

(c) the amount of interest which would be due during such Bond Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Bond Year if such Parity Obligations are retired as scheduled; provided, however, that with respect to any Parity Obligations which bear interest at a variable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J.J. Kinney Index (or, in the event and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations as may be selected by the City in its sole discretion).

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period, less any obligation due under the 1996 Installment Sale Agreement.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Enterprise, including but not limited to (a) the cost of acquiring, treating, storing and distributing water and wastewater, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and (c) in-lieu fees, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Enterprise, including but not limited to the Installment Payments and debt service payments on any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) the reasonable administrative costs of the City attributable to the operation and maintenance of the Enterprise, (iv) amortization of intangibles or other bookkeeping entries of a similar nature, and (v) indirect plan charges and internal administrative costs.

“Parity Obligations” means any leases, loan agreements, installment sale agreements, bonds, notes 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.

“Term of this Agreement” means the time during which this Agreement is in effect, as provided in the Installment Sale Agreement.

“Utility Fund” means the existing Water and Wastewater Operations Enterprise Funds established and held by the City with respect to the Enterprise.

Installment Payments

Pledge of Net Revenues. All of the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments and any Parity Obligations, and except as otherwise provided in the Installment Sale Agreement the Net Revenues and such other funds shall not be used for any other purpose so long as any of the Installment Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Installment Payments and any Parity Obligations in accordance with the terms of the Installment Sale Agreement.

Deposits Into Funds; Transfers to Make Installment Payments. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Utility Fund. The City covenants and agrees that all Net Revenues will be held by the City in the Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority), the Credit Entity, the Confirming Bank and the Bond Owners, and for the benefit of the owners of any Parity Obligations. On or before each Installment Payment Date, the City shall withdraw from the Utility Fund, and transfer to the Trustee for deposit in the Installment Payment Account, and to the trustee for any Parity Obligations, as applicable, an amount of Net Revenues which, together with the balance then on deposit in the Installment Payment Account (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 principal of or interest on any Bonds and Parity Obligations 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 Payments coming due and payable on the next succeeding Bond Payment Date, together with any amounts required to restore the balance in the Reserve Fund to the Reserve Requirement.

The City shall manage, conserve and apply the Net Revenues on deposit in the Utility Fund in such a manner that all deposits required to be made will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred and be continuing, the City may use and apply Net Revenues in the Utility Fund for (i) transfers from the Utility Fund to the General Fund of the City for administrative costs; (ii) the payment of Additional Payments, (iii) the payment of any subordinate obligations or any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Enterprise, (v) the prepayment of any obligations of the City relating to the Enterprise, (vi) the reasonable administrative costs of the City allocable to the operation and maintenance of the Enterprise, including payment of indirect plan charges and internal administrative costs or (vii) any other lawful purposes of the Utility Fund. All monies in the Utility Fund may be invested by the City from time to time in any Authorized Investment.

Special Obligation of the City; Obligations Absolute. The City’s obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable shall be a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified for the payment of the Installment Payments and the Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable.

The obligations of the City to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Agreement shall be absolute and unconditional and shall not be 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 Enterprise, 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 Additional Payments and all other amounts coming due and payable shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement 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 Enterprise, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or law 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 or the Installment Sale Agreement.

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, and in such event the Authority 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.

Rates and Charges. The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (b) All Installment Payments and payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Installment Payments or interest on any Parity Obligations are payable from proceeds of the Bonds or Parity Obligations deposited for such purpose;
- (c) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement; and
- (d) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net

Revenues which are at least equal to one hundred twenty percent (120%) of the amount described in the preceding clause (b) for such Fiscal Year.

For the purpose of calculating subsection (b) above during the Variable Rate Period, the interest rate shall be at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J.J. Kinney Index (or, in the event and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations as may be selected by the City in its sole discretion.

Superior and Subordinate Obligations. The City shall not issue or incur any additional bonds or other obligations during the Term of this Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. Nothing in the Installment Sale Agreement is intended or shall be construed to limit or affect the ability of the City to issue or incur (a) Parity Obligations, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established in the Installment Sale Agreement .

