

INSURED RATINGS:
Series A Bonds: S&P: “AAA”
UNDERLYING RATINGS:
Series A Bonds: S&P: “A” / Fitch: “A-”
Series B Bonds: S&P: “BBB+” / Fitch: “BBB-”
 (See “RATINGS” herein)

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and requirements, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.



\$9,700,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SENIOR SERIES A
 (Utility Enterprises Project)

\$25,160,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SUBORDINATE SERIES B
 (Utility Enterprises Project)

Dated: Date of Delivery

Due: June 1, as shown on the inside cover page

The above-captioned \$9,700,000 aggregate principal amount of 2010 Refunding Revenue Bonds, Senior Series A (the “Series A Bonds”) and \$25,160,000 aggregate principal amount 2010 Refunding Revenue Bonds, Subordinate Series B (the “Series B Bonds” and, collectively with the Series A Bonds, the “Bonds”) are being issued by the Susanville Public Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of August 1, 2010 (the “Indenture”), by and between the Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”). The Bonds will bear interest at the rate or rates shown on the Maturity Schedule set forth on the inside front cover hereof, payable semiannually on December 1 and June 1 of each year (each an “Interest Payment Date”), commencing December 1, 2010.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Bonds, the principal, the redemption premium, if any, and interest on the Bonds will be made as described in “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are being issued to (i) refund two separate series of outstanding City of Susanville (the “City”) Water Revenue Bonds (the “Prior Water Obligations”) along with four separate series of outstanding City of Susanville Natural Gas Certificates of Participation (the “Prior Gas Obligations,” and together with the Prior Water Obligations, the “Prior Obligations”), (ii) fund the Reserve Account (as defined herein), and (iii) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds.

The Bonds are special limited obligations of the Authority. The Series A Bonds are payable from, and secured by a lien on, Revenues (defined herein) received by the Authority from the City under two separate Installment Sale Agreements (defined herein) and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein). The Subordinate Series B Bonds are also payable from and secured by Revenues of the Authority pledged under the Indenture, but on a subordinate basis to the pledge of Revenues for payment of the Series A Bonds. See “SECURITY FOR THE BONDS – Flow of Funds” herein. Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

The obligation of the City to make payments under the Installment Sale Agreements is limited solely to Net Revenues consisting generally of all gross income and revenue from the City’s Water Enterprise (as described herein), and from the City’s Gas Enterprise (as described herein), less the maintenance and operations costs of the Water Enterprise and the Gas Enterprise, respectively. See “SECURITY FOR THE BONDS” herein. The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by **ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)**. See “SERIES A BOND INSURANCE” herein.



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 with respect to the purchase of the Bonds. See “RISK FACTORS” for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds. Ownership of the Subordinated Series B Bonds is subject to a significant degree of risk. Unpaid Installment Payments will first cause a reduction in the amount of Revenues available for payment of the Subordinated Series B Bonds prior to causing a reduction in the amount of Revenues available for payment of the Series A Bonds. Accordingly, there may be a limited secondary market for the Subordinated Series B Bonds. For a discussion of some of the risks associated with the purchase of the Bonds, see “RISK FACTORS” and “CONSTITUTIONAL LIMITATIONS ON TAXES, RATES AND CHARGES” herein.

MATURITY SCHEDULE
 (See Inside Cover Page)

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. The full faith and credit of neither the Authority, the City nor the Community Development Agency of the City of Susanville is pledged for the payment of the principal of or interest or premium, if any, on the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the principal of or interest or premium, if any, on the Bonds. The payment of the principal of or interest or premium, if any, on the Bonds does not constitute a debt, liability or obligation of the Authority, the City or the Community Development Agency of the City of Susanville for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval as to their validity by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain other legal matters will be passed upon for the City and the Authority by their respective counsel, and by The Weist Law Firm, as Disclosure Counsel. It is anticipated that the Bonds in book-entry form will be available through the facilities of DTC in New York, New York for delivery on or about September 8, 2010.

WESTHOFF, CONE & HOLMSTEDT

Dated: August 24, 2010

\$9,700,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SENIOR SERIES A

MATURITY SCHEDULE

\$3,060,000 Serial Bonds

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>	<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
2011	\$355,000	0.600%	0.600%	869083DA0	2017	\$270,000	2.375%	2.500%	869083DG7
2012	250,000	1.000%	1.000%	869083DB8	2018	275,000	2.500%	2.650%	869083DH5
2013	255,000	1.200%	1.200%	869083DC6	2019	285,000	2.750%	2.850%	869083DJ1
2014	255,000	1.375%	1.500%	869083DD4	2020	290,000	3.000%	3.150%	869083DK8
2015	260,000	1.750%	1.900%	869083DE2	2021	300,000	3.250%	3.400%	869083DL6
2016	265,000	2.125%	2.250%	869083DF9					

\$975,000 5.000% Term Bond Due June 1, 2024 – Yield*: 4.100% Price 107.155% CUSIP[†] No. 869083DP7
\$2,435,000 4.750% Term Bond Due June 1, 2030 – Yield: 4.750% Price 100.000% CUSIP[†] No. 869083DR3
\$3,230,000 5.000% Term Bond Due June 1, 2036 – Yield*: 4.894% Price 101.533% CUSIP[†] No. 869083EJ0

\$25,160,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SUBORDINATE SERIES B

MATURITY SCHEDULE

\$4,385,000 Serial Bonds

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>	<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†]</u>
2012	\$25,000	2.000%	2.250%	869083DT9	2019	\$330,000	4.375%	4.500%	869083EA9
2013	75,000	2.500%	2.750%	869083DU6	2020	360,000	4.500%	4.750%	869083EB7
2014	205,000	2.750%	3.000%	869083DV4	2021	395,000	4.750%	4.900%	869083EC5
2015	225,000	3.000%	3.250%	869083DW2	2022	430,000	4.750%	5.000%	869083ED3
2016	245,000	3.375%	3.500%	869083DX0	2023	465,000	5.000%	5.200%	869083EE1
2017	270,000	3.750%	4.000%	869083DY8	2024	510,000	5.000%	5.300%	869083EF8
2018	300,000	4.000%	4.250%	869083DZ5	2025	550,000	5.250%	5.500%	869083EG6

\$3,235,000 5.500% Term Bond Due June 1, 2030 – Yield: 5.800% Price 96.491% CUSIP[†] No. 869083EH4
\$4,260,000 5.875% Term Bond Due June 1, 2035 – Yield: 6.000% Price 98.388% CUSIP[†] No. 869083EK7
\$13,280,000 6.000% Term Bond Due June 1, 2045 – Yield: 6.080% Price 98.837% CUSIP[†] No. 869083EL5

* Yield to first optional call date of June 1, 2018.

† Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the City, the Authority, or the Underwriter take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

SUSANVILLE PUBLIC FINANCING AUTHORITY
Susanville, California

CITY COUNCIL / AUTHORITY BOARD

Lino Callegari, *Mayor/Chairperson*
Doug Sayers, *Mayor Pro Tem/Vice Chairperson*
Rod De Boer, *Councilmember/Director*
Cheryl McDonald, *Councilmember/Director*
Joseph Franco, *Councilmember/Director*

CITY / AUTHORITY STAFF

Robert Hill, *Administrator/Executive Director*
Robert Porfiri, *Finance Director/Treasurer*
Craig Platt, *Public Works Director*
Dale Moore, *Gas Supervisor*
Debra Magginetti, *Clerk/Secretary*
Peter Talia, *City Attorney/Authority Counsel*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

The Weist Law Firm
Scotts Valley, California

Trustee

Deutsche Bank National Trust Company
San Francisco, California

Gas Consultant

Interstate Gas Services, Inc.
Walnut Creek, California

Underwriter

Westhoff, Cone & Holmstedt
Walnut Creek, California

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM”) makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “SERIES A BOND INSURANCE” and “APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter 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. Words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority or the City.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter, Bond Counsel or Disclosure Counsel. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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 LAWS OF ANY STATE.

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

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT.....	1
INTRODUCTION.....	1
Authority for Issuance of the Bonds	1
Purpose of the Bonds	1
The Bonds	2
Sources of Payment for the Bonds.....	2
Sources of Payment for the Installment Sale Agreements.....	3
The Authority.....	5
The City	5
Risk Factors	5
Description of the Bonds	5
Tax Exemption.....	6
Continuing Disclosure	6
Forward-Looking Statements.....	6
Other Matters	7
THE BONDS.....	7
Authority for Issuance.....	7
General Provisions	7
<i>Bond Terms</i>	7
<i>Book-Entry Only System</i>	8
<i>Transfer or Exchange of the Bonds</i>	8
Series A Bonds.....	8
<i>Payment Provisions</i>	8
<i>Redemption Provisions</i>	8
Series B Bonds.....	11
<i>Payment Provisions</i>	11
<i>Redemption Provisions</i>	11
SECURITY FOR THE BONDS	14
Pledge of Revenues.....	14
Flow of Funds	15
Reserve Account	17
No Additional Bonds	18
Limited Obligation.....	18
SERIES A BOND INSURANCE	18
Bond Insurance Policy	18
Assured Guaranty Municipal Corp. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.).....	18
THE WATER INSTALLMENT SALE AGREEMENT	21
Water Installment Payments	21
Water Net Revenues	21

TABLE OF CONTENTS

	<u>Page</u>
Water Utility Fund	22
Rate Covenants	23
<i>Covenant Regarding Water Gross Revenues</i>	23
<i>Covenant Regarding Water Net Revenues</i>	24
Special Obligation; Unconditional Obligation.....	25
Issuance of Additional Debt.....	26
Insurance; Net Proceeds.....	27
THE GAS INSTALLMENT SALE AGREEMENT	28
Gas Installment Payments.....	28
Gas Net Revenues	28
Gas Utility Fund.....	29
Rate Covenants	30
<i>Covenant Regarding Gas Gross Revenues</i>	30
<i>Covenant Regarding Gas Net Revenues</i>	31
Special Obligation; Unconditional Obligation.....	32
Issuance of Additional Debt.....	33
Insurance; Net Proceeds.....	34
FINANCING PLAN	34
In General.....	34
Sources and Uses of Funds	35
Debt Service Requirements.....	36
THE WATER ENTERPRISE	39
Overview.....	39
Organization and Management	39
Service Area.....	39
Water Supply	39
Water Storage and Boosters.....	40
Water Distribution	40
Regulatory Requirements.....	41
Legal Proceedings.....	41
Rate Setting Process.....	41
Operating and Financial Information.....	42
THE GAS ENTERPRISE	45
Overview.....	45
Organization and Management	45
Physical Description	46
Service Area.....	47
Insurance.....	47
Gas Supply Agreement with IGI Resources, Inc., a subsidiary of BP Energy	47
Rates, Fees and Charges; Billing and Collection.....	49
Customers / Usage	49

TABLE OF CONTENTS

	<u>Page</u>
Competitive Position and Strategy.....	52
Potential Growth of the Gas Enterprise / Future Capital Projects	52
Regulatory Factors	53
Legal Proceedings.....	53
Rate Setting Process.....	53
FINANCIAL RESULTS OF THE GAS ENTERPRISE	54
Audited Financial Statements	54
Significant Accounting Policies.....	54
CONSTITUTIONAL LIMITATIONS ON TAXES AND	58
RATES AND CHARGES	58
California Constitution Articles XIII A and XIII B	58
California Constitution Articles XIII C and XIII D	58
Future Initiatives	61
RISKS FACTORS.....	61
General.....	61
Net Revenues; Rate Covenant	61
Alternative Energy Sources	62
City Expenses.....	62
Insurance	62
Limitations on Remedies and Bankruptcy	62
Regulation	63
Natural Disasters	63
Economic, Political and Social Conditions.....	64
Loss of Tax-Exemption.....	64
Rate Process	64
Limited Obligation.....	65
Secondary Market for Bonds	65
THE AUTHORITY	65
FINANCIAL STATEMENTS	65
TAX MATTERS	66
CERTAIN LEGAL MATTERS.....	68
CONTINUING DISCLOSURE	68
LITIGATION	69
RATINGS.....	69
UNDERWRITING.....	69
VERIFICATION.....	70
MISCELLANEOUS.....	70

TABLE OF CONTENTS

Page

APPENDICES

APPENDIX A: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....A-1

APPENDIX B: AUDITED FINANCIAL STATEMENTS OF THE
CITY FOR FISCAL YEAR 2008-09.....B-1

APPENDIX C: FORM OF CONTINUING DISCLOSURE CERTIFICATE.....C-1

APPENDIX D: GENERAL INFORMATION REGARDING THE
CITY AND SURROUNDING AREAD-1


APPENDIX E: FORM OF OPINION OF BOND COUNSELE-1

APPENDIX F: INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEMF-1

APPENDIX G: SPECIMEN MUNICIPAL BOND INSURANCE POLICYG-1

Location Map



 Susanville,
CA

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

\$9,700,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SENIOR SERIES A
(Utility Enterprises Project)

\$25,160,000
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SUBORDINATE SERIES B
(Utility Enterprises Project)

INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information regarding the issuance by the Susanville Public Financing Authority (the "Authority") of its \$9,700,000 aggregate principal amount of 2010 Refunding Revenue Bonds, Senior Series A (the "Series A Bonds") and \$25,160,000 aggregate principal amount 2010 Refunding Revenue Bonds, Subordinate Series B (the "Series B Bonds" and, collectively with the Series A Bonds, the "Bonds"). Further, the following introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Certain capitalized terms used herein are defined in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions" herein.

INTRODUCTION

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the "Bond Law"), a Resolution (the "Resolution") adopted by the Board of Directors of the Authority on August 12, 2010, and an Indenture of Trust (the "Indenture"), dated as September 1, 2010, by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee").

Purpose of the Bonds

The Bonds are being issued to (i) refund two separate series of outstanding City of Susanville (the "City") Water Revenue Bonds (the "Prior Water Obligations"), along with four separate series of outstanding City of Susanville Certificates of Participation (the "Prior Gas Obligations," and together with the Prior Water Obligations, the "Prior Obligations"), (ii) fund the Reserve Account (as defined herein), and (iii) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See "THE FINANCING PLAN" herein.

The Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery and interest thereon will be payable semiannually on December 1 and June 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2010. See “THE BONDS” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

Interest on the Bonds will be paid by check of the Trustee mailed on the interest payment date by first class mail to the person entitled thereto. Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Trustee to The Depository Trust Company, New York, New York (“DTC”) which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturity dates, as provided herein. For a description of the Series A Bonds redemption provisions see “THE BONDS – Series A Bonds – Redemption Provisions” herein. For a description of the Series B Bonds redemption provisions see “THE BONDS – Series B Bonds – Redemption Provisions” herein.

Sources of Payment for the Bonds

In General. The Bonds are special limited obligations of the Authority. The Series A Bonds are payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under (i) an Installment Sale Agreement related to the City’s Water Enterprise (the “Water Enterprise”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Water Installment Sale Agreement”), and (ii) an Installment Sale Agreement related to the City’s Gas Enterprise (the “Gas Enterprise” and collectively with the Water Enterprise, the “Utility Enterprises”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Gas Installment Sale Agreement” and, collectively with the Water Installment Sale Agreement, the “Installment Sale Agreements”), and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein).

The Series B Bonds are also payable from and secured by Revenues of the Authority pledged under the Indenture, but on a subordinate basis to the pledge of Revenues for payment of the Series A Bonds. See “SECURITY FOR THE BONDS – Flow of Funds” herein. Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

Installment Sale Agreements. The obligation of the City to make payments under each of the Installment Sale Agreements is limited solely to Net Revenues consisting generally of all gross income and revenue from the Water Enterprise, and from the Gas Enterprise, respectively, less the maintenance and operations costs of the Water Enterprise and the Gas Enterprise, respectively.

Assignment of Rights. Under the Indenture, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds substantially all of its right, title and interest in the Installment Sale Agreements, including its right to receive the Installment Payments thereunder and its rights as may be necessary to enforce payment of the Installment Payments when due or otherwise protect the interests of the Owners of the Bonds under the Installment Sale Agreements.

Reserve Account. A reserve account (the “Reserve Account”) is established with the Trustee pursuant to the Trust Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). Amounts on deposit in the Reserve Account will be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Interest Accounts, Principal Accounts or Sinking Accounts, respectively, are insufficient therefor. See “SECURITY FOR THE BONDS – Reserve Account” herein.

Series A Bonds Insured. The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.). See “SERIES A BOND INSURANCE” herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. THE FULL FAITH AND CREDIT OF NEITHER THE AUTHORITY, THE CITY NOR THE AGENCY IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES, IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS.

THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE CITY OR THE AGENCY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

FURTHERMORE, THE SERIES B BONDS ARE NOT INSURED AND ARE SECURED SOLELY BY A SUBORDINATE INTEREST IN THE REVENUES AND CERTAIN OTHER AMOUNTS HELD UNDER THE INDENTURE. DEBT SERVICE ON THE SERIES B BONDS IS SUBORDINATE TO THE PAYMENT OF DEBT SERVICE ON THE SERIES A BONDS TO THE EXTENT DESCRIBED HEREIN.

Sources of Payment for the Installment Sale Agreements

In General. Pursuant to each of the Installment Sale Agreements, the City has agreed to pay installment payments (the “Installment Payments”) to the Authority as the purchase price of (i) certain water system facilities pertaining to the City’s Water Enterprise, and (ii) certain natural gas system facilities pertaining to the City’s Gas Enterprise. The aggregate Installment Payments are scheduled to be sufficient, in time and amount, for the Authority to pay principal of and interest on the Bonds when due. The City is obligated to make such payments solely from Net Revenues. Under no circumstances shall the City be obligated, liable or 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 under the Installment Sale Agreements. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

Rate Covenant. Under each of the Installment Sale Agreements, the City has covenanted that it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by each of the respective Utility Enterprises which will at least be sufficient to yield Net Revenues, during the next succeeding Fiscal Year, equal to 125% of the total respective Installment Payments for such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein. In addition, for information on the possible limitation on the City’s ability to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see “RISK FACTORS – Rate Process” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID.”

Rate Stabilization Funds. Under each of the Installment Sale Agreements, the City has covenanted that it will establish and maintain a rate stabilization fund (each a “Rate Stabilization Fund”) for each of the Utility Enterprises.

The City may withdraw amounts from time to time held in the applicable Rate Stabilization Fund within one hundred twenty (120) days after the end of the applicable Fiscal Year. Amounts so withdrawn shall be included in Revenues for such Fiscal Year and may be applied for any purposes for which Revenues generally are available. For a description of the Series A Bonds Rate Stabilization Fund provisions, see “THE WATER INSTALLMENT SALE AGREEMENT – Covenant Regarding Water Net Revenues – Water Rate Stabilization Fund” herein. For a description of the Series B Bonds Rate Stabilization Fund provisions, see “THE GAS INSTALLMENT SALE AGREEMENT – Covenant Regarding Gas Net Revenues – Gas Rate Stabilization Fund” herein.

Unconditional Obligation. The obligation of the City to pay the Installment Payments from the Net Revenues is absolute and unconditional, and until such time as the Installment Payments have been paid in full (or provision for the payment has made under the applicable Installment Sale Agreement), the City will have no right to discontinue or suspend any Installment Payments required to be made by it when due, whether or not the Water System or the Gas System, as the case may be, or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

No Senior Debt. Under each of the Installment Sale Agreements, the City has covenanted not to issue any additional obligations which are secured by a pledge of and lien on the Net Revenues which is senior to the pledge and lien which secures the respective Installment Payments.

Additional Parity Debt. The City retains the right from time to time to issue or incur additional debt of equal lien status with the Bonds upon such terms and conditions as the City deems advisable, but only upon compliance with the conditions set forth in each of the Installment sale Agreements. For a description of the Series A Bonds additional parity debt provisions, see “THE WATER INSTALLMENT SALE AGREEMENT – Issuance of Additional Debt” herein. For a description of the Series B Bonds additional parity debt provisions, see “THE GAS INSTALLMENT SALE AGREEMENT – Issuance of Additional Debt” herein.

The Authority

The Susanville Public Financing Authority was created by a Joint Exercise of Powers Agreement, effective as of December 17, 1990 (the “Joint Exercise of Powers Agreement”), by and between the City and the Community Development Agency of the City of Susanville (the “Agency”) pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Act”). The Authority was created for the purpose of facilitating the financing of public capital improvements and facilities for the City and the Agency. See “THE AUTHORITY” herein.

The City

The City is the county seat of Lassen County, California. The City is located in the northeast portion of California on the eastern slopes of the Sierra Nevada Mountains at an elevation of approximately 4,200 feet above sea level. The City is approximately 85 miles northwest of Reno, Nevada and approximately 200 miles northeast of Sacramento, California. The City encompasses an area of approximately 6.5 square miles and, as of January 1, 2008, had a population of approximately 17,570 persons (including the inmate population at the California Correctional Center and the High Desert State Prison), according to the State of California Department of Finance estimates. The City is the central shopping and service area serving a population of approximately 30,000 persons. See “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

Risk Factors

The purchase of the Bonds involves certain risks. For a discussion of certain considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see “RISK FACTORS” herein. The purchase of the Bonds involves significant risks, and the Bonds are not appropriate investments for investors who are not able to bear those risks. On each Interest Payment Date, Revenues will be used to pay amounts due and owing on the Series A Bonds prior to the use of Revenues to pay amounts due and owing on the Series B Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. Interest on the Bonds will be paid by check of the Trustee mailed on the interest payment date by first class mail to the person entitled thereto. Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturity dates, as provided herein. For a description of the Series A Bonds redemption provisions see “THE BONDS – Series A Bonds – Redemption Provisions.” For a description of the Series B Bonds redemption provisions see “THE BONDS – Series B Bonds – Redemption Provisions” herein.

Tax Exemption

In the opinion of Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, and (iii) is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS” herein.

Continuing Disclosure

The City has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City’s Water Enterprise and Gas Enterprise by not later than nine (9) months following the end of the City’s Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the City’s Fiscal Year), commencing with the report for the 2009-10 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system.

The City has further agreed to provide, in a timely manner, notice of certain material events. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”). The City represents that it has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See “CONTINUING DISCLOSURE” herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

Other Matters

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, shall create any implication that there has been no change in the affairs of the City or the Water Enterprise and Gas Enterprise since the date of this Official Statement.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. 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 A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The information set forth herein, other than that provided by the City, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Copies of the Indenture and the Installment Sale Agreements are available from the Trustee upon request and payment of duplication costs.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Bond Law”), and pursuant to the Indenture.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2010, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Series A Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds shall be calculated based on a 360-day year consisting of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before November 15, 2010, in which event it shall bear interest from the date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry Only System. The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

Transfer or Exchange of the Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the Authority may require payment of the expenses of the Authority, the City and the Trustee incurred in connection therewith.

Series A Bonds

Payment Provisions. The Series A Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside front cover of this Official Statement. Principal of and premium, if any, on the Series A Bonds are payable upon presentation and surrender of the Series A Bonds at the principal office of the Trustee.

Redemption Provisions. The Series A Bonds are subject to optional and mandatory redemptions as follows:

Optional Redemption. The Series A Bonds maturing on or after June 1, 2019, shall be subject to redemption at the option of the Authority, as a whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds (including prepayments of Water Installment Payments made by the City pursuant to the Water Installment Sale Agreement), on any Interest Payment Date on or after June 1, 2018, at a redemption price equal to the principal amount of the Series A Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, plus a premium (expressed as a percentage of the principal amount of Series A Bonds, or portions thereof, to be redeemed) as set forth in the following table:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
June 1, 2018 and December 1, 2018	102%
June 1, 2019 and December 1, 2019	101%
June 1, 2020 and on any Interest Payment Date thereafter	100%

Mandatory Redemption. The Series A Bonds maturing on June 1, 2024 (the “2024 Series A Term Bond”) are subject to mandatory redemption from monies in the Series A Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2022, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

<u>Sinking Payment Date (June 1)</u>	<u>Principal Amount to be Redeemed</u>
2022	\$310,000
2023	325,000
2024 (Maturity)	340,000

The Series A Bonds maturing on June 1, 2030 (the “2030 Series A Term Bond”) are subject to mandatory redemption from monies in the Series A Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2025, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

<u>Sinking Payment Date (June 1)</u>	<u>Principal Amount to be Redeemed</u>
2025	\$360,000
2026	375,000
2027	395,000
2028	415,000
2029	435,000
2030 (Maturity)	455,000

The Series A Bonds maturing on June 1, 2036 (the “2036 Series A Term Bond”) are subject to mandatory redemption from monies in the Series A Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2031, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (June 1)	Principal Amount to be Redeemed
2031	\$475,000
2032	500,000
2033	525,000
2034	550,000
2035	575,000
2036 (Maturity)	605,000

Mandatory Redemption From Insurance and Condemnation Proceeds. The Series A Bonds are subject to mandatory redemption prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the Authority or City in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Indenture and the Water Installment Sale Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notice of Redemption. The Trustee shall give notice of redemption to the Owners of the Series A Bonds and to certain security depositories and information services, not less than thirty nor more than sixty days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Series A Bond numbers and the maturity or maturities (in the event of redemption of all of the Series A Bonds of such maturity or maturities in whole) of the Series A Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such Series A Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Series A Bonds will not accrue from and after the redemption date. Failure by any Owner of a Series A Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Series A Bonds or the cessation of the accrual of interest on the date fixed for redemption.

Rescission of Notice of Redemption. The Authority will have the right to rescind any optional redemption by written notice of rescission. The Trustee is required to mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

Effect of Notice of Redemption. If notice of redemption has been duly given, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series A Bonds (or portions thereof) so called for

redemption will become due and payable at the redemption price specified in such notice together with interest accrued thereon to the redemption date, interest on the Series A Bonds so called for redemption will cease to accrue, said Series A Bonds (or portions thereof) will cease to be entitled to any benefit or security and the Holders of said Series A Bonds will have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment. All Series A Bonds redeemed pursuant to the Indenture will be canceled upon surrender thereof.

Series B Bonds

Payment Provisions. The Series B Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside front cover of this Official Statement. Principal of and premium, if any, on the Series B Bonds are payable upon presentation and surrender of the Series B Bonds at the principal office of the Trustee. Although Installment Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due, the Series B Bonds are not insured and are payable from and secured by Revenues on a subordinate basis to the pledge of Revenues for payment of the Series A Bonds. See “SECURITY FOR THE BONDS – Flow of Funds” herein.

Redemption Provisions. The Series B Bonds are subject to optional and mandatory redemptions as follows:

Optional Redemption. The Series B Bonds maturing on or after June 1, 2019, shall be subject to redemption at the option of the Authority, as a whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds (including prepayments of Installment Payments made by the City pursuant to the Gas Installment Sale Agreement), on any Interest Payment Date on or after June 1, 2018, at a redemption price equal to the principal amount of the Series B Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, plus a premium (expressed as a percentage of the principal amount of Series B Bonds, or portions thereof, to be redeemed) as set forth in the following table:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
June 1, 2018 and December 1, 2018	102%
June 1, 2019 and December 1, 2019	101%
June 1, 2020 and on any Interest Payment Date thereafter	100%

Mandatory Redemption. The Series B Bonds maturing on June 1, 2030 (the “2030 Series B Term Bond”) are subject to mandatory redemption from monies in the Series B Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2026, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date <u>(June 1)</u>	Principal Amount to be Redeemed
2026	\$580,000
2027	610,000
2028	645,000
2029	680,000
2030 (Maturity)	720,000

The Series B Bonds maturing on June 1, 2035 (the “2035 Series B Term Bond”) are subject to mandatory redemption from monies in the Series B Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2031, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date <u>(June 1)</u>	Principal Amount to be Redeemed
2031	\$760,000
2032	800,000
2033	850,000
2034	900,000
2035 (Maturity)	950,000

The Series B Bonds maturing on June 1, 2045 (the “2045 Series B Term Bond”) are subject to mandatory redemption from monies in the Series B Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each June 1, on and after June 1, 2036, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date <u>(June 1)</u>	Principal Amount to be Redeemed
2036	\$1,010,000
2037	1,070,000
2038	1,130,000
2039	1,200,000
2040	1,270,000
2041	1,350,000
2042	1,430,000
2043	1,515,000
2044	1,605,000
2045 (Maturity)	1,700,000

Mandatory Redemption From Insurance and Condemnation Proceeds. The Series B Bonds are subject to mandatory redemption prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the Authority or City in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Indenture and the Gas Installment Sale Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notice of Redemption. The Trustee shall give notice of redemption to the Owners of the Series B Bonds and to certain security depositories and information services, not less than thirty nor more than sixty days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Series B Bond numbers and the maturity or maturities (in the event of redemption of all of the Series B Bonds of such maturity or maturities in whole) of the Series B Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such Series B Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Series B Bonds will not accrue from and after the redemption date.

Failure by any Owner of a Series B Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Series B Bonds or the cessation of the accrual of interest on the date fixed for redemption.

Rescission of Notice of Redemption. The Authority will have the right to rescind any optional redemption by written notice of rescission. The Trustee is required to mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

Effect of Notice of Redemption. If notice of redemption has been duly given, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series B Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series B Bonds (or portions thereof) so called for redemption will become due and payable at the redemption price specified in such notice together with interest accrued thereon to the redemption date, interest on the Series B Bonds so called for redemption will cease to accrue, said Series B Bonds (or portions thereof) will cease to be entitled to any benefit or security and the Holders of said Series B Bonds will have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment. All Series B Bonds redeemed pursuant to the Indenture will be canceled upon surrender thereof.

SECURITY FOR THE BONDS

The general fund of the City is not liable and neither the credit nor the taxing power of the City is pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture. This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Revenues

All Revenues (as defined below) and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Indenture are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Indenture, and the Revenues may not be used for any other purpose while any of the Bonds remain outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture.

“Revenues” means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Water Installment Sale Agreement and the Gas Installment Sale Agreement, including, without limiting the generality of the foregoing, (i) all of the Water Installment Payments payable pursuant to the Water Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Water Installment Payments), and (ii) all of the Gas Installment Payments payable pursuant to the Gas Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Gas Installment Payments), but in each case excluding any respective Water and Gas Additional Payments, (b) amounts deposited in the Reserve Account and Bond Fund, (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Account), and (d) any net payments received by the Authority under an Interest Rate Swap Agreement.

Such pledge constitutes a lien on and security interest upon the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Indenture. Such pledge constitutes a subordinate lien on and security interest upon the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture for the payment of the interest on and principal of the Series B Bonds in accordance with their terms and the terms of the Indenture. See “SECURITY FOR THE BONDS – Flow of Funds” herein. Revenues, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

Under the Indenture, the Authority may not issue or sell additional bonds secured by the Revenues.

THE SERIES B BONDS ARE NOT INSURED AND ARE SECURED SOLELY BY A SUBORDINATE LIEN ON AND SECURITY INTEREST UPON THE REVENUES RECEIVED BY THE TRUSTEE UNDER THE INDENTURE. DEBT SERVICE ON THE SERIES B BONDS IS SUBORDINATE TO THE PAYMENT OF DEBT SERVICE ON THE SERIES A BONDS TO THE EXTENT DESCRIBED HEREIN. THE SERIES B BONDS ARE SUBJECT TO CERTAIN RISKS, INCLUDING THE RISK THAT REVENUES MAY BE INSUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES B BONDS. SEE THE SECTION HEREIN ENTITLED "RISK FACTORS" FOR A DISCUSSION OF SPECIAL RISK FACTORS THAT SHOULD BE CONSIDERED IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.

In the Indenture, the Authority agrees to transfer in trust, grant a security interest in and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Water Installment Sale Agreement and the Gas Installment Sale Agreement (except for the right to receive any respective Water or Gas Additional Payments (as defined herein) to the extent payable to the Authority and certain rights to indemnification set forth in each of the respective Installment Sale Agreements).

In order to carry out and effectuate the pledge, charge and lien on Revenues provided in the Indenture, the Authority agrees and covenants in the Indenture that all Revenues will be promptly deposited by the Trustee upon receipt thereof in the Bond Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under a respective Installment Sale Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund. All Revenues will be accounted for through and held in trust in the Bond Fund, and the Authority has no beneficial right or interest in any of the Revenues except only as provided in the Indenture.

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. The full faith and credit of neither the Authority, the City nor the Agency is pledged for the payment of the principal of or interest or premium, if any, on the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the principal of or interest or premium, if any, on the Bonds. The payment of the principal of or interest or premium, if any, on the Bonds does not constitute a debt, liability or obligation of the Authority, the City or the Agency for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Flow of Funds

Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Senior Interest Account. On each Interest Payment Date, the Trustee will deposit in the Senior Interest Account an amount required to cause the aggregate amount on deposit in the Senior Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Series A Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series A Bonds, if any, and an amount due on the next redemption date on the Series A Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Senior Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series A Bonds on such Interest Payment Date. All moneys in the Senior Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series A Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Senior Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series A Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series A Bonds on a pro rata basis.

(2) Senior Principal Account. On each Interest Payment Date on which the principal of the Series A Bonds is payable, the Trustee shall deposit in the Senior Principal Account an amount required to cause the aggregate amount on deposit in the Senior Principal Account to equal the principal amount of the Series A Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series A Bonds, if any, and an amount due on the next redemption date on the Series A Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Senior Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series A Bonds at the maturity thereof.

(3) Subordinate Interest Account. On each Interest Payment Date, the Trustee shall deposit in the Subordinate Interest Account an amount required to cause the aggregate amount on deposit in the Subordinate Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Series B Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series B Bonds, if any, and an amount due on the next redemption date on the Series B Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Subordinate Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series B Bonds on such Interest Payment Date. All moneys in the Subordinate Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series B Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Subordinate Interest Account on any Interest Payment Date or redemption date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series B Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series B Bonds on a pro rata basis.

(4) Subordinate Principal Account. On each Interest Payment Date on which principal of the Series B Bonds is payable, the Trustee shall deposit in the Subordinate Principal Account an amount required to cause the aggregate amount on deposit in the Subordinate Principal Account to equal the principal amount of, and premium (if any) on, the Series B Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series B Bonds, if any, and an amount due on the next redemption date on the Series B Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Subordinate Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series B Bonds at the maturity thereof.

(5) Reserve Account. The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to either the Water Enterprise or the Gas Enterprise, as the case may be).

(6) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Bond Fund may at any time be treated as surplus and applied as provided in the Indenture.

Reserve Account

In order to further secure the payment of principal of and interest on the Bonds, a portion of Bond proceeds will be deposited into the Reserve Account in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean, as of any calculation date in a Bond Year, an amount equal to the lesser 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.

All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Account will be withdrawn by the Trustee and paid to the City.

If at any time the amount on deposit in the Reserve Account is less than the Reserve Requirement, the City is required to determine which Enterprise caused the shortfall, and then pay from corresponding Water Net Revenues or Gas Net Revenues, as the case may be, to the Trustee the amount of such deficiency as provided in the respective Installment Sale Agreement. Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Fund.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the

acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues.

No Additional Bonds

No additional bonds are authorized under the Indenture.

Limited Obligation

The Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Revenues.

SERIES A BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series A Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM”) will issue its Municipal Bond Insurance Policy for the Series A Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Assured Guaranty Municipal Corp. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of AGM

At June 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,264,680,337 and its total net unearned premium reserve was approximately \$2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and
- (iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c) or 15(d) of the Securities Exchange Act, as amended, after the filing of the last document referred to above and before the termination of the offering of the Series A Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

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

THE WATER INSTALLMENT SALE AGREEMENT

Water Installment Payments

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

The obligations of the City to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement shall be absolute and unconditional and will 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 Water Enterprise, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Water Installment Sale Agreement, including the right to receive the Water Installment Payments.

The obligation of the City to pay the Water Installment Payments is limited to the Water Net Revenues, which are defined in the Water Installment Sale Agreement to be for any period, an amount equal to all of the Water Gross Revenues received during such period minus the amount required to pay all Water Operation and Maintenance Costs becoming payable during such period.

Water Net Revenues

Water Net Revenues is defined in the Water Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues of the Water Enterprise during such Fiscal Year less the Water Operation and Maintenance Costs during such Fiscal Year.

"Water Enterprise" means, collectively, the entire water collection, storage, treatment, transmission and distribution system now owned or operated by the City, and all other properties, structures or works hereafter acquired and constructed by the City and determined to be a part of the Water Enterprise, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, storage, treatment, transmission and distribution system, including all contractual rights to water supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, storage, treatment, transmission and distribution of water, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Water Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Water Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the City from the operation of the Water Enterprise or arising from the Water Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for the Water Enterprise service and the other services of the Water Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Water Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Water Enterprise, including all income from the investment of amounts on deposit in the Water Utility Fund, and the Water Rate Stabilization Fund, (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Water Enterprise, and (f) all other monies howsoever derived by the City from the operation of the Water Enterprise or arising from the Water Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement.