Issuance of Parity Obligations. In addition to the Installment Payments, the City may issue or incur other bonds, notes, loans, advances or indebtedness payable from Net Revenues on a parity with the Installment Payments to provide financing for the Enterprise in such principal amount as shall be determined by the City. The City may issue or incur any such Parity Obligations subject to the following specific conditions which are hereby made conditions precedent to the issuance and delivery of such Parity Obligations:

(a) No Event of Default shall have occurred and be continuing, and the City shall deliver a certificate to that effect to the Trustee;

(b) The Net Revenues, calculated in accordance with accounting principles consistently applied, as shown by the books of the City for the latest Fiscal Year or as shown by the books of the City for any more recent twelve (12) month period selected by the City, in either case verified by a certificate or opinion of an Independent Accountant employed by the City, plus (at the option of the City) the Additional Revenues, shall be at least equal to one hundred twenty percent (120%) of the amount of Maximum Annual Debt Service;

(c) There shall be established upon the issuance of such Parity Obligations a reserve fund for such Parity Obligations in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the City with respect to such Parity Obligations during any Fiscal Year, or (ii) the maximum amount then permitted under the Tax Code; and

(d) The trustee or fiscal agent for such Parity Obligations shall be the same entity performing the functions of Trustee under the Indenture.

The provisions of subsection (b) of this Section shall not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make a reserve fund deposit required pursuant to subsection (c) of this Section) shall be deposited in an irrevocable escrow for the purpose of paying the principal of and interest and premium (if any) on any Installment Payments or on any outstanding Parity Obligations.

Additional Payments. In addition to the Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of

Issuance Fund), and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to the Installment Sale Agreement or the Indenture, and all costs and expenses of attorneys, auditors, engineers and accountants. The City shall pay the Authority such amounts in each year as shall be required by the Authority for the payment in full of payments to the Credit Entity required by the Reimbursement Agreement (other than reimbursement for draws on the Credit Facility to pay Installment Payments or constituting Tender Advances (as defined in the Reimbursement Agreement)). The rights of the Trustee and the obligations of the City under the Installment Sale Agreement shall survive the termination of this Agreement.

Maintenance, Taxes, Insurance, and Other Matters

Maintenance, Utilities, Taxes and Assessments. Throughout the Term of the Installment Sale Agreement, all improvement, repair and maintenance of the Enterprise 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 Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Enterprise 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 Enterprise 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 hereunder 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 Enterprise. The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise 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 Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the 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.

Public Liability and Property Damage 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, a standard comprehensive general insurance policy or policies in protection of the Authority, the City and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage

occasioned by reason of the operation of the Enterprise. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Installment Sale Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Casualty Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Agreement, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the City and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Installment Sale Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise shall be used to repair, rebuild or replace such damaged or destroyed portion of the Enterprise, and to the extent not so applied, shall be paid to the Trustee to be applied to pay or prepay the Installment Payments (and the Bonds, under the Indenture) or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Insurance Net Proceeds: Form of Policies. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Installment Sale Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. In the event that any insurance required pursuant to the Installment Sale Agreement shall be provided in the form of self-insurance, the City shall file with the Trustee and the Credit Entity annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from Net Revenues or such reserves. On or before September 1 of each year, the City shall certify to the Trustee that all policies of insurance are in conformance with the requirements of the Installment Sale Agreement and the Trustee shall be entitled to rely on such certification without independent investigation.

Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee and the Authority) shall either (a) be used for the acquisition or construction of improvements of the Enterprise, or (b) be paid to the Trustee to be applied to pay or prepay the Installment Payments (and the Bonds, under the Indenture) or 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 Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon 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 Enterprise 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.

Covenants to Maintain Tax-Exempt Status.

The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes.

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

Continuing Disclosure. The City will comply with the continuing disclosure requirements promulgated under Securities and Exchange Commission Rule 15c2-12(b)(5).

Assignment, Sale and Amendment

Assignment by the Authority. The Authority's rights under this Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the City under this Agreement have been pledged and assigned to the Trustee pursuant to the Indenture, to which pledge and assignment the City hereby consents.

Assignment by the City. The Installment Sale Agreement may not be assigned by the City.

Sale of Enterprise Property. Except as provided herein, the City covenants that the Enterprise shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole except to another public agency if such action would not impair the rights of the Bondowners and the owners of any Parity Obligations with respect to the Net Revenues. Neither the 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 Enterprise or any part of it necessary to secure adequate 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 Net Revenues. If any substantial part of the Enterprise shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of facilities constituting part of the Enterprise, or (b) to the extent not so used, be paid to the Trustee to be applied to pay or prepay the Installment Payments or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Amendment Hereof. The City and the Authority shall have the right to modify or amend the Installment Sale Agreement, without the consent of the Trustee or any of the Bond Owners or any of the owners of Parity Obligations, but only if such amendment or modification (1) 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, (2) does not materially adversely affect the interests of the Owners of the Bonds or the

owners of any Parity Obligations in the opinion of Bond Counsel, (3) does not modify any of the rights or obligations of the Trustee without the Trustee's written consent, and (4) only 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 herein reserved 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

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

(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 thirty (30) 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, for a period of ninety (90) 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 90-day period, such failure shall not constitute an event of default if the City shall commence to cure such failure within such ninety (90) 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 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 thereafter be enacted.