“Water Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the City for maintaining and operating the Water Enterprise, determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) costs of acquisition of water, including all associated treatment and delivery costs, to be used by the Water Enterprise, (b) costs of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order, (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (e) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Water Parity Obligations or of such Water Parity Obligations, such as compensation, reimbursement and indemnification of the trustee for any such Water Parity Obligations and fees and expenses of Independent Certified Public Accountants and independent engineers, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water Enterprise, including but not limited to the Water Installment Payments and any Water Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Water Utility Fund

The City has heretofore established a Utility (or sometimes, “Enterprise”) Fund into which the City deposits and will continue to deposit all Water Gross Revenues (the “Water Utility Fund”), which the City has covenanted to maintain throughout the Term of the Water Installment Sale Agreement.

In the Water Installment Sale Agreement, all of the Water Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Water Installment Payments and any other Water Parity Obligations, and except as otherwise provided therein, the Water Net Revenues will not be used for any other purpose so long as any of the Water Installment Payments remain unpaid.

All of the Water Gross Revenues will be deposited by the City immediately upon receipt in the Water Utility Fund. The City covenants and agrees that all Water 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) and the Bond Owners, and for the benefit of the owners of any Water Parity Obligations. On or before each Water Installment Payment Date, the City will withdraw from the Water Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Water Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Water Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Account (other than amounts resulting from the prepayment of the Water Installment Payments pursuant to the Water Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Water Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Water Utility Fund such amounts at such times as shall be required to: (i) pay all Water Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Water Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Water Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Account (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Account Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Water Installment Sale Agreement.

In addition to the Water Installment Payments, the City shall pay when due Water Additional Payments, which generally consist of 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 amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Water Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year, which (together with other funds transferred from the Water Rate Stabilization Fund or other funds which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Water Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Water Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;

(ii) All Water Installment Payments, and all other Water Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Water Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), or with respect to Water Parity Obligations, to replenish reserve accounts therefore.

(iv) All Water Additional Payments and Supplemental Water Installment Sale Agreements that are Water Subordinate Obligations.

(v) All Water Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Water Utility Fund for expenditure for any lawful purpose of the City, including (i) the payment of Water Additional Payments, (ii) the payment of Water Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Water Enterprise, (v) the prepayment of any obligations of the City relating to the Water Enterprise, or (vi) any other lawful purposes of the City, including, but not limited to, deposits to the Water Rate Stabilization Fund in accordance with Section 4.7(c) of the Water Installment Sale Agreement.

Covenant Regarding Water Net Revenues. In addition to the covenant regarding Gross Revenues, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Water Net Revenues (as defined below) for such Fiscal Year equal to at least the Water Coverage Requirement (as defined below) for such Fiscal Year.

The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Adjusted Annual Water Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Water Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Water Gross Revenues (as defined below) during such Fiscal Year or twelve (12) calendar month period minus the Water Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Water Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Water Utility Fund and/or the Bond Fund from the Water Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Water Rate Stabilization Fund from the Water Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Water Rate Stabilization Fund” means the separate fund to be known as the “Water Rate Stabilization Fund,” established pursuant to the Water Installment Sale Agreement to be funded in the amount of \$3,000,000 (the “Water RSF Requirement”), which is held, replenished and maintained by the City. The City has agreed to deposit all available surplus moneys annually in the Water Rate Stabilization Fund as necessary to maintain a balance in the Water Rate Stabilization Fund at least equal to the Water RSF Requirement. The City may at any time withdraw from the Water Rate Stabilization Fund any money therein for deposit in the Water Utility Fund or Bond Fund; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred twenty (120) days after the end of the Fiscal Year for which such deposit or withdrawal will be taken into account in determining Adjusted Annual Water Revenues; and provided further, that no deposit of Net Water Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period. In keeping with the City’s existing policy, the Water Rate Stabilization Fund is made available to the Gas Enterprise for the entire Term of the Natural Gas Installment Sale Agreement, to the extent needed to make all Installment Payments and Parity Payments required under the Gas Installment Sale Agreement.

“Water Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Water Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Water Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Water Annual Debt Service plus the Water Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Water Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a reserve account under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Water Coverage Requirement, the provisions set forth in the Water Installment Sale Agreement regarding variable rate obligation adjustments shall apply.

Special Obligation; Unconditional Obligation

The collective Installment Payments due under the Water and Gas Installment Sale Agreements are calculated to be in an amount sufficient to provide for the payment of the principal of and interest on the Bonds. The City’s obligation to pay the Water Installment Payments, the Water Additional Payments and any other amounts coming due and payable under the Water Installment Payment Agreement are a special obligation of the City limited solely to the Water Net Revenues.

Under no circumstances shall the City be obligated, liable or required to advance moneys derived from any source of income other than the Water Net Revenues and other sources specifically identified for the payment of the Water Installment Payments and the Water Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Water Installment Payments and the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the City to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale 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 Water Enterprise, whether under the Water 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 Water Installment Payments, all of the Water Additional Payments and all other amounts coming due and payable under the Water Installment Sale Agreement have been fully paid or prepaid, the City has agreed that it (a) will not suspend or discontinue payment of any Water Installment Payments, Water Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Water Installment Sale Agreement, and (c) will not terminate the Term of the Water 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 Water Enterprise, sale of the Water Enterprise, the taking by eminent domain of title to or temporary use of any component of the Water 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 Water Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Water Installment Sale Agreement, the City may from time to time to issue or incur additional Water Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the City demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Water Net Revenues were at least equal to the Water Coverage Requirement for all outstanding Water Parity Obligations plus the Water Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the City may adjust the foregoing Adjusted Annual Water Net Revenues to reflect Additional Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Water Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Water Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Water Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Water Parity Obligation proposed to be executed plus all projects financed with all existing Water Parity Obligations are expected to commence operations, will be at least equal to the Water Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the

Independent Engineer may adjust the foregoing estimated Adjusted Annual Water Net Revenues to reflect: (a) An allowance for Water Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for water service in effect and being charged or from any increase in the rates, fees and charges for water service that are expected to be charged; and (b) An allowance for Water Net Revenues that are estimated to be derived from customers of the Water Enterprise anticipated to be served by the additions, betterments or improvements to the Water Enterprise to be financed by the Water Parity Obligation proposed to be executed;

(b) A Certificate of the City that the project to be acquired and constructed with the proceeds of such Water Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the water service for each Fiscal Year from the Fiscal Year in which such Water Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Water Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Water Parity Obligations a reserve account shall be established for such Water Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Water Parity Obligations.

Nothing in the Water Installment Sale Agreement prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Water Net Revenues that is subordinate to the lien established under the Water Installment Sale Agreement, upon such terms and in such principal amounts as the City may determine.

Insurance; Net Proceeds

The City will procure and maintain such insurance relating to the Water Enterprise (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. In addition, the City will procure and maintain, or cause to be procured and maintained (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 Water Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such 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 Water 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 Water Enterprise shall be Water Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise or otherwise as permitted by the Water Installment Sale Agreement.

THE GAS INSTALLMENT SALE AGREEMENT

Gas Installment Payments

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

The obligations of the City to make the Gas Installment Payments and the Gas Additional Payments from the Gas Net Revenues and to perform and observe the other agreements contained in the Gas Installment Sale Agreement shall be absolute and unconditional and will 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 Gas Enterprise, whether under the Gas Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Gas Installment Sale Agreement, including the right to receive the Gas Installment Payments.

The obligation of the City to pay the Gas Installment Payments is limited to the Gas Net Revenues, which are defined in the Gas Installment Sale Agreement to be for any period, an amount equal to all of the Gas Gross Revenues received during such period minus the amount required to pay all Gas Operation and Maintenance Costs becoming payable during such period.

Gas Net Revenues

Gas Net Revenues is defined in the Gas Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Gas Gross Revenues of the Gas Enterprise during such Fiscal Year less the Gas Operation and Maintenance Costs during such Fiscal Year.

"Gas Enterprise" means, collectively, the entire natural gas collection, production, transmission and distribution system owned or operated by the City, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, production, transmission and distribution system, including all contractual rights to gas production, supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, production, transmission and distribution of natural gas, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Gas Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Gas Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the City from the operation of the Gas Enterprise or arising from the Gas Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for the Gas Enterprise service and the other services of the Gas Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Gas Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Gas Enterprise, including all income from the investment of amounts on deposit in the Gas Utility Fund, and the Gas Rate Stabilization Fund, (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Gas Enterprise, and (f) all other monies howsoever derived by the City from the operation of the Gas Enterprise or arising from the Gas Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Gas Rate Stabilization Fund as contemplated by the Gas Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Gas Rate Stabilization Fund as contemplated by the Gas Installment Sale Agreement.

“Gas Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Gas Enterprise, including but not limited to (a) costs of acquisition of natural gas, including all associated delivery costs, to be used by the Gas Enterprise, (b) costs of electricity and other forms of energy supplied to the Gas Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Gas Enterprise in good repair and working order and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Gas Enterprise, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Gas Enterprise, including but not limited to the Installment Payments and any Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Gas Utility Fund

The City has heretofore established a Utility (or sometimes, the “Enterprise”) Fund into which the City deposits and will continue to deposit all Gas Gross Revenues (the “Gas Utility Fund”), which the City has covenanted to maintain throughout the Term of the Gas Installment Sale Agreement. In the Gas Installment Sale Agreement, all of the Gas Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Gas Installment Payments and any other Parity Obligations, and except as otherwise provided therein, the Gas Net Revenues will not be used for any other purpose so long as any of the Gas Installment Payments remain unpaid.

All of the Gas Gross Revenues will be deposited by the City immediately upon receipt in the Gas Utility Fund. The City covenants and agrees that all Gas Net Revenues will be held by the City in the Gas Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Gas Parity Obligations. On or before each Gas Installment Payment Date, the City will withdraw from the Gas Utility Fund and transfer to the Trustee, for deposit in

the Bond Fund, an amount of Gas Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Gas Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Account (other than amounts resulting from the prepayment of the Gas Installment Payments pursuant to the Gas Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Gas Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Gas Utility Fund such amounts at such times as shall be required to: (i) pay all Gas Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Gas Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Gas Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Account (but only to the extent that a negative balance therein is properly traced and charged to the Gas Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Account Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Gas Installment Sale Agreement.

In addition to the Gas Installment Payments, the City shall pay when due Gas Additional Payments, which generally consist of 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 amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Gas Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Gas Enterprise during each Fiscal Year, which (together with other funds transferred from the Gas Rate Stabilization Fund or other funds which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gas Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Gas Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;

(ii) All Gas Installment Payments, and all other Gas Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Gas Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Gas Enterprise), or with respect to Gas Parity Obligations, to replenish reserve accounts therefore.

(iv) All Gas Additional Payments and Supplemental Gas Installment Sale Agreements that are Gas Subordinate Obligations.

(v) All Gas Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Gas Utility Fund for expenditure for any lawful purpose of the City, including (i) the payment of Gas Additional Payments, (ii) the payment of Gas Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Gas Enterprise, (v) the prepayment of any obligations of the City relating to the Gas Enterprise, or (vi) any other lawful purposes of the City, including, but not limited to, deposits to the Gas Rate Stabilization Fund in accordance with Section 4.7(c) of the Gas Installment Sale Agreement.

Covenant Regarding Gas Net Revenues. In addition to the covenant regarding Gas Gross Revenues, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Gas Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Gas Net Revenues (as defined below) for such Fiscal Year equal to at least the Gas Coverage Requirement (as defined below) for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Adjusted Annual Gas Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Gas Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Gas Gross Revenues (as defined below) during such Fiscal Year or twelve (12) calendar month period minus the Gas Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Gas Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Gas Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Gas Utility Fund and/or the Bond Fund from the Gas Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Gas Rate Stabilization Fund from the Gas Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Gas Rate Stabilization Fund” means the separate fund to be known as the “Gas Rate Stabilization Fund,” established pursuant to the Gas Installment Sale Agreement to be funded in the amount of Maximum Annual Debt Service for the Gas Installment Sale Agreement, with no initially funding on the Closing Date (the “Gas RSF Requirement”), which is held, replenished and maintained by the City. The City has agreed to deposit all available surplus moneys annually in the Gas Rate Stabilization Fund as necessary to maintain a balance in the Gas Rate Stabilization Fund at least equal to the Gas RSF Requirement. The City may at any time withdraw from the Gas Rate Stabilization Fund any money therein for deposit in the Gas Utility Fund or Bond Fund; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred twenty (120) days after the end of the Fiscal Year for which such deposit or withdrawal will be taken into account in determining Adjusted Annual Gas Revenues; and provided further, that no deposit of Net Gas Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period. In keeping with the City’s existing policy, the Gas Rate Stabilization Fund is made available to the Water Enterprise for the entire Term of the Water Installment Sale Agreement, to the extent needed to make all Installment Payments and Parity Payments required under the Water Installment Sale Agreement.

“Gas Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Gas Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Gas Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Gas Annual Debt Service plus the Gas Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Gas Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Gas Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Gas Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a reserve account under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Gas Coverage Requirement, the provisions set forth in the Gas Installment Sale Agreement regarding variable rate obligation adjustments shall apply.

Special Obligation; Unconditional Obligation

The collective Installment Payments due under the Water and Gas Installment Sale Agreements are calculated to be in an amount sufficient to provide for the payment of the principal of and interest on the Bonds. The City’s obligation to pay the Gas Installment Payments, the Gas Additional Payments and any other amounts coming due and payable under the Gas Installment Payment Agreement are a special obligation of the City limited solely to the Gas Net Revenues.

Under no circumstances shall the City be obligated, liable or required to advance moneys derived from any source of income other than the Gas Net Revenues and other sources specifically identified for the payment of the Gas Installment Payments and the Gas Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Gas Installment Payments and the Gas Additional Payments and any other amounts coming due and payable under the Gas Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the City to make the Gas Installment Payments and the Gas Additional Payments from the Gas Net Revenues and to perform and observe the other agreements contained in the Gas Installment Sale 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 Gas Enterprise, whether under the Gas 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 Gas Installment Payments, all of the Gas Additional Payments and all other amounts coming due and payable under the Gas Installment Sale Agreement have been fully paid or prepaid, the City has agreed that it (a) will not suspend or discontinue payment of any Gas Installment Payments, Gas Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Gas Installment Sale Agreement, and (c) will not terminate the Term of the Gas 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 Gas Enterprise, sale of the Gas Enterprise, the taking by eminent domain of title to or temporary use of any component of the Gas 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 Gas Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Gas Installment Sale Agreement, the City may from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the City demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Gas Net Revenues were at least equal to the Gas Coverage Requirement for all outstanding Gas Parity Obligations plus the Gas Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the City may adjust the foregoing Adjusted Annual Gas Net Revenues to reflect Additional Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Gas Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Gas Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Gas Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Gas Parity Obligation proposed to be executed plus all projects financed with all existing Gas Parity Obligations are expected to commence operations, will be at least equal to the Gas Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated Adjusted Annual Gas Net Revenues to reflect: (a) An allowance for Gas Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for natural gas service in effect and being charged or from any increase in the rates, fees and charges for natural gas service that are expected to be charged; and (b) An allowance for Gas Net Revenues that are estimated to be derived from customers of the Gas Enterprise anticipated to be served by the additions, betterments or improvements to the Gas Enterprise to be financed by the Gas Parity Obligation proposed to be executed;

(b) A Certificate of the City that the project to be acquired and constructed with the proceeds of such Gas Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the natural gas service for each Fiscal Year from the Fiscal Year in which such Gas Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Gas Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Gas Parity Obligations a reserve account shall be established for such Gas Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Gas Parity Obligations.

Nothing in the Gas Installment Sale Agreement prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Gas Net Revenues that is subordinate to the lien established under the Gas Installment Sale Agreement, upon such terms and in such principal amounts as the City may determine.

Insurance; Net Proceeds

The City will procure and maintain such insurance relating to the Gas Enterprise (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. In addition, the City will procure and maintain, or cause to be procured and maintained (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 Gas Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such 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 Gas 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 Gas Enterprise shall be Gas Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Gas Enterprise or otherwise as permitted by the Gas Installment Sale Agreement.

FINANCING PLAN

In General

Proceeds of the Bonds will be used to (a) redeem in full – including principal, interest to and including the redemption date, and applicable call premiums – the City's outstanding the Series 2000 and 2004 Revenue Bonds (the Water Project); and the Series 2001A, 2001B, 2001C and 2003 Certificates of Participation (the Natural Gas Project); (b) fund a Debt Service Reserve Account; and (c) pay costs of issuance related to the refinancing.

The Bonds will be payable from Revenues generated from (i) Water Installment Payments made by the City pursuant to the Water Installment Sale Agreement, (ii) Gas Installment Payments made by the City pursuant to the Gas Installment Sale Agreement, (iii) and amounts on deposit in certain funds and accounts held by the City and/or the Trustee. The Series A Bonds are sized to correspond to the principal amount of the Water Installment Sale Agreement and will be paid from a pledge of the first Revenues received under the Indenture. The Series B Bonds are sized to correspond to the principal amount of the Gas Installment Sale Agreement and will be paid from a pledge of the remaining Revenues after payment of the Series A Bonds.

Upon delivery of the Bonds, a portion of the proceeds thereof, together with other available funds of the Authority, is to be deposited into six (6) separate irrevocable escrow accounts, each to be held by Union Bank of California N.A., as escrow agent (the “Escrow Agent”) pursuant to six (6) separate irrevocable Escrow Agreements, each dated as of September 1, 2010 between the City and the Escrow Agent (the “Escrow Agreement”).

The funds deposited to such escrow accounts are to be held in cash or used to purchase direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, scheduled to mature on or before the redemption date for each respective Prior Obligation. Upon delivery of the Bonds, the arithmetical accuracy of certain computations relating to the defeasance of each of the Prior Obligations will be verified by Grant Thornton LLP. See “VERIFICATION” herein.

Sources and Uses of Funds

Table 1 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds.