(e) The occurrence and continuation of any event of default under and as defined in the instruments authorizing the issuance of any 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 and consent of the Credit Entity and the Confirming Bank, 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, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, is 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 Sale 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 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 hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the 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 this Agreement should 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 should be breached by either party and thereafter waived by the other party,

such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

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 hereby consents. Such rights and remedies shall be exercised by the 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 Net Revenues and the Enterprise 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 D

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC") is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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.

Redemption notices shall be sent to Cede & Co. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an 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).

Principal, mandatory redemption and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. 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, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

The Authority cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to 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. The Authority is not responsible or liable for the failure of DTC or any DTC 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.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC 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 the DTC Participants, as the case may be.

Discontinuance of Book-Entry System

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the Trustee and discharging its responsibilities with respect thereto under applicable law or the Authority may terminate participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, the Authority will execute, and the Trustee will authenticate and make available for delivery, replacement Bonds in the form of registered bonds. In addition, the following provisions would apply: the principal of and redemption premium, if any, on the Bonds will be payable at the principal office of the Trustee, and interest on the Bonds will be payable by check mailed to the registered owner pursuant to the requirement of the Indenture. See "General" above. Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. See "Transfer and Exchange of Bonds" above.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Sanger Public Financing Authority
1700 7th Street
Sanger, California 93657

\$16,590,000
Sanger Public Financing Authority
Variable Rate Revenue Refunding Bonds, 2002 Series A
(Utility System Financing)

Ladies and Gentlemen:

In our role as Bond Counsel to the Sanger Public Financing Authority (the "Authority"), we have examined certified copies of the proceedings taken in connection with the issuance by the Authority of its Variable Rate Revenue Refunding Bonds, 2002 Series A (Utility System Financing) (the "Bonds") in the aggregate principal amount of \$16,590,000. We have also examined supplemental documents furnished to us and have obtained such certificates and documents from public officials as we have deemed necessary for the purposes of this opinion. The Bonds are issued under Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), pursuant to an Indenture, dated as of March 1, 2002 (the "Indenture"), by and between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"), and pursuant to an authorizing Resolution of the Authority adopted January 17, 2002. The Bonds are payable from Revenues, as defined in the Indenture, consisting primarily of Installment Payments to be made by the City of Sanger (the "City") pursuant to an Installment Sale Agreement, dated as of March 1, 2002 (the "Installment Sale Agreement"), by and between the Authority and the City.

The Bonds are being issued for the purpose of providing for the economic defeasance of the outstanding Sanger Public Financing Authority Revenue Bonds, 1996 Series A (Utility System Financing) (the "Refunded Bonds"). The Issuer and the Trustee, as escrow agent (the "Escrow Agent") have entered into an Escrow Agreement, dated as of March 1, 2002 (the "Escrow Agreement") in connection with the economic defeasance the Refunded Bonds. Unless otherwise defined herein, all capitalized terms shall have the meaning given items in the Escrow Agreement or the Indenture, as appropriate.

Based upon the foregoing, we are of the opinion that:

1. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming such Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, and the Bonds are entitled to the benefits of the Indenture.
2. The Escrow Agreement has been duly and validly authorized, executed and delivered by the Authority and, assuming the Escrow Agreement constitutes the legally valid and binding obligation of the Escrow Agent, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms.

3. The Installment Sale Agreement has been duly and validly authorized, executed and delivered by the Authority and the City and constitutes the legally valid and binding obligations of the Authority and the City, enforceable against the Authority and the City in accordance with its terms.

4. The proceedings for the issuance of the Bonds have been taken in accordance with the laws and Constitution of the State of California, and the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers, constitute legal and binding special obligations of the Authority enforceable in accordance with their terms.

5. The Bonds are secured by a pledge of the Revenues and all moneys in the funds and accounts as described in the Indenture, including all amounts derived from the investment of such moneys, subject to the application thereof on the terms and conditions as set forth in the Indenture.

6. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Authority has covenanted to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxation of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The foregoing opinions are qualified to the extent that the enforceability of the Indentures and the Bonds, respectively, may be limited by any applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

Very truly yours,