Table 1
SUSANVILLE PUBLIC FINANCING AUTHORITY
SERIES 2010 REVENUE BONDS

ESTIMATED SOURCES AND USES OF FUNDS			
	Series A Bonds	Series B Bonds	Totals
<u>Sources of Funds:</u>			
Principal Amount of Bonds	\$9,700,000	\$25,160,000	\$34,860,000
Prior Obligations Proceeds	802,447	2,337,376	3,139,823
Net Original Issue Premium/(Discount)	99,768	(413,585)	(313,817)
Underwriter’s Discount	(77,600)	(300,662)	(378,262)
Total Sources of Funds	\$10,524,615	26,783,128	\$37,307,743
<u>Uses of Funds:</u>			
Deposit to Escrow Funds	\$9,718,925	\$24,801,702	\$34,520,627
Deposit to Reserve Account	638,775	1,807,075	2,445,850
Series A Bond Insurance Premium ⁽¹⁾	115,783	---	115,783
Costs of Issuance ⁽²⁾	51,132	174,351	225,483
Total Uses of Funds	\$10,524,615	\$26,783,128	\$37,307,743

(1) Bond insurance premium equals: 0.70% of total debt service on the Series A Bonds.

(2) Costs of Issuance include legal fees, consulting fees, printing costs, Trustee fees, Escrow Agent fees, Verification Agent fees and other miscellaneous expenses in connection with the issuance, sale and delivery of the Bonds.

Debt Service Requirements

Table 2 sets forth annual principal and interest on the Series A Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 2
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 SERIES A REVENUE BONDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$355,000.00	\$282,626.38	\$637,626.38
2012	250,000.00	384,735.00	634,735.00
2013	255,000.00	382,235.00	637,235.00
2014	255,000.00	379,175.00	634,175.00
2015	260,000.00	375,668.75	635,668.75
2016	265,000.00	371,118.75	636,118.75
2017	270,000.00	365,487.50	635,487.50
2018	275,000.00	359,075.00	634,075.00
2019	285,000.00	352,200.00	637,200.00
2020	290,000.00	344,362.50	634,362.50
2021	300,000.00	335,662.50	635,662.50
2022	310,000.00	325,912.50	635,912.50
2023	325,000.00	310,412.50	635,412.50
2024	340,000.00	294,162.50	634,162.50
2025	360,000.00	277,162.50	637,162.50
2026	375,000.00	260,062.50	635,062.50
2027	395,000.00	242,250.00	637,250.00
2028	415,000.00	223,487.50	638,487.50
2029	435,000.00	203,775.00	638,775.00
2030	455,000.00	183,112.50	638,112.50
2031	475,000.00	161,500.00	636,500.00
2032	500,000.00	137,750.00	637,750.00
2033	525,000.00	112,750.00	637,750.00
2034	550,000.00	86,500.00	636,500.00
2035	575,000.00	59,000.00	634,000.00
2036	605,000.00	30,250.00	635,250.00
Total	\$9,700,000.00	\$6,840,433.88	\$16,540,433.88

Source: Westhoff, Cone & Holmstedt.

Table 3 sets forth annual principal and interest on the Series B Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 3
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 SERIES B REVENUE BONDS

ANNUAL SERIES B BONDS DEBT SERVICE SCHEDULE			
Year	Principal	Interest	Total
2011	\$0	\$1,035,640.12	\$1,035,640.12
2012	25,000	1,417,606.25	1,442,606.25
2013	75,000	1,417,106.25	1,492,106.25
2014	205,000	1,415,231.25	1,620,231.25
2015	225,000	1,409,593.75	1,634,593.75
2016	245,000	1,402,843.75	1,647,843.75
2017	270,000	1,394,575.00	1,664,575.00
2018	300,000	1,384,450.00	1,684,450.00
2019	330,000	1,372,450.00	1,702,450.00
2020	360,000	1,358,012.50	1,718,012.50
2021	395,000	1,341,812.50	1,736,812.50
2022	430,000	1,323,050.00	1,753,050.00
2023	465,000	1,302,625.00	1,767,625.00
2024	510,000	1,279,375.00	1,789,375.00
2025	550,000	1,253,875.00	1,803,875.00
2026	580,000	1,225,000.00	1,805,000.00
2027	610,000	1,193,100.00	1,803,100.00
2028	645,000	1,159,550.00	1,804,550.00
2029	680,000	1,124,075.00	1,804,075.00
2030	720,000	1,086,675.00	1,806,675.00
2031	760,000	1,047,075.00	1,807,075.00
2032	800,000	1,002,425.00	1,802,425.00
2033	850,000	955,425.00	1,805,425.00
2034	900,000	905,487.50	1,805,487.50
2035	950,000	852,612.50	1,802,612.50
2036	1,010,000	796,800.00	1,806,800.00
2037	1,070,000	736,200.00	1,806,200.00
2038	1,130,000	672,000.00	1,802,000.00
2039	1,200,000	604,200.00	1,804,200.00
2040	1,270,000	532,200.00	1,802,200.00
2041	1,350,000	456,000.00	1,806,000.00
2042	1,430,000	375,000.00	1,805,000.00
2043	1,515,000	289,200.00	1,804,200.00
2044	1,605,000	198,300.00	1,803,300.00
2045	1,700,000	102,000.00	1,802,000.00
Total	\$25,160,000	\$35,421,571.33	\$60,581,571.37

Source: Westhoff, Cone & Holmstedt.

Table 4 sets forth scheduled annual Revenues available for debt service on the Bonds, including the expected coverage levels for both the Series A Bonds and the B Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 4
SUSANVILLE PUBLIC FINANCING AUTHORITY
COMBINED SERIES A AND SERIES B REVENUE BONDS

PROJECTED DEBT SERVICE COVERAGE								
Year	Water Installment Payments	Gas Installment Payments	Total Revenues	Series A Bonds P&I	Series A Bonds Coverage	Revenues after Series A Bonds P&I	Series B Bonds P&I	Series B Bonds Coverage
2011	\$1,077,392	\$1,578,832	\$2,656,224	\$637,626	416.6%	\$2,018,597	\$1,035,640	194.9%
2012	1,077,392	1,980,065	3,057,457	634,735	481.7%	2,422,722	1,442,606	167.9%
2013	1,077,392	2,012,514	3,089,906	637,235	484.9%	2,452,671	1,492,106	164.4%
2014	1,077,392	2,045,287	3,122,679	634,175	492.4%	2,488,504	1,620,231	153.6%
2015	1,077,392	2,078,387	3,155,779	635,669	496.5%	2,520,111	1,634,594	154.2%
2016	1,077,392	2,111,819	3,189,211	636,119	501.4%	2,553,092	1,647,844	154.9%
2017	1,077,392	2,145,585	3,222,977	635,488	507.2%	2,587,490	1,664,575	155.4%
2018	1,077,392	2,179,689	3,257,081	634,075	513.7%	2,623,006	1,684,450	155.7%
2019	1,077,392	2,214,134	3,291,526	637,200	516.6%	2,654,326	1,702,450	155.9%
2020	1,077,392	2,248,923	3,326,315	634,363	524.4%	2,691,952	1,718,013	156.7%
2021	1,077,392	2,284,060	3,361,452	635,663	528.8%	2,725,789	1,736,813	156.9%
2022	1,077,392	2,319,548	3,396,940	635,913	534.2%	2,761,028	1,753,050	157.5%
2023	1,077,392	2,355,391	3,432,783	635,413	540.2%	2,797,371	1,767,625	158.3%
2024	1,077,392	2,391,593	3,468,985	634,163	547.0%	2,834,823	1,789,375	158.4%
2025	1,077,392	2,391,593	3,468,985	637,163	544.4%	2,831,823	1,803,875	157.0%
2026	1,077,392	2,391,593	3,468,985	635,063	546.2%	2,833,923	1,805,000	157.0%
2027	1,077,392	2,391,593	3,468,985	637,250	544.4%	2,831,735	1,803,100	157.0%
2028	1,077,392	2,391,593	3,468,985	638,488	543.3%	2,830,498	1,804,550	156.9%
2029	1,077,392	2,391,593	3,468,985	638,775	543.1%	2,830,210	1,804,075	156.9%
2030	1,077,392	2,391,593	3,468,985	638,113	543.6%	2,830,873	1,806,675	156.7%
2031	1,077,392	2,391,593	3,468,985	636,500	545.0%	2,832,485	1,807,075	156.7%
2032	1,077,392	2,391,593	3,468,985	637,750	543.9%	2,831,235	1,802,425	157.1%
2033	1,077,392	2,391,593	3,468,985	637,750	543.9%	2,831,235	1,805,425	156.8%
2034	1,077,392	2,391,593	3,468,985	636,500	545.0%	2,832,485	1,805,488	156.9%
2035	1,077,392	2,391,593	3,468,985	634,000	547.2%	2,834,985	1,802,613	157.3%
2036	1,077,392	2,391,593	3,468,985	635,250	546.1%	2,833,735	1,806,800	156.8%
2037	---	2,391,593	2,391,593	---	n/a	2,391,593	1,806,200	132.4%
2038	---	2,391,593	2,391,593	---	n/a	2,391,593	1,802,000	132.7%
2039	---	2,391,593	2,391,593	---	n/a	2,391,593	1,804,200	132.6%
2040	---	2,391,593	2,391,593	---	n/a	2,391,593	1,802,200	132.7%
2041	---	2,391,593	2,391,593	---	n/a	2,391,593	1,806,000	132.4%
2042	---	2,391,593	2,391,593	---	n/a	2,391,593	1,805,000	132.5%
2043	---	2,391,593	2,391,593	---	n/a	2,391,593	1,804,200	132.6%
2044	---	2,391,593	2,391,593	---	n/a	2,391,593	1,803,300	132.6%
2045	---	2,391,593	2,391,593	---	n/a	2,391,593	1,802,000	132.7%
TOTAL	\$28,012,192	\$80,169,283	\$108,181,475	\$16,540,434		\$91,641,041	\$60,581,571	

Source: Westhoff, Cone & Holmstedt.

THE WATER ENTERPRISE

Overview

In July 2000, the Susanville Public Financing Authority issued \$6,880,000 2000 Revenue Bonds (the “Series 2000 Bonds”) in order to refund the Authority’s outstanding \$5,650,000 1992 Revenue Bonds, Series A and to finance the cost of acquisition, construction, improving and equipping of capital improvements to the City’s water system. In October 2004, the Authority issued \$3,330,000 2004 Revenue Bonds (the “Series 2004 Bonds”) in order to provide additional capital improvements to the water system.

Under the respective Installment Purchase Agreements pertaining to the Series 2000 and Series 2004 Bonds, the City has covenanted to establish, maintain, and collect Net Revenues (Gross Revenues less Operation and Maintenance expenses), in any Fiscal Year, equal to at least 125% of the sum of the Installment Payments due in that year, any required deposits to the respective Reserve Funds in that year, and the aggregate annual payment requirements due in that Fiscal Year with respect to any outstanding parity debt and all other obligations constituting a lien on Net Revenues.

The proposed Refunding Bonds would refund in full both the Series 2000 and Series 2004 Bonds. However, neither the Net Revenue pledge nor any other existing covenant pertaining to the Series 2000 and Series 2004 Bonds will be altered as a result of issuance of the Refunding Bonds.

Organization and Management

The City provides water services through its Public Works Department. The legal responsibility and powers of the Public Works Department with respect to the Water Enterprise, including the establishment of rates and charges, are exercised through the City Council. The City has a fully integrated computer and billing system to handle the water billings and accounts receivable. Key management and staff members of the Water Enterprise include Craig Platt, the City’s Public Works Director, and Robert Hill, the City Administrator, as described in Section IV.

Service Area

The Enterprise’s Service Area encompasses approximately 6.5 square miles of territory, which includes the City in its entirety and a small area around the City. No other water company competes with the Enterprise within the Service Area. Virtually 100% of the population located within the Service Area is served by the Enterprise.

Water Supply

The Enterprise obtains water from both springs and wells. On an annual basis, the two existing springs supply approximately 85% of the Water Enterprise’s demand for water. During the months of October through April, the springs provide sufficient water to meet all of the Water Enterprise’s demand. During the months of May through September, wells are used to augment the supply. The springs provide high quality water that reaches the City by gravity flow.

Cady Springs is the larger of the two springs. It is located approximately two miles west of the City on a hillside just north of the Susan River. Collection galleries, tunnels, and rock-filled trenches collect water and route it into 12-inch and 14-inch gravity pipelines which run along State Highway 36 into the City. The average yield from Cady Springs is approximately 950 gallons per minute.

Bagwell Springs is located approximately one mile north of the City. It produces an average yield of approximately 750 gallons per minute. Water collected at this point is transported into the City through an 8-inch transmission line. A 500,000 gallon storage tank was constructed at the spring in 1989.

A booster pump feeds the Spring Ridge tank, a one-million gallon storage tank that was constructed in 2001.

There are four wells that are used to provide water during the summer peak demand period. All of the wells are located within the City limits. One well is located along Riverside Drive and has a capacity of approximately 700 gallons per minute. Another well is located in the southeast corner of the City and has a capacity of approximately 1,700 gallons per minute. The third well is in the north area of the City and has a capacity of approximately 600 gallons per minute. The fourth well is located northeast of the City and has a capacity of approximately 800 gallons per minute.

The City believes that there is a predictable and reliable supply of water and that it will be able to maintain such supply sufficient to meet its needs in the foreseeable future.

Water Storage and Boosters

Total water storage in the Enterprise is about four million gallons in various steel tanks, including the Bagwell Springs and Spring Ridge tanks previously described, as well as two other one million gallon tanks and another 500,000 gallon tank. The Harris Drive booster station has a total of three pumps with two 25-horsepower alternating pumps and one 100-horsepower fire pump. The Spring Ridge booster station has a total of two 75-horsepower alternating pumps.

The Water Enterprise is divided into six pressure zones. The smallest of the six zones, the Harris Zone, is an area of approximately 60 acres in the vicinity of the storage tanks near Harris Drive. This area is served by two 25-horsepower pumps and a 1,500 gallon hydro-pneumatic tank. Water pressures in this area vary from about 30 to 95 pounds per square inch.

The remainder of the distribution system consists of the Bagwell Zone with water pressure from 45 to 80 pounds per square inch, the Uptown Zone with water pressure from 40 to 100 pounds per square inch, and the Downtown Zone with water pressure from 80 to 105 pounds per square inch. The Shadow Mountain and Cameron Way pressure zone has pressure ranging between 60 to 75 pounds per square inch, and the View Drive and Cook Street pressure zone has pressure of approximately 68 pounds per square inch.

Water Distribution

The water distribution system comprises 1-inch through 14-inch pipelines. Materials of construction include steel, cast iron, asbestos cement, galvanized steel, and PVC. All water services are metered.

Regulatory Requirements

The City's Water System is subject to federal and state regulation. The City is unable to predict at this time what conditions, if any, would impose additional operating constraints on the City's Water Enterprise, or result in additional costs to the Water Enterprise.

In the event that federal or State agencies should impose stricter standards upon either the Water Enterprise, the City's expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.

No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the City to generate Net Revenues in the amounts required by the Installment Sale Agreements to pay the Installment Payments. See "RISK FACTORS" herein.

Legal Proceedings

There are no current matters of litigation, nor have there been any matters of litigation in the past five years, against the City related to the Water Enterprise that the City believes could result in a material negative impact on its operations or the fiscal strength of the Water Enterprise.

Rate Setting Process

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D." Proposition 218 conditions the imposition or increase of any water service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. See also "RISK FACTORS – Rate Process" herein.

Operating and Financial Information

Table 5
Susanville Water Enterprise
Historical Water Enterprise Fund Balance Sheet
Fiscal Years 2005 to 2009

Year Ending June 30	Audited Financials				
	2005	2006	2007	2008	2009
Assets					
Current Assets:					
Cash and Investments	\$752,114	\$1,077,282	\$1,028,505	\$1,546,193	\$1,704,172
Cash and Investments (with Fiscal Agents only)	1,178,614	1,031,662	870,364	800,933	802,410
Accounts Receivable	419,215	282,466	308,791	452,316	337,478
Interest Receivable	11,568	25,133	28,074	19,363	12,483
Prepaid Expenses	0	953	1,463	2,022	2,103
Due from Other Funds	1,194,547	1,185,796	1,186,297	986,689	1,348,821
Inventory	0	0	11,254	9,888	58,477
Total Current Assets	<u>\$3,556,058</u>	<u>\$3,603,292</u>	<u>\$3,434,748</u>	<u>\$3,817,404</u>	<u>\$4,265,944</u>
Noncurrent Assets:					
Deferred Charges	375,302	360,360	345,418	330,478	315,538
Land	947,841	947,841	945,678	943,183	943,183
Construction in Progress	1,633,120	1,691,035	2,419,837	2,575,645	9,015
Buildings	315,266	315,266	315,266	315,266	315,266
Improvements	5,392,698	5,392,698	5,429,854	5,429,854	8,047,894
Equipment	3,763,929	3,763,929	3,770,210	3,796,303	3,796,303
Less: Accumulated Depreciation	<u>(4,776,797)</u>	<u>(5,099,631)</u>	<u>(5,406,425)</u>	<u>(5,722,087)</u>	<u>(6,043,733)</u>
Total Noncurrent Assets	<u>\$7,651,359</u>	<u>\$7,371,498</u>	<u>\$7,819,838</u>	<u>\$7,668,642</u>	<u>\$7,383,466</u>
Total Assets	<u>\$11,207,417</u>	<u>\$10,974,790</u>	<u>\$11,254,586</u>	<u>\$11,486,046</u>	<u>\$11,649,410</u>
Liabilities					
Current Liabilities:					
Accounts Payable	\$14,218	\$106,541	\$34,074	\$183,670	\$54,029
Accrued Wages	12,096	0	0	0	0
Accrued Interest	42,720	42,720	42,720	41,181	40,594
Deposits Payable	97,689	98,472	87,828	96,764	98,188
Current Portion of Long-Term Debt	<u>140,773</u>	<u>145,773</u>	<u>156,000</u>	<u>175,456</u>	<u>172,488</u>
Total Current Liabilities	<u>\$307,496</u>	<u>\$393,506</u>	<u>\$320,622</u>	<u>\$497,071</u>	<u>\$365,299</u>
Noncurrent Liabilities:					
Capital Lease Payable	3,707	3,707	0	0	0
Notes Payable	953,000	943,000	932,000	921,000	909,000
Revenue Bonds Payable	9,480,000	9,345,000	9,200,000	9,050,000	8,890,000
Compensated Absences	<u>47,088</u>	<u>51,590</u>	<u>54,857</u>	<u>41,377</u>	<u>53,348</u>
Total Noncurrent Liabilities	<u>\$10,483,795</u>	<u>\$10,343,297</u>	<u>\$10,186,857</u>	<u>\$10,012,377</u>	<u>\$9,852,348</u>
Total Liabilities	<u>\$10,791,291</u>	<u>\$10,736,803</u>	<u>\$10,507,479</u>	<u>\$10,509,448</u>	<u>\$10,217,647</u>
Net Assets					
Investment in Capital Assets (net of related debt)					
Restricted for Debt Service	\$1,135,894	\$988,942	827,644	759,752	789,156
Unrestricted	<u>(719,768)</u>	<u>2,315,027</u>	<u>2,387,625</u>	<u>2,694,660</u>	<u>3,230,141</u>
Total Net Assets	<u>\$416,126</u>	<u>\$237,987</u>	<u>\$747,107</u>	<u>\$976,598</u>	<u>\$1,431,763</u>
Total Liabilities and Net Assets	<u>\$11,207,417</u>	<u>\$10,974,790</u>	<u>\$11,254,586</u>	<u>\$11,486,046</u>	<u>\$11,649,410</u>

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

Table 6
Susanville Water Enterprise
Fiscal Years 2005 to 2010

HISTORICAL INCOME STATEMENT AND DEBT SERVICE COVERAGE						
Year Ending June 30	2005	2006	2007	2008	2009	2010
<u>Revenues</u>						
Sales and charges for services	\$2,049,409	\$2,045,739	\$2,064,037	\$2,049,605	\$2,424,802	\$2,320,402
Other operating revenue	68,959	777	150	0	0	6,257
Interest income	57,423	139,468	184,969	156,293	83,204	17,742
Reimbursements	0	2,498	3,123	1,512	6,091	1,031
Gain on sale of capital assets	0	0	0	17,982	0	1,294
Grants & subsidies	152,025	0	438,934	154,500	0	0
Transfers in	1,104,051	0	141,220	0	0	0
Total Revenues	<u>\$3,431,867</u>	<u>\$2,188,482</u>	<u>\$2,832,433</u>	<u>\$2,379,892</u>	<u>\$2,514,097</u>	<u>\$2,346,727</u>
<u>Expenses</u>						
Administration & overhead	1,330,188	1,308,937	1,298,562	1,275,646	1,526,625	1,250,506
Depreciation & amortization	364,803	337,775	334,955	330,602	336,587	336,007
Interest Expense	512,473	553,358	547,213	539,153	532,967	526,020
Transfers out	1,112,346	5,000	146,220	5,000	5,000	5,004
Total Expenses	<u>\$3,319,810</u>	<u>\$2,205,070</u>	<u>\$2,326,950</u>	<u>\$2,150,401</u>	<u>\$2,401,179</u>	<u>\$2,117,537</u>
Revenues less Expenses	\$112,057	(\$16,588)	\$505,483	\$229,491	\$112,918	\$229,190
Add: Depreciation & amortization	\$364,803	\$337,775	\$334,955	\$330,602	\$336,587	\$336,007
Net Income	<u>\$476,860</u>	<u>\$321,187</u>	<u>\$840,438</u>	<u>\$560,093</u>	<u>\$449,505</u>	<u>\$565,196</u>
Add: Interest Expense	512,473	553,358	547,213	539,153	532,967	526,020
Net Revenues	\$989,333	\$874,545	\$1,387,651	\$1,099,246	\$982,472	\$1,091,216
Debt Service	623,997	693,358	692,213	696,691	694,554	698,020
Debt Service Coverage	1.59 : 1	1.26 : 1	2.00 : 1	1.58 : 1	1.41 : 1	1.56 : 1

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

Table 7
Susanville Water Enterprise
Fiscal Years 2011 to 2016

PROJECTED INCOME STATEMENT AND DEBT SERVICE COVERAGE						
Fiscal Year Ending June 30	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Revenues</u>						
Sales and charges for services	\$2,418,533	\$2,418,533	\$2,418,533	\$2,418,533	\$2,418,533	\$2,418,533
Other operating revenue	4,754	4,754	4,754	4,754	4,754	4,754
Interest income	28,000	28,000	28,000	28,000	28,000	28,000
Total Revenues	<u>\$2,451,287</u>	<u>\$2,451,287</u>	<u>\$2,451,287</u>	<u>\$2,451,287</u>	<u>\$2,451,287</u>	<u>\$2,451,287</u>
<u>Expenses</u>						
Administration & overhead	1,368,895	1,368,895	1,368,895	1,368,895	1,368,895	1,368,895
Depreciation & amortization	335,781	335,781	335,781	335,781	335,781	335,781
Allowance for Principal	182,000	182,000	182,000	182,000	182,000	182,000
Interest	517,918	517,918	517,918	517,918	517,918	517,918
Transfers out	5,000	5,000	5,000	5,000	5,000	5,000
Total Expenses	<u>\$2,409,594</u>	<u>\$2,409,594</u>	<u>\$2,409,594</u>	<u>\$2,409,594</u>	<u>\$2,409,594</u>	<u>\$2,409,594</u>
Revenues less Expenses	\$41,693	\$41,693	\$41,693	\$41,693	\$41,693	\$41,693
Add: Depreciation & amortization	\$335,781	\$335,781	\$335,781	\$335,781	\$335,781	\$335,781
Add: Allowance for Principal	182,000	182,000	182,000	182,000	182,000	182,000
Net Income	<u>\$559,474</u>	<u>\$559,474</u>	<u>\$559,474</u>	<u>\$559,474</u>	<u>\$559,474</u>	<u>\$559,474</u>
Add: Interest Expense	517,918	517,918	517,918	517,918	517,918	517,918
Revenues Available for Debt Service	\$1,077,392	\$1,077,392	\$1,077,392	\$1,077,392	\$1,077,392	\$1,077,392
Debt Service (1)	688,004	685,581	688,508	684,853	686,730	687,180
Debt Service Coverage (2)	1.57 : 1	1.57 : 1	1.56 : 1	1.57 : 1	1.57 : 1	1.57 : 1
Cumulative Rate Stabilization Fund (3)	\$3,559,474	\$4,118,948	\$4,678,422	\$5,237,896	\$5,797,370	\$6,356,844

(1) Equals Water Enterprise Installment Payments plus USDA loan.

(2) Based on Water Revenues available for debt service divided by Water Enterprise Installment Payments.

(3) Estimated, subject to change.

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

THE GAS ENTERPRISE

Overview

Before the establishment of the Gas Enterprise, natural gas service was not available in the City or its surrounding areas. On September 7, 1993, the City Council adopted Ordinance No. 93-768, establishing a natural gas utility as an enterprise of the City. In 1999, the City Council commissioned a feasibility study on the construction of a gas project to serve the City's residents. The study was completed in November 1999, and it found a municipal natural gas system to be economically feasible based on sufficient community interest in switching to natural gas and the City's ability to issue low cost debt obligations to finance the project. Construction of a natural gas distribution system within City limits began in May 2001. The Gas Enterprise commenced servicing its first customers in November 2001. The construction phase was completed in June 2003.

Currently, all of the natural gas supplied to the Gas Enterprise is transported through a main transmission line operated by the Tuscarora Gas Transmission Company (the "Tuscarora Transmission Line"). The Gas Enterprise is served by a lateral (the "Tuscarora Susanville Lateral") extending from the Tuscarora Transmission Line. The connection point between the Gas Enterprise and the Tuscarora Susanville Lateral is located approximately 9.6 miles east of the City.

As of January 2010, the Gas System has 2,085 residential customers and 256 commercial customers, for a total of 2,341 customers. During the 12 month period ending January 2010, 77 new customers were added to the system. Based on its current infrastructure, the Gas System has the capacity to serve all of the approximately 3,750 residential and 400 commercial customers located within the service area. Thus, at present, the Gas System is serving approximately 55% of its potential residential customers and 64% of its potential commercial customers, in terms of customer count.

The service area of the Gas System (the "Service Area") presently encompasses the City in its entirety plus certain residential and commercial areas directly adjacent to the City. Based on current trends and sign-ups, the City expects the number of customers to increase to about 2,450 by December 2010. Such expected usage represents approximately 56% of the Gas System's total capacity. Thereafter, the growth rate for residential customers is projected to be about 2 percent per year, and the growth rate for commercial customers is projected to follow the growth of development within the City.

The new High Sierra Power Plant owned by Plumas Sierra Rural Electric District is operational as of March 2010. This 6,000 kW cogeneration facility located at the State Prison is taking gas transportation service from the City. The City is also working to attract more commercial customers to the Gas System. County buildings within the city limits are coming on line, beginning with the relatively large adult detention facility, which began burning natural gas in October 2008.

Organization and Management

The City provides natural gas service through its Public Works Department. The legal responsibility and powers of the Public Works Department with respect to the Gas Enterprise, including the establishment of rates and charges, are exercised through the City Council. The Public Works Director oversees the day-to-day operation of the Public Works Department and reports to the City Administrator.

The responsibility of maintaining and operating the Gas Enterprise is further delegated to the City's Gas Supervisor, who is certified by the United States Department of Transportation to operate and maintain a natural gas transmission and distribution system. As of July 2010, three other certified City employees are assigned specifically to the Gas Enterprise. The Public Works Department's main office is located at 720 South Street, Susanville, California 96130, (530) 257-1041.

Key management and staff members of the Gas Enterprise include Craig Platt, the City's Public Works Director, and Robert Hill, the City Administrator.

Craig Platt has been the Public Works Director for the past five years and is responsible for all public works activities including, natural gas, water, geothermal, streets, storm drainage, engineering, and airport operations. He also worked two years as the Gas Superintendent and was responsible for the construction oversight and start-up operations of the Gas Enterprise. He is certified by the U.S. Department of Transportation Pipeline Safety and the California Public Utilities Commission in all aspects of operations and maintenance of natural gas facilities. Prior to coming to the City, Mr. Platt spent 18 years as Division Manager for Arizona Pipeline Company, where he was responsible for the management, operations, construction, and replacement of natural gas facilities from transmission lines to distribution systems in California and Nevada.

Robert D. Hill has been the City Administrator for the past two and a half years. Prior to appointment as the City Administrator, Mr. Hill was the Community Services Director for the City of Susanville for thirteen years. He has been actively involved as a member of the City management team throughout his tenure. He has an additional ten years of experience managing federal concession contracts. Mr. Hill holds a Bachelors Degree in Recreation Administration and a Minor in Business Administration from California State University, Chico.

Physical Description

Tuscarora Gas Transmission Company. Currently, all of the natural gas supplied to the Gas Enterprise is delivered through the Tuscarora Transmission Line. The Tuscarora Transmission Line was constructed in 1995 by the Tuscarora Gas Transmission Company ("Tuscarora") and stretches 229 miles from Malin, Oregon, to Reno, Nevada. It is a 20-inch diameter underground steel pipeline capable of transporting 223 million cubic feet per day of natural gas to markets in northern California and Nevada. Tuscarora is principally owned by TransCanada Corporation subsidiary TC Pipelines LP. In 2002, Tuscarora constructed the Tuscarora Susanville Lateral which extends approximately 11.0 miles westward from the Tuscarora Transmission Line at a location known as Wendel to the City Gate (described below). The Tuscarora Susanville Lateral is a 6 inch welded steel line.

Susanville Gas Enterprise Facilities. At Chappuis Lane, the City operates a pressure reducing station adjacent to the Tuscarora meter station. A 9.6 mile long, 6-inch steel high pressure distribution main (the "Steel Main") then transports gas to another pressure reducing station connecting to the low pressure distribution system serving the City. Also, a tap and a metering station off the Steel Main deliver natural gas to the California Correction Center, High Desert State Prison, and the new High Sierra Power Plant (see "Service Area"). The distribution system for the City is comprised of 5.5 miles of 8-inch polyethylene (PE) feeder main, 43 miles of PE distribution main and 34 miles of service line extensions to serve customer meters.

Service Area

The Service Area of the Gas System encompasses all areas of the City and certain residential and commercial areas adjacent to the City. As described previously, the Gas System is capable of serving the entire area, approximately 3,750 residential and 400 commercial customers.

In addition, the City has entered into an agreement (the “CDC Transportation Agreement”) with the State of California and the California Department of Corrections (“CDC”) to provide access to its gas system and to transport gas to two facilities, the California Correctional Center and the High Desert State Prison (together, the “CDC Facilities”), located within City limits. A second transportation agreement is also in effect with Plumas Sierra Rural Electric District to serve the new High Sierra Cogeneration plant. The City does not sell natural gas to CDC or Plumas, but provides transportation only. All natural gas delivered is transported through the Tuscarora-Susanville Lateral and the City’s Steel Main. Under the transportation agreements, a fee is paid for each unit of gas transported through the City’s Steel Main.

Insurance

Insurance with respect to the Gas System is covered under the City’s general policies. The City is a member of the Small Cities Organized Risk Effort (“SCORE”), a joint powers authority established to provide for pooling of public liability coverage. Each member of SCORE pays for its proportionate share of individual contracted insurance coverage and consulting service. Under SCORE’s liability program, the City has a self-insured retention for auto and general liability insurance of \$25,000 and excess insurance coverage to \$500,000. The City participates, through SCORE, in the California Joint Powers Risk Management Authority for coverage from \$501,000 to \$25,000,000. Under the workers compensation insurance program, the City has a self-insured retention of \$25,000 and excess insurance coverage to the statutory limit. The City’s fire and extended coverage policy does not cover damages due to floods, earthquake, mudslide or earth movement. The City’s replacement value property damage policy has a \$5,000 deductible per occurrence and is obtained through Flanigan Leavitt Insurance Group (Susanville office). Damage to the properties of the City, including Gas System facilities, is covered under the replacement value property damage policy for the property’s full replacement value.

Gas Supply Agreement with IGI Resources, Inc., a subsidiary of BP Energy

The City does not independently produce natural gas or currently own any storage facilities. Therefore, it purchases all of its natural gas from a third party, which is presently IGI Resources, Inc. (IGI). IGI provides all gas supply for the City and acts as agent with respect to day-to-day nominations and balancing of the City’s natural gas supply. IGI is a wholly-owned subsidiary of BP Energy.

Most of the City’s natural gas is purchased on the futures market allowing rates to be stabilized during any one year. At present, the City has entered into fixed price contracts for gas through March 2014. Additional gas is purchased on the spot market as needed. The City is continually monitoring gas market conditions for favorable prices to lock in. Table 8 shows the extent of the City’s fixed price purchases, or “hedges.” For the purpose of comparison, the total gas quantity is held constant across the years, roughly equal to anticipated requirements for FY 2009-10. Gas cost beyond the fixed price portion each year (the “unhedged portion”) is derived from New York Mercantile Exchange (NYMEX) natural gas futures. Costs

for the unhedged portions will change with market conditions; however, by definition, the cost of the hedged portion will not change.

**Table 8
Susanville Gas Enterprise
Projected Gas Costs and Percentage Hedged
2007-08 through 2013-14**

Fiscal Year	Projected Gas Cost	Quantity @ Fixed Price - "Hedged Gas"	Dollars Per Therm
2007-08	\$1,806,000	72%	\$0.875
2008-09	1,907,000	75%	0.924
2009-10	1,408,000	45%	0.682
2010-11	1,209,000	41%	0.586
2011-12	1,304,000	41%	0.632
2012-13	1,320,000	41%	0.640
2013-14	1,365,000	41%	0.661

Note: Projections are calculated using the same quantity of gas each year, roughly the quantity for Fiscal Year 2009-10, or 2,030,000 therms. The Dollars per Therm cost is based on hedged purchases plus futures market values for remaining projected needs as updated on July 18, 2010. For FY 2010-11 through 2013-14, months hedged are November through March. Percent values shown are 12-month average. Actual percent for winter-only is higher at approximately 65%.
Source: City of Susanville and Interstate Gas Services, Inc.

Table 9 shows the projected cost of the City’s gas purchases in terms of dollars per therm.

**Table 9
Susanville Gas Enterprise
Projected Gas Costs - Dollars per Therm
2007-08 through 2013-14**



Source: City of Susanville and Interstate Gas Services, Inc.

Rates, Fees and Charges; Billing and Collection

The City's natural gas customers pay charges and fees at rates that are established by the City Council. The current rates for meter fees and usage charges are established by Resolution No. 09-4581, adopted by the City Council on November 18, 2009. The recurring fixed meter fee is \$7 per month. The monthly natural gas usage charge is \$2.20 per therm for the first 450 decatherms, and \$2.12 for each additional therm through the same meter. In addition to the foregoing, under Resolution 04-3786, adopted by the City Council on September 15, 2004, a natural gas customer pays a service establishment fee of \$10.00 to activate a meter.

Customers using more than 30,000 therms per year may elect the established variable natural gas rate available to larger customers capable of using alternate fuels as their primary energy source in place of natural gas as per Resolution Number 07-4306. One or both the propane and heating oil indices shall be used dependent upon a customer's ability to readily convert to one or both fuels in the end-use device being supplied. If both apply, the lower index price each month shall be used, or the natural gas index shall be used if it is the lowest. Currently, six customers have elected the variable rate.

For new customers to the Gas System, the City provides installation services utilizing city staff and equipment. The City agrees to install and maintain a service line, a regulator and a meter to serve a customer's premise, provided the customer agrees to begin using natural gas.

The billing for the Gas System is done in conjunction with the City's water billing, and payment amounts are collected concurrently. Overdue notices are made one day after due date and 48-hour shut-off notices are sent 16 days after the due date. A fee is assessed to turn utilities back on. To date, write-offs have been insignificant as a result of natural gas customer delinquencies.

Customers / Usage

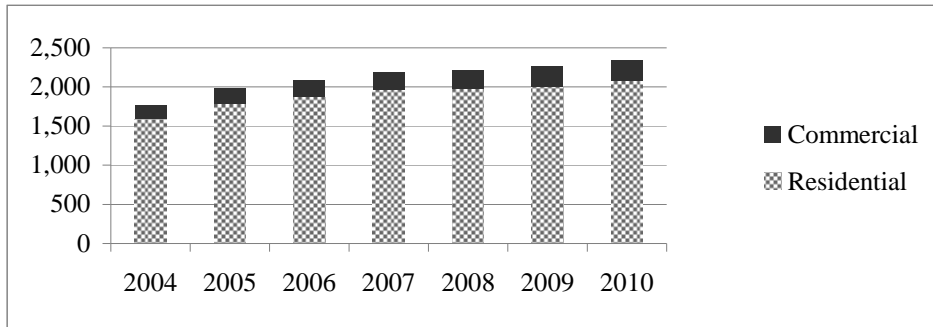
Tables 10 and 11 show the cumulative number of customers with natural gas services installed from January 2004 to June 2010.

Table 10
Cumulative Number of Gas Customers
January 2004 to June 2010

<u>Date</u> ¹	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Increase</u>
Jan. 2004	1,589	177	1,766	–
Jan. 2005	1,786	201	1,987	12.5%
Jan. 2006	1,870	213	2,083	4.8
Jan. 2007	1,963	222	2,185	4.9
Jan. 2008	1,971	239	2,210	1.1
Jan. 2009	2,002	262	2,264	2.4
Jan. 2010	2,085	256	2,341	3.4
<u>June 2010</u>	2,056	257	2,313	-1.2

¹ For the purpose of Table 10, a customer is counted if at least one therm of gas was consumed during the January billing cycle of the given year. The actual "active" customer count is slightly higher by those customers with active accounts but not consuming gas in January. Additionally, a few accounts are inactive because of vacancies to residential or commercial premises.

Table 11
Cumulative Number of Gas Customers
January 2004 to June 2010



Source: City of Susanville and Interstate Gas Services, Inc.

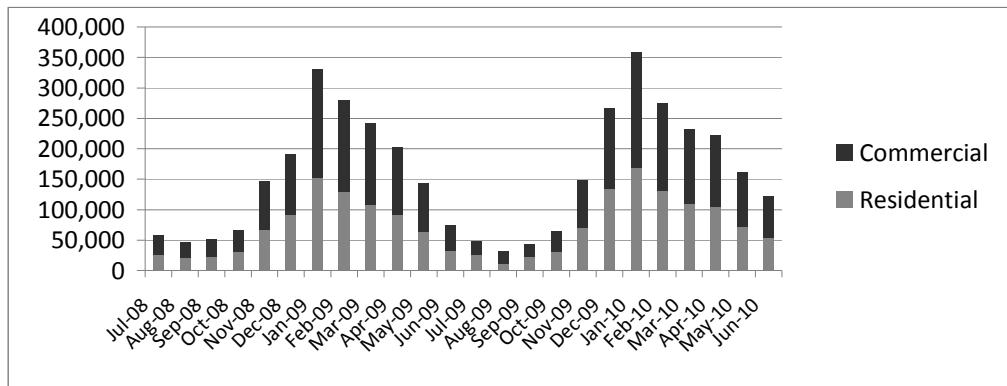
Tables 12 and 13 show the total annual consumption by customers of the Gas System for the last seven years. Gas consumption dipped during FY 2006-07 and FY 2008-09 as a result of warmer winters.

Table 12
Gas Consumption (Therms)
2003-04 through 2009-10

Fiscal Year	Commercial	Residential	Total
2003-04	538,890	759,595	1,298,485
2004-05	712,663	975,417	1,688,080
2005-06	941,029	932,399	1,873,428
2006-07	924,454	900,271	1,824,725
2007-08	1,023,670	933,919	1,957,589
2008-09	996,905	837,923	1,834,828
2009-10	1,091,294	938,393	2,029,687

Source: City of Susanville and Interstate Gas Services, Inc.

Table 13
Gas Consumption (Therms)
July 2008 through June 2010



The top 20 customers of the Gas System as of the Fiscal Year ending June 30, 2009 are shown in Table 14.

Table 14
City of Susanville
Gas Enterprise
Top 20 Customers and Summary Statistics
Fiscal Year 2009-10

Customer	Rate	Therms	Dollars	Dollars
1 Lassen Communty College	Var	177,583	\$301,331	} \$1,247,208
2 Banner Lassen Medical Center	Stan	131,654	280,521	
3 Sheriff's Facilities	Var	81,044	143,068	
4 Diamond Mountain Casino	Var	71,858	131,211	
5 Northeastern Rural Health	Stan	42,506	89,946	
6 Susanville Garden Apartments	Var	39,114	67,816	
7 Safeway Food and Drug	Var	38,468	66,150	
8 Lassen High School Facilities	Var	35,713	63,834	
9 McKinley School	Stan	24,187	51,809	
10 Diamond View School	Stan	24,068	51,523	
11 City of Susanville	Stan	21,245	47,421	} \$315,357
12 Meadowview Elementary	Stan	19,721	42,358	
13 Cal Division of Forestry	Stan	16,922	36,568	
14 USFS National Finance Center	Stan	15,410	34,364	
15 County of Lassen Facilities	Stan	14,459	33,442	
16 Sierra Wash/Dry (CBM)	Stan	12,766	27,837	
17 Emerald Cascade Restaurant	Stan	11,788	26,227	
18 St of Cal Military	Stan	10,562	23,395	
19 Eagle Lake Village ALF	Stan	10,267	22,629	
20 Burger King	Stan	9,386	21,115	
Totals		808,721	\$1,562,565	\$1,562,565
	Accts			
Total Commercial	241	1,092,072	\$2,229,966	50%
Total Residential	2,085	889,630	2,183,630	48%
Total Multi-Family	15	48,282	89,006	2%
Grand Total FY 09/10	2,341	2,029,984	\$4,502,602	100%
Percentage of total sales generated by top 10 customers				28%
Percentage of total sales generated by top 20 customers				35%
Percentage of total sales generated by variable rate customers				17%

Source: City of Susanville and Interstate Gas Services, Inc.

Competitive Position and Strategy

Primary demand for natural gas in Susanville is winter-time space heating. In fact, approximately 70 percent of the City's requirement occurs in the winter, as can be seen in Table 13. Other fuels in competition to provide space heating are propane, heating oil, fire wood, and electricity, roughly in that order by popularity. Natural gas is also used for cooking, cloths drying, and water heating. Most conversions are from propane or heating oil to natural gas, especially in the commercial sector.

Since the Gas System began operation in November 2001, many households and businesses have converted to natural gas, and the City expects this trend to continue. Natural gas is always available, yet invisible because of the underground service. Alternatively, less convenient propane and heating oil must have a visible tank on site and must be constantly refilled by a service truck. The City also provides 24 hour service to its customers without additional charges for service calls. Currently, Staub Energy, Amerigas, and Lassen Plumas Gas supply propane to consumers in the City. Lassen Municipal Utility District (LMUD) is the supplier of electricity in the City. Staub Energy is the major supplier of fuel oil.

Based on current trends and existing infrastructure, the City expects the number of customers to increase to about 2,400 by June 2011. This assumes almost 100 are added during 2010-11 fiscal year. At present, the City estimates the total market potential to be roughly an additional 1,660 residential customers and 140 commercial customers. The load currently served is estimated to be 55% of the market potential for residential and 64% of the market potential for commercial. The additional load potential is estimated at 691,000 therms per year residential and 286,000 therms per year commercial. The gas system is designed to handle the entire load of the City, plus additional future load.

The City also expects additional growth to come from outside City limits, in light of requests that the City has received from residents in adjacent communities and potential housing growth in the areas surrounding the City. In fact, as of January 2010, the Lassen County Local Agency Formation Commission (LAFCO) was actively working toward allowing the City to provide natural gas service outside the City limits.

Growth of the Gas Enterprise will depend on the health and expansion of the local economy and consumers' willingness to convert and continue to consume natural gas. Recently, propane costs have increased substantially, while heating oil is just slightly less than natural gas. With regard to residential and smaller commercial customers, to date, they have not reacted to fluctuations in the cost of competing fuels compared to natural gas.

Potential Growth of the Gas Enterprise / Future Capital Projects

According to the 2004 City of Susanville Housing Element of the General Plan, there are approximately 450 acres of vacant land within the current City limits without environmental or infrastructure constraints. This equates to the potential of approximately 1,958 dwelling units being added in the future without additional annexations. All of these dwelling units would be required to connect to natural gas. In addition, there are approximately 50 acres of vacant commercial or office land that could accommodate about a quarter million square feet of nonresidential type uses.

The most likely major commercial development in the City in the near future may be a proposed big box retail development/commercial center located in southeast Susanville. Preliminary drawings for the project, which requires annexation, show a center of approximately 400,000 square feet of retail and restaurants. It is envisioned that a big box store of about 200,000 square feet will be constructed in the next 3 to 5 years with additional development occurring as the area grows.

Although Susanville has experienced a stable population in recent years, the City is not anticipating growth from expansion of the State's prison system, which is the largest employer in the area. The City expects to attract a small number of retirees who enjoy a lower cost of living and small town qualities.

Based on the potential growth as described in this section, however, the City does not anticipate the need to expand the capacity of the Gas System. The existing Gas System can accommodate an increase of up to 500 percent from the current levels of residential and commercial customers without further expansion of the Gas System's capital facilities.

Regulatory Factors

Rates and fees for the Gas Enterprise are subject to approval by the City Council. Under current law, the City's authority to set and collect rates and charges for natural gas services is not subject to the general regulatory jurisdiction of the California Public Utilities Commission ("CPUC") or the Federal Energy Regulatory Commission ("FERC"). It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the Gas Enterprise to the CPUC or to other limitations or requirements.

Although rates are not subject to CPUC or FERC approval, the operation of the Gas Enterprise is subject to a number of federal and state laws and regulations, including environmental compliance. The City believes that it is in material compliance with all applicable federal and state regulations with respect to the Gas Enterprise based on the latest reviews by the CPUC and the United States Department of Transportation.

Legal Proceedings

There are no current matters of litigation, nor have there been any matters of litigation in the past five years, against the City related to the Gas Enterprise that could result in a material negative impact on its operations or the fiscal strength of the Gas Enterprise.

Rate Setting Process

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D."

FINANCIAL RESULTS OF THE GAS ENTERPRISE

Audited Financial Statements

The audit reports state that the financial statements were examined in accordance with generally accepted auditing standards and contain opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below under the subheading “Significant Accounting Policies” or in the footnotes to the Tables. Such notes constitute an integral part of the audited financial statements. See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2008-2009.” Copies of these statements are available on request from the City’s Finance Department.

Significant Accounting Policies

The City uses enterprise funds to account for their financial position and the results of their operations. Enterprise funds are a type of proprietary fund, and are used to account for operations that are financed and operated in a manner similar to private business enterprises.

Table 15 presents a five-year summary of the balance sheet information of the Gas Enterprise Fund for the Fiscal Years ending June 30, 2005 through June 30, 2009. Table 16 presents a six-year summary of the Income Statement information of the Gas Enterprise Fund for the Fiscal Years ending June 30, 2005 through June 30, 2010.

Table 15
Susanville Gas Enterprise
Fiscal Years 2006 (Audited) to 2010 (Unaudited)

HISTORICAL GAS ENTERPRISE FUND BALANCE SHEET					
Fiscal Year Ending June 30	<u>Audited</u> 2006	<u>Audited</u> 2007	<u>Audited</u> 2008	<u>Audited</u> 2009	<u>Unaudited</u> 2010
<u>Assets</u>					
Current Assets:					
Cash and Investments	\$0	\$0	\$0	\$0	\$79,391
Cash and Investments (with Fiscal Agents only)	2,347,734	2,379,587	2,346,660	2,338,661	2,337,374
Accounts Receivable	234,818	243,125	279,313	226,028	342,908
Interest Receivable				(3,153)	(198)
Prepaid Expenses	6,478	4,761	4,977	7,662	7,924
Inventory	76,441	68,609	65,632	71,443	73,387
Deposits	75,000	75,000	75,000	75,000	75,000
Total Current Assets	<u>\$2,740,471</u>	<u>\$2,771,082</u>	<u>\$2,771,582</u>	<u>\$2,715,641</u>	<u>\$2,915,786</u>
Noncurrent Assets:					
Deferred Charges	528,285	400,071	271,851	143,631	15,411
Construction in Progress	0	0	0	80,778	80,778
Improvements	21,612,346	21,612,346	21,612,346	21,624,566	21,624,566
Equipment	243,622	272,332	277,332	277,332	277,332
Less: Accumulated Depreciation	(850,466)	(1,241,672)	(1,631,008)	(2,013,937)	(2,396,869)
Total Noncurrent Assets	<u>\$21,533,787</u>	<u>\$21,043,077</u>	<u>\$20,530,521</u>	<u>\$20,112,370</u>	<u>\$19,601,218</u>
Total Assets	<u><u>\$24,274,258</u></u>	<u><u>\$23,814,159</u></u>	<u><u>\$23,302,103</u></u>	<u><u>\$22,828,011</u></u>	<u><u>\$22,517,004</u></u>
<u>Liabilities</u>					
Current Liabilities:					
Accounts Payable	\$68,189	\$98,534	\$80,069	\$94,502	\$79,827
Accrued Wages	0	0	0	0	0
Due to Other Funds	909,310	889,785	537,315	646,471	0
Accrued Interest	246,849	235,679	235,679	235,679	235,679
Deposits Payable	47,089	36,637	47,641	52,607	56,176
Current Portion of Long-Term Debt	189	0	0	495	0
Total Current Liabilities	<u>\$1,271,626</u>	<u>\$1,260,635</u>	<u>\$900,704</u>	<u>\$1,029,754</u>	<u>\$371,682</u>
Noncurrent Liabilities:					
Certificates of Participation	24,240,000	24,240,000	24,240,000	24,240,000	24,240,000
Compensated Absences	23,294	29,813	29,907	38,067	40,107
Total Noncurrent Liabilities	<u>\$24,263,294</u>	<u>\$24,269,813</u>	<u>\$24,269,907</u>	<u>\$24,278,067</u>	<u>\$24,280,107</u>
Total Liabilities	<u>\$25,534,920</u>	<u>\$25,530,448</u>	<u>\$25,170,611</u>	<u>\$25,307,821</u>	<u>\$24,651,789</u>
<u>Net Assets</u>					
Investment in Capital Assets (net of related debt)	0	(\$817,336)	(\$3,709,479)	(\$4,127,630)	(\$4,433,956)
Restricted for Debt Service	\$2,100,885	2,143,908	2,110,981	2,102,982	2,102,982
Unrestricted	(3,361,547)	(3,042,861)	(270,010)	(455,162)	196,189
Total Net Assets	<u>(\$1,260,662)</u>	<u>(\$1,716,289)</u>	<u>(\$1,868,508)</u>	<u>(\$2,479,810)</u>	<u>(\$2,134,785)</u>
Total Liabilities and Net Assets	<u><u>\$24,274,258</u></u>	<u><u>\$23,814,159</u></u>	<u><u>\$23,302,103</u></u>	<u><u>\$22,828,011</u></u>	<u><u>\$22,517,004</u></u>

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

Table 16
Susanville Gas Enterprise
Fiscal Years 2006 (Audited) to 2010 (Unaudited)

HISTORICAL INCOME STATEMENT AND DEBT SERVICE COVERAGE					
Fiscal Year Ending June 30	<u>Audited 2006</u>	<u>Audited 2007</u>	<u>Audited 2008</u>	<u>Audited 2009</u>	<u>Unaudited 2010</u>
<u>Revenues</u>					
Sales and charges for services	\$4,263,975	\$4,325,805	\$4,650,665	\$4,420,411	\$4,568,335
Other operating revenue	176	1,925	0	6,445	111,543
Interest income (1)	(56,411)	92,083	138,969	35,291	(1,432)
Total Revenues	<u>\$4,207,740</u>	<u>\$4,419,813</u>	<u>\$4,789,634</u>	<u>\$4,462,147</u>	<u>\$4,678,446</u>
<u>Expenses</u>					
Purchase of natural gas	\$1,449,775	\$1,400,855	\$1,674,750	\$1,769,160	\$1,307,246
Administration & overhead	1,414,065	1,541,089	1,335,472	1,230,229	1,236,102
Depreciation & amortization	521,546	519,421	517,556	511,149	511,152
Debt service (2)	1,414,075	1,414,075	1,414,075	1,414,075	1,414,075
Total Expenses	<u>\$4,799,461</u>	<u>\$4,875,440</u>	<u>\$4,941,853</u>	<u>\$4,924,613</u>	<u>\$4,468,575</u>
Revenues less Expenses	(\$591,721)	(\$455,627)	(\$152,219)	(\$462,466)	\$209,871
Add: Depreciation & amortization	\$521,546	\$519,421	\$517,556	\$511,149	\$511,152
Net Income	<u>(\$70,175)</u>	<u>\$63,794</u>	<u>\$365,337</u>	<u>\$48,683</u>	<u>\$721,023</u>
Decrease (increase) in cash and investments with fiscal agents	80,630	(31,853)	32,927	7,999	0
Add: Debt service (3)	1,414,075	1,414,075	1,414,075	1,414,075	1,414,075
Net Revenues	\$1,424,530	\$1,446,016	\$1,812,339	\$1,470,757	\$2,135,098
Debt Service Coverage (3)	1.01 : 1	1.02 : 1	1.28 : 1	1.04 : 1	1.51 : 1

(1) Net of interest on amounts due to other funds. In 2006 interest income was negative because the interest on amounts due to other funds was greater than the interest earned on cash and investments with fiscal agents.

(2) Includes interest-only payments on outstanding COPs.

(3) Includes Reserve Fund earnings.

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

Table 17
Natural Gas Enterprise
Fiscal Years 2011 to 2016

PROJECTED INCOME STATEMENT AND DEBT SERVICE COVERAGE						
Fiscal Year Ending June 30	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016
Revenues						
Gas Revenue	\$4,533,039	\$4,578,369	\$4,624,153	\$4,670,394	\$4,717,098	\$4,764,269
Gas Installation & Service Fees	15,230	15,230	15,230	15,230	15,230	15,230
Transportation Income	75,000	75,000	75,000	75,000	75,000	75,000
Interest Income	16,100	16,100	16,100	16,100	16,100	16,100
Miscellaneous	6,854	6,854	6,854	6,854	6,854	6,854
Total Revenues	\$4,646,223	\$4,691,553	\$4,737,337	\$4,783,578	\$4,830,282	\$4,877,453
Expenses						
Cost of Natural Gas	\$1,320,318	\$1,333,522	\$1,346,857	\$1,360,325	\$1,373,929	\$1,387,668
Natural Gas Transportation	150,000	150,000	150,000	150,000	150,000	150,000
Administrative Overhead	1,227,966	1,227,966	1,227,966	1,227,966	1,227,966	1,227,966
Depreciation & Amortization	521,547	521,547	521,547	521,547	521,547	521,547
Debt Service (1)	1,035,640	1,442,606	1,492,106	1,620,231	1,634,594	1,647,844
Total Expenses	\$4,624,578	\$4,675,641	\$4,738,476	\$4,880,070	\$4,908,035	\$4,935,025
Net Operating Revenues	\$21,645	\$15,912	(\$1,139)	(\$96,492)	(\$77,753)	(\$57,572)
Add Back: Depreciation & Amortization	\$521,547	\$521,547	\$521,547	\$521,547	\$521,547	\$521,547
Net Income	\$543,192	\$537,459	\$520,408	\$425,055	\$443,794	\$463,975
Add Back: Debt Service	\$1,035,640	\$1,442,606	\$1,492,106	\$1,620,231	\$1,634,594	\$1,647,844
Revenues Available for Debt Service	\$1,578,832	\$1,980,065	\$2,012,514	\$2,045,287	\$2,078,387	\$2,111,819
Debt Service Coverage (2)	1.52 : 1	1.37 : 1	1.35 : 1	1.26 : 1	1.27 : 1	1.28 : 1
Cumulative Rate Stabilization Fund (3)	\$543,192	\$1,080,651	\$1,601,058	\$2,026,114	\$2,469,907	\$2,933,883

(1) Equals Natural Gas Enterprise Installment Payments.

(2) Based on Natural Gas Revenues available for debt service divided by Natural Gas Enterprise Installment Payments.

(3) Estimated, subject to change.

Source: The City of Susanville and Westhoff, Cone & Holmstedt.

CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The City is of the opinion that the water and natural gas service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the water and natural gas service. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C

does not define the terms “local tax,” “assessment,” “fee” or “charge.” In *Bighorn-Desert View Water Agency v. Verjil* (“Bighorn”), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City’s water service fees and charges, which are the source of Net Revenues pledged to the payment of the Installment Payments securing the Bonds. Though the use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the fees and charges imposed by the City for services of the Water Enterprise that are pledged to the payment of the Installment Payments securing the Bonds, there can be no assurance that the voters of the City will not seek to approve an initiative which attempts to reduce the fees and charges imposed by the City for services of the Water Enterprise that are pledged to the payment of the Installment Payments securing the Bonds.

Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Water Enterprise.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, with respect to fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines “fee” or “charge” to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a “property-related service.”

One of the requirements of Article XIID is that, before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. At the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of the identified parcels, an agency may not impose the fee or charge.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIID. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The City believes that it has complied with the procedures required by Article XIID, as such Article has been construed by the California Supreme Court, in connection with the increases in the water fees and charges approved by the City Council.

In addition to the procedural requirements of Article XIID, under Article XIID, all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance 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 believes that its water fees and charges comply with the foregoing standards. The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “RISK FACTORS – Rate Process” herein.

Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed

increase. To date, there have been no legal challenges to water rate increases implemented by the City pursuant to Proposition 218 or otherwise. As of the date of this Official Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit deposits to the Rate Stabilization Funds or maintenance of uncommitted cash reserves.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

RISKS FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. The realization of the Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water and natural gas to its users, and the ability of the City to establish and maintain water and natural gas fees and charges sufficient to provide the required debt service coverage as well as pay for maintenance and operation costs. Among other matters, energy usage, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water and natural gas services, which can be affected by population factors, more stringent regulatory standards, or problems with the City's water or natural gas facilities. There can be no assurance that water or natural gas service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water and/or natural gas services could require an increase in rates or charges in order to comply with applicable rate covenants. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Bonds. See also "RISK FACTORS – Rate Process" below.

Alternative Energy Sources

The demand for natural gas could diminish in the event that the cost of alternative energy sources such as propane, solar or geothermal becomes more affordable than the cost of natural gas, causing rate payers to convert their natural gas systems to systems that utilize alternative energy sources. There is no significant obstacle to a rate payer converting to an alternative energy source, and if such conversions were to take place at an increased rate, the City could then be required to increase rates or charges in order to comply with the rate covenants in the Installment Sale Agreements, which may then exacerbate the conversion problem, increasing the possibility of nonpayment of the Bonds.

City Expenses

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation, or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreements. Such rate increases could drive down demand for water and/or natural gas, and related services or otherwise increase the possibility of nonpayment of the Bonds.

Insurance

Each of the Installment Sale Agreements require the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of portions of the Water and Gas Enterprises in the event of damage or destruction thereto. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the City. Significant damage to the City could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds.

Limitations on Remedies and Bankruptcy

The ability of the City to increase water or natural gas service charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay the Installment Payments in amounts sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture and the Installment Sale Agreements are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture and the Installment Sale Agreements, the rights and obligations under the Bonds, the Indenture and the Installment Sale Agreements may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium

and other laws relating to or affecting creditors' rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by The Weist Law Firm, Bond Counsel, concurrently with the issuance of the Bonds, will also state that the enforceability of each of the Installment Sale Agreements is subject to the limitations on the imposition of fees and charges by the City relating to the Water Enterprise and Gas Enterprise, respectively, under Article XIII C and XIII D of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

In the event the City fails to comply with its covenants under the Installment Sale Agreements or to pay Installment Payments securing the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and the Installment Sale Agreements could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and the Installment Sale Agreements may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

Regulation

The City is unable to predict at this time what conditions, if any, would impose additional operating constraints on either the City's Water Enterprise or Gas Enterprise, or result in additional costs to either the Water Enterprise or the Gas Enterprise.

In the event that federal or State agencies should impose stricter standards upon either the Water Enterprise or the Gas Enterprise, the City's expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water or natural gas standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the City to generate Net Revenues in the amounts required by the Installment Sale Agreements to pay the Installment Payments.

Natural Disasters

The area in and surrounding the City, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires and seismic activity that could negatively affect the value of either the Water Enterprise or the Gas Enterprise, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of both the Water Enterprise and the Gas Enterprise and has not been taken into account in the designs of other public

improvements which may be acquired or constructed by the City or other public agencies. The City is not obligated under either of the Installment Sale Agreements to have earthquake or flood insurance.

The City expects that one or more of these conditions will occur from time to time, and, even if design criteria have been implemented to mitigate certain geologic events, such conditions may nevertheless result in damage to City assets. If there were to be an occurrence of a severe natural disaster in the area of the City, there could be an interruption in the service provided by either the Water Enterprise or the Gas Enterprise resulting in a temporary reduction in the amount of Net Revenues available to pay Installment Payments.

Economic, Political and Social Conditions

Changes in economic, political and social conditions on a local, state and federal level may adversely affect investment risk in general. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

Loss of Tax-Exemption

As discussed under the caption “TAX MATTERS” herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the City in violation of its covenants in the Installment Sale Agreements. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Rate Process

The passage of Proposition 218 by the California electorate, which added Articles XIIIIC and XIIID to the California Constitution, affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the City to generate Net Revenues in the amounts required by the Installment Sale Agreements to pay the Installment Payments. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIIIC and XIIID.”

The City’s ability to comply with the rate covenant under the Installment Sale Agreements may also be limited by the provisions of Proposition 218. The Weist Law Firm, Bond Counsel, will state in its opinion with respect to the Bonds that the enforceability of the Installment Sale Agreements is subject to the limitations on the imposition by the City of certain fees and charges relating to the Utility Enterprises under Articles XIIIIC and XIIID of the California Constitution. See “APPENDIX E – FORM OF OPINION OF BOND COUNSEL” herein. The City’s ability to comply with the rate covenant may also be adversely affected by other factors as described in this Official Statement.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Limited Obligation

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

Secondary Market for Bonds

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

THE AUTHORITY

The Susanville Public Financing Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, effective December 17, 1990 by and between the City and the Agency and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). The Authority is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the City.

FINANCIAL STATEMENTS

Attached as APPENDIX B are the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2008-09, which include financial statements for the Water and Gas Enterprise, prepared by the City's Finance Department and audited by Moss, Levy & Hartzheim LLP, of Beverly Hills, California (the "Auditor").

The Auditor's letter concludes that the Financial Statements, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured as measured by the financial activity of its various funds. The Financial Statements include information regarding certain funds of the City, including its General Fund, which are not pledged to make Payments or to otherwise pay debt service on the Bonds. Additionally, the City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

TAX MATTERS

In the opinion of The Weist Law Firm, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix E hereto, subject to the matters discussed below.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial

Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code, or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and City have covenanted, however, to comply with the requirements of the Code. Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and the City, and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process.

Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority and the City legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the City or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

The Weist Law Firm, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. The Weist Law Firm is also serving as Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and issuance of the Bonds. Certain legal matters will be passed upon for the Authority and the City by the City Attorney.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”), the complete text of which is attached as Appendix C, the City and Authority have agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system (the “Repository”) certain annual financial information and operating data concerning the City’s Water Enterprise and Gas Enterprise by not later than nine months following the end of the City’s Fiscal Year (currently, the City’s fiscal year ends on June 30) (the “Annual Report”), commencing with the report of Fiscal Year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The City’s financial statements are being included in the annual report only to comply with a provision in Rule 15c2-12 which requires any issuer entering into a continuing disclosure obligation to include its audited statements.

No City funds, other than Revenues, are pledged to the repayment of the Bonds, and investors should not assume that the credit of the City is in any way pledged to repay the Bonds. The Annual Report and notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in “Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE,” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended.

A default under the Continuing Disclosure Certificate would not constitute an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the City, Authority or the Dissemination Agent thereunder to comply with the requirements of the Continuing Disclosure Certificate would be an action to compel specific performance.

LITIGATION

To the best knowledge of the Authority and the City, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of the Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Installment Payments from the applicable Net Revenues made pursuant to the Installment Sale Agreements, or in any way contesting or affecting validity of the Bonds, the Indenture, the Installment Sale Agreements, the Escrow Agreements or the agreement for the sale of the Bonds. In addition, there is no litigation pending or threatened against the Authority, the City or the Agency which, in the opinion of the City Attorney of the City, would materially adversely affect the Water Enterprise or the Gas Enterprise or the sources of payment for the Bonds.

RATINGS

Standard & Poor's Ratings Services ("S&P") is expected to assign a rating of "AAA" (negative outlook) to the Series A Bonds based on the issuance of the Policy by AGM. S&P has assigned an underlying rating of "A" to the Series A Bonds without regard to the Policy, and Fitch Ratings has assigned an underlying rating of "A-" to the Series A Bonds. S&P has assigned an underlying rating of "BBB+" to the Series B Bonds, and Fitch Ratings has assigned an underlying rating of "BBB-" to the Series B Bonds. Such ratings reflect only the views of the respective rating agency and an explanation of the significance of such rating may be obtained from the respective rating agency as follows: Standard & Poor's Ratings Services, 55 Water Street, New York, NY 10041, (212) 438-2124; and Fitch Ratings, One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that any such rating will continue for any given period of time or that any of them will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of the respective rating agency, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the respective Bonds to which the rating pertained.

UNDERWRITING

The Bonds are being purchased by Westhoff, Cone & Holmstedt (the "Underwriter"). The Underwriter has agreed to purchase the Series A Bonds at a price of \$9,722,168.35 (which price is equal to the \$9,700,000.00 aggregate principal amount of the Series A Bonds, plus net Original Issue Premium of \$99,768.35, and less Underwriter's Discount of \$77,600.00). The Underwriter has agreed to purchase the Series B Bonds at a price of \$24,445,752.70 (which price is equal to the \$25,160,000.00 aggregate principal amount of the Series B Bonds, less Original Issue Discount of \$413,585.30, and less Underwriter's Discount of \$300,662.00).

The Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

VERIFICATION

Upon delivery of the Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the City and Authority relating to the: (i) adequacy of forecasted receipts of principal and interest on the defeasance securities and cash to be held pursuant to each of the Escrow Agreements, (ii) forecasted payments of principal and interest with respect to the Prior Obligations on and prior to their projected maturity and/or redemption dates; and (iii) yields with respect to the Bonds and on the obligations and other securities to be deposited pursuant to each of the Escrow Agreements, will be verified by Grant Thornton LLP, independent certified public accountants (the "Verification Agent"). Such verification shall be based solely upon information and assumptions supplied to the Verification Agent by the Underwriter. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds. The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City (including financial statements of the City's Water Enterprise and Gas Enterprise), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2009 is contained in APPENDIX B. The execution of this Official Statement and its delivery has been authorized by the Authority and the City.

SUSANVILLE PUBLIC FINANCING AUTHORITY

By: _____

CITY OF SUSANVILLE

By: _____

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix A contains only a brief summary of certain of the terms of the Installment Purchase Agreements and the Indenture relating to the Bonds, and a full review should be made of the entire Official Statement, including the cover page and the Appendices. References to, and summaries of, provisions of the documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All statements contained in this Appendix A are qualified in their entirety by reference to the entire Official Statement and the complete provisions of the documents referenced.

INDENTURE

The Indenture sets forth certain terms of the Bonds, the nature and extent of the security for the Bonds, the rights of the Owners of the Bonds, rights, duties and immunities of the Trustee, and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in the body of this Official Statement under the captions, “THE BONDS” and “SECURITY FOR THE BONDS.” Capitalized terms used in connection with the Indenture but not defined below have the meanings ascribed thereto in the body of this Official Statement.

Selected Definitions

“Act” means the Joint Exercise of Powers Act, being Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Payments” means the payments so designated and required to be paid by the City pursuant to Section 4.10 of either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement.

“Agreement” means that certain Joint Exercise of Powers Agreement, effective December 19, 1990, by and between the City and the Agency creating the Authority, together with all amendments thereof and supplements thereto.

“Authority” means the Susanville Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

“Authorized Denominations” means (a) with respect to Variable Bonds in the Daily Rate or Weekly Rate Mode, \$100,000 and whole multiples thereof, except that one Bond may be in the amount of \$100,000 and a whole multiple of \$5,000 in excess thereof, and (b) with respect to Variable Bonds in the Extended Rate Mode or the Fixed Rate Mode, \$5,000 and whole multiples thereof.

“Authorized Representative” means: (a) with respect to the Authority, its Chairperson, Vice Chairperson, Treasurer, Executive Director or any other person designated as an Authorized Representative

of the Authority by a Certificate of the Authority signed by its Chairperson, Vice Chairperson, Treasurer or Executive Director and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, Mayor Pro Tem, City Administrator, Finance Director or any other person designated as an Authorized Representative of the City by a Certificate of the City signed by its Mayor, Mayor Pro Tem, City Administrator or Finance Director and filed with the Authority and the Trustee.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means The Weist Law Firm, or other firm of nationally-recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

“Bond Fund” means the fund by that name established pursuant to Section 5.01 of the Indenture.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of the Act, as in existence on the Closing Date or as thereafter amended from time to time.

“Bonds” means, collectively, the Series A Bonds and the Series B Bonds.

“Bond Year” means each twelve-month period extending from June 2 in one calendar year to June 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on June 1, 2011.

“Business Day” means any day other than Saturday, Sunday or holiday or a day on which the Trustee or its affiliates or banks in San Francisco, California, are not required or authorized to remain closed.

“CDIAC” means the California Debt and Investment Advisory Commission of the State, or any successor thereto.

“Certificate,” “Request” and “Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative or in the name of the City on its own behalf or as agent of the Authority by the City's 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.

“City” means the City of Susanville, a municipal corporation organized under the Constitution and laws of the State; however, any reference to City in the Indenture shall specifically mean the Natural Gas Enterprise or Water Enterprise of the City, as applicable, unless the context clearly indicates otherwise.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

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

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the City and the Authority, initial fees and expenses of the Trustee, compensation to any financial consultants or underwriters, insurance premiums, rating agency fees, other legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.03 of the Indenture.

“Counterparty” means an entity which has entered into an Interest Rate Swap Agreement with the Authority.

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

- (a) The principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period;
- (b) The minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and
- (c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Defeasance Obligations” means and includes any of the following securities, if and to the extent the same are non-allocable and not subject to redemption at the option of the issuer, at the time legal for investment of the City’s funds, as determined by the City: direct obligations of, or obligations the full and timely payment of principal of and interest on which are unconditionally guaranteed by, 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 and including a receipt, certificate or any other evidence of a direct ownership interest in future payments of an obligations of, or unconditionally guaranteed by, the United States of America, or in specified portions thereof held by a custodian in safekeeping for the holders of such receipt, certificate or any other evidence of ownership (which may consist of specified portions of interest thereon) which is rated or assessed in the highest rating category of each of the Rating Agencies (without regard to modifiers within a category), but excluding any share of interest in any unitary investment trust or mutual fund unless such unitary investment trust or mutual fund is rated or assessed in the highest rating category of each of the Rating Agencies.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as

Depository pursuant to Section 2.03 of the Indenture.

“Depository System Participant” means any participant in the Depository’s book-entry system.

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

“Escrow Bank” means Union Bank of California, acting as escrow bank under the Escrow Agreement.

“Escrow Agreement” means collectively, (i) the 2001-A Natural Gas Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank; (ii) the 2001-B Natural Gas Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank; (iii) the 2001-C Natural Gas Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank; (iv) the 2003 Natural Gas Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank; (v) the 2000 Water Revenue Bonds Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank; and (vi) the 2004 Water Revenue Bonds Escrow Agreement, dated as of September 1, 2010, between the Authority and the Escrow Bank.

“Escrow Fund” means the respective fund by that name created and held under the terms of the respective Escrow Agreement.

“Event of Default” means any of the events specified in Section 7.01 of the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the City, as applicable, as its official fiscal year period.

“Fitch” means Fitch Ratings, Ltd., its successors and assigns or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized securities rating agency designated by the City, with the approval of the Authority, by notice to the Trustee.

“Improvements” means the land, improvements and other property described more fully in Exhibit B attached to the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, as such description may be amended by the City from time to time pursuant to and in accordance with Section 3.2 of either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be. The precise identification of the Improvements or any component thereof shall be determined by reference to the Plans and Specifications therefor.

“Indenture” means the Indenture of Trust dated as of September 1, 2010, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom-

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

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

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

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Called Bond Dept.; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; 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 Certificate of the Authority delivered to the Trustee.

“Installment Payment Date” means not later than five (5) Business Days prior to each December 1 and June 1, commencing not later than five (5) Business Days prior to December 1, 2010.

“Installment Payment Default Event” means any of the events specified in Section 8.1 of the Installment Sale Agreement.

“Installment Payments” means the aggregate amount of all the payments required to be paid by the City pursuant to Section 4.4 of the Installment Sale Agreement, as quantified in Exhibit A to the Installment Sale Agreement.

“Installment Sale Agreement” means either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the context may indicate, dated as of September 1, 2010, by and between the Authority and the City, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

“Insurance” means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

“Insurer” means any provider of Insurance with respect to a Series of Bonds.

“Interest Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Interest Payment Date” means each December 1 and June 1, commencing December 1, 2010.

“Maximum Annual Debt Service” means, as of the date of any calculations, the largest annual Debt Service during the current or any future Bond Year.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “Moody’s” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the Authority.

“Natural Gas Enterprise” means, collectively, the entire natural gas collection, production, transmission and distribution system owned or operated by the City, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, production, transmission and distribution system, including all contractual rights to gas production, supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, production, transmission and distribution of natural gas, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipplings thereof.

“Natural Gas Project” mean, the natural gas system facilities and improvements to by acquired or constructed and equipped by the Authority and sold to the City pursuant to the Natural Gas Installment Sale Agreement, all as more particularly described in Exhibit B to the Natural Gas Installment Sale Agreement.

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.03(a).

“Office” means with respect to the Trustee, the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, CA 94111; or such other office designated by the Trustee from time to time in writing to the Authority and the City.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds (including but not limited to counsel to the Authority) retained by the Authority.

“Original Purchaser” means Westhoff, Cone & Holmstedt as the first purchaser of the Bonds upon

their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.09; and
- (c) Bonds or for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” “Holder” “Bond Owner or “Bond Holder,” whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

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

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (the Trustee is entitled to rely upon any investment direction provided to it in accordance with the Indenture as a certification that such investment constitutes a Permitted Investment):

- (i) Defeasance Obligations;
- (ii) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Federal National Mortgage Association, the Bank for Cooperatives, or the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Federal Land Banks, the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States of America;
- (iii) Obligations of any state of the United States of America or any political subdivision thereof, which at the time of investment are rated “A1/P-1” or higher by Moody’s and “A+” or higher by S&P or Fitch; or which are rated by Moody’s “VMIG 1” or better and by S&P “A-1” or better and by Fitch “F1” or better, with respect to commercial paper, or “MIG 1,” “SP-1+” or “F1+,” respectively, with respect to municipal notes;
- (iv) Demand deposits, including without limitation, trust accounts, trust funds, overnight bank deposits, interest-bearing deposits, interest-bearing money market accounts, bank time deposits evidenced by certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and City or Authority, and bankers’ acceptances, issued by any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors

Protection Corp. (including the Trustee or any of its affiliates); provided that (a) such bank, trust company, or national banking association is rated “A1/P-1” or better by Moody’s and “A+” or better by S&P or Fitch, or else that all of the securities acquired pursuant to this subsection (iv) are for amounts of \$100,000 or less, and with maturities of no longer than 365 days; and, (b) provided that (x) the aggregate of such bank time deposits and bankers’ acceptances issued by any bank, trust company or banking association does not exceed at any one time 10% of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and that such capital stock, surplus and undivided profits shall not be less than \$25,000,000, or else that (y) such deposits are fully and continuously secured by a valid and perfected prior security interest in obligations described in paragraph (i) or (ii) of this definition;

(v) Repurchase or reverse repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corp. (including the Trustee or any of its affiliates); provided that such bank, trust company or national banking association is rated “A1” or better by Moody’s and “A+” or better by S&P or Fitch, or with any government bond dealer recognized as a primary dealer by the Federal Reserve Bank of New York, which agreements are fully and continuously secured by a valid and perfected priority security interest in obligations described in paragraph (i) or (ii) of this definition;

(vi) Investment agreements with any corporation, including banking or financial institutions, the long-term corporate debt of which is rated, at the time of investment, “A1” or better by Moody’s and “A+” or better by S&P or Fitch;

(vii) Guaranteed investment contracts or similar funding agreements issued by insurance companies, the long-term corporate debt of which, at the time of investment, is rated “A1” or better by Moody’s and “A+” or better by S&P or Fitch;

(viii) Corporate commercial paper rated “MIG 1” or better by Moody’s and “A-1” or better by S&P and “F1” or better by Fitch at the time of investment;

(ix) Shares or interests in taxable government money market portfolios (including any money market mutual funds of the Trustee) restricted to obligations with maturities of one year or less issues by, or the payment of principal and interest with respect to which is guaranteed by, the United States of America, and which are rated “Aa” or better by Moody’s and “AAm” or better by S&P or Fitch at the time of investment;

(x) Investment in money market mutual funds having a rating in the highest investment category granted thereby from S&P or Moody’s, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Trust Agreement may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(xi) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code; and

(xii) Any other investment that is legal for the investment of the City's funds or, to the extent that any moneys under the Indenture are held by the Trustee or a fiscal agent and pledged to the payment or security of the Bonds, any other investments which the City deems to be prudent investments and in which the City directs the Trustee or fiscal agent to invest, provided that such investments are either: (i) rated "A"/"A" or better, by at least two of S&P, Fitch and Moody's at the time of such investment; or (ii) are issued by an entity the corporate debt of which is rated "A"/"A" or better, by at least two of S&P, Fitch and Moody's; or (iii) are issued by an insurance company with a claims paying rating of "Aa" or better by Moody's.

"Principal Account" means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

"Prior Bonds" means, collectively, (i) the City of Susanville 2001-1 Series A Certificates of Participation; (ii) the City of Susanville 2001-1 Series B Certificates of Participation; (iii) the City of Susanville 2001-1 Series C Certificates of Participation; (iv) the City of Susanville Series 2003 Certificates of Participation; (v) the Susanville Public Financing Authority Series 2000 Water Revenue Bonds; and (vi) the Susanville Public Financing Authority Series 2004 Water Revenue Bonds.

"Project Costs" means the costs of acquisition, construction, implementing and equipping either the Natural Gas Project or the Water Project, as the case may be, or the application of the proceeds of Bonds to the costs and expenses which are incidental or related to the acquisition and construction of additions to the Project, as applicable, by the Authority, including amounts payable to the City by the Authority as reimbursement for any of the foregoing.

"Qualified Reserve Account 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, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) which is rated in the highest rating category by two of the following four rating agencies: Moody's, S&P, Fitch, or A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) 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; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required under the Indenture.

"Rating Agencies" means, as of any date, each of the following entities which, as of such date, is providing a rating on the Bonds at the request of the City or the Authority: Fitch, S&P and Moody's, and their respective corporate successors and any other nationally recognized statistical rating organization (as that term is used in the rules and regulations of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) providing a rating on the Bonds at the request of the City or the Authority.

"Rebatable Arbitrage" means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Analyst” means the entity engaged by the City or the Authority to compute the Rebatale Arbitrage annually pursuant to the Indenture.

“Rebate Fund” means the Rebate Fund created and established pursuant to Section 5.02 of the Indenture.

“Rebate Regulations” means those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date.

“Redemption Fund” means the fund by that name established pursuant to Section 5.07 of the Indenture.

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.06 of the Indenture for the registration and transfer of ownership of the Bonds.

“Representation Letter” means the representation letter from the Authority to DTC.

“Required Rebate Deposit” shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebatale Arbitrage for the Bonds less the amount of Rebatale Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

“Reserve Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the lesser 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.

“Revenues” means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Natural Gas Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments payable pursuant to the Natural Gas Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Installment Payments), but excluding any corresponding Additional Payments, (b) all amounts received by the Authority or the Trustee pursuant to or with respect to the Water Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments payable pursuant to the Water Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Installment Payments), but excluding any corresponding Additional Payments, (c) amounts deposited in the Reserve Account and Bond

Fund, (d) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, and (e) any net payments received by the Authority under an Interest Rate Swap Agreement.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “S&P” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the Authority.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Fax (212) 855-7232; or such other addresses and/or such other securities depositories as the Authority may designate.

“Senior Interest Account” means the account by that name established and held by the Trustee pursuant to Section 5.2 of the Indenture.

“Senior Principal Account” means the account by that name established and held by the Trustee pursuant to Section 5.2 of the Indenture.

“Series” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as herein provided.

“Series A Bonds” means the aggregate principal amount of Susanville Public Financing Authority, 2010 Refunding Revenue Bonds, Senior Series A (Utility Enterprises Project), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture,

“Series B Bonds” means the aggregate principal amount of Susanville Public Financing Authority, 2010 Revenue Bonds, Subordinate Series B (Utility Enterprises Project), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture,

“SIFMA” means the Securities Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means, with respect to any date, the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data on such date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by SIFMA. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on the applicable date, the SIFMA Index for such date shall be the SIFMA Index for the next preceding date within the preceding 180 days on which the SIFMA Index was available. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on any date in the immediately preceding 180 days, the SIFMA Index for such date shall be an index selected by the City or Authority which is a composite of bid-

side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax. If no such index is so selected by the City or Authority, the SIFMA Index for the applicable date shall be an index computed by the City or Authority which shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to the applicable date.

“Sinking Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“State” means the State of California.

“Subordinate Interest Account” means the account by that name established and held by the Trustee pursuant to Section 5.2 of the Indenture.

“Subordinate Principal Account” means the account by that name established and held by the Trustee pursuant to Section 5.2 of 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.

“Supplemental Installment Sale Agreement” means any installment sale agreement then in full force and effect which has been duly executed and delivered by the Authority and the City amendatory to either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, as supplemented thereto; but only if and to the extent that such Supplemental Installment Sale Agreement is specifically authorized under the either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be.

“Swap Revenues” means all regularly-scheduled amounts (but not termination payments) owed or paid to the Authority by any Counterparty under any Interest Rate Swap Agreement after offset for the regularly-scheduled amounts (but not termination payments) owed or paid by the Authority to such Counterparty under such Interest Rate Swap Agreement.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Sections 103, 141, 148 and all related sections of the Code.

“Term of the Installment Sale Agreement” means the time during which either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, is in effect, as provided in Section 4.2 of either the Natural Gas Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be.

“Treasurer” means the Treasurer of the Authority.

“Trustee” means Deutsche Bank National Trust Company, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture.

“Variable Rate Indebtedness” means any indebtedness, including Bonds, the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

“Water Enterprise” means, all facilities for obtaining, storing, treating and delivering municipal water now owned or operated by the City, and all other properties, structures or works hereafter acquired and constructed by the City and determined to be a part of the Water Enterprise, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired or constructed.

“Water Project” mean, the water system facilities and improvements to be acquired or constructed and equipped by the Authority and sold to the City pursuant to the Water Installment Sale Agreement, all as more particularly described in Exhibit B to the Water Installment Sale Agreement.

Establishment of Bond Funds

(a) All of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are hereby pledged to secure the payment of the principal of, premium (if any) and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in both the Water Installment Sale Agreement and the Natural Gas Installment Sale Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of Article VIII of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under both the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement.

(c) In order to carry out and effectuate the pledge, charge and lien contained under the Indenture, the Authority has agreed that all Revenues, when and as received, shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Bond Fund” which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under either the Water Installment Sale Agreement or the Natural Gas Installment Sale

Agreement, as the case may be, to be deposited in either the Reserve Account or the Redemption Fund, as the case may be, shall be promptly deposited in such Account or Fund, as the case may be. Within the Bond Fund the Trustee shall establish and maintain a separate Senior Interest Account, Senior Principal Account, Subordinate Interest Account and Subordinate Principal Account therein.

All Revenues shall be accounted for through and held in trust in the Bond Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided under the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided under the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Application of Revenues

(a) Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Senior Interest Account. On each Interest Payment Date, the Trustee shall deposit in the Senior Interest Account an amount required to cause the aggregate amount on deposit in the Senior Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Series A Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series A Term Bonds, if any, and an amount due on the next redemption date on the Series A Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Senior Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series A Bonds on such Interest Payment Date. All moneys in the Senior Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series A Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Senior Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series A Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series A Bonds on a pro rata basis.

(2) Senior Principal Account. On each Interest Payment Date on which the principal of the Series A Bonds is payable, the Trustee shall deposit in the Senior Principal Account an amount required to cause the aggregate amount on deposit in the Senior Principal Account to equal the principal amount of the Series A Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series A Bonds Term Bonds, if any, and an amount due on the next redemption date on the Series A Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Senior Principal Account shall be used and withdrawn by the Trustee solely for

the purpose of paying the principal of the Series A Bonds at the maturity thereof.

(3) Subordinate Interest Account. On each Interest Payment Date, the Trustee shall deposit in the Subordinate Interest Account an amount required to cause the aggregate amount on deposit in the Subordinate Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Series B Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series B Term Bonds, if any, and an amount due on the next redemption date on the Series B Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Subordinate Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series B Bonds on such Interest Payment Date. All moneys in the Subordinate Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series B Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Subordinate Interest Account on any Interest Payment Date or redemption date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series B Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series B Bonds on a pro rata basis.

(4) Subordinate Principal Account. On each Interest Payment Date on which principal of the Series B Bonds is payable, the Trustee shall deposit in the Subordinate Principal Account an amount required to cause the aggregate amount on deposit in the Subordinate Principal Account to equal the principal amount of, and premium (if any) on, the Series B Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Series B Bonds, if any, and an amount due on the next redemption date on the Series B Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Subordinate Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series B Bonds at the maturity thereof.

(5) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to either the Water Enterprise or the Natural Gas Enterprise, as the case may be).

(b) If on any Interest Payment Date or date for redemption of Bonds the amount on deposit in the Bond Fund is inadequate to make the transfers described in subsection (a) above, the Trustee shall immediately notify the City of the amount needed to make the required deposits under subsection (a) above and shall transfer to the Bond Fund any amounts on deposit from the Surplus Fund, as necessary to cure such deficiency.

(c) On each Interest Payment Date after making the transfers required under subsections (a) and (b) above, upon receipt of a Request of the Authority to do so, the Trustee shall transfer from the Bond Fund to the Rebate Fund the amounts specified in such Request.

Rebate Fund

The Rebate Fund will be administered in accordance with the provisions of the Indenture. The Rebate Fund will not be subject to the lien or encumbrance of the Indenture and will be held in trust by the Trustee for the benefit of the United States of America. The amounts deposited in the Rebate Fund will be subject to the claim of no other person, including that of the Trustee and Bondowners. Moneys transferred to the Rebate Fund pursuant to the Indenture will be used for no other purpose than to make payments to the United States Treasury, at the time and manner and in the amount and as more fully provided in the Indenture. The Trustee will be deemed conclusively to have complied with the provisions of the Indenture related to Rebateable Arbitrage if it follows the directions of the City or Authority, and the Trustee will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the City or the Authority with the provisions of the Indenture and the Tax Certificate with respect to Rebateable Arbitrage.

Surplus Fund

The Surplus Fund shall be held by the Trustee. Annually, following computation and deposit of the Rebateable Arbitrage for the preceding Bond Year in the Rebate Fund (to the extent required by the Indenture) and provided there is no deficiency in the Senior Interest Account, the Senior Principal Account, the Reserve Account, the Subordinate Interest Account, Subordinate Principal Account, or the Rebate Fund, any moneys in the Surplus Fund shall be released from the lien of the Indenture, not less frequently than annually, provided no Event of Default has been declared under the Indenture or the Installment Sale Agreements, the amounts on deposit in the Surplus Fund as of the conclusion of the immediately preceding Bond Year shall be transferred to the City for any lawful purpose.

If, on or before any Interest Payment Date, there is a deficiency in the Senior Interest Account, the Senior Principal Account, the Reserve Account, the Subordinate Interest Account, Subordinate Principal Account, or the Rebate Fund, the Trustee shall withdraw from the Surplus Fund and deposit in such Fund, in the order and in the manner set forth in Section 5.02(a) of the Indenture, the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

Sinking Account

All moneys on deposit in either the Series A Sinking Account or the Series B Sinking Account, respectively, shall be used and withdrawn by the Trustee in the manner set forth in Section 5.02(a) of the Indenture for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(a)(i) or 4.01 (a)(ii), as the case may be, and, if applicable, any Supplemental Indenture.

Reserve Account

(a) All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to Section 4.01(a)(i) or 4.01(a)(ii) of the Indenture, as the case may be, when due and payable to the extent that moneys deposited in the Senior Interest Account, the Senior Principal Account, the Subordinate Interest Account, or the Subordinate Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of

principal and interest on the Series A Bonds or Series B Bonds, as the case may be. On the date on which all Series A Bonds or Series B Bonds, as the case may be, shall be retired under the Indenture or provision made therefor pursuant to Article X of the Indenture, any respective Series A Bonds or Series B Bonds, as the case may be, moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid respective Series A Bonds or Series B Bonds Installment Payments, as the case may be. The Authority shall cause the City to use the proceeds of any such refund in a manner which does not (i) impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds, or (ii) result in any violation of State law.

(b) If at any time the amount on deposit in the Reserve Account is less than the Reserve Requirement, the Trustee will promptly notify the City in writing of (i) which Installment Sale Agreement (i.e., either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the case may be) caused such deficiency, and (ii) the amount of such deficiency; and the City shall pay to the Trustee the amount of such deficiency as provided in Section 4.5(c)(3) of either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the case may be. Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement shall be transferred by the Trustee to the Bond Fund, as provided in Section 5.08 of the Indenture.

(c) If, on any date, moneys on deposit in the Reserve Account allocable to the Series A Bonds or Series B Bonds, as the case may be, together with allocable amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Series A Bonds or Series B Bonds, as the case may be, including all respective principal thereof, and interest thereon, the Trustee shall, upon written request of the Authority, transfer such allocable amounts then on deposit in the Reserve Account, together with such allocable amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of such Series A Bonds or Series B Bonds, as the case may be, in accordance with the provisions of Section 4.01(b)(i) or 4.01(b)(ii) of the Indenture, as the case may be, hereof. Any amounts remaining in the Reserve Account upon payment in full of all Outstanding Bonds, shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Installment Payments. The Authority shall cause the City to use the proceeds of any such refund in a manner which (i) does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds or (ii) result in any violation of State law.

(d) The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Authority to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Project Fund to be used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under Section 5.06 of the Indenture. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from

the first available Revenues. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture shall be pro-rata with respect to each such instrument.

Redemption Fund

The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium (if any) on the Bonds to be redeemed pursuant to Section 4.01(b)(i) and 4.01(b)(ii) of the applicable Installment Sale Agreement, provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may, at the direction of the City or the Authority, apply amounts deposited or otherwise to be deposited in the Redemption Fund to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest on Bonds, which is payable from the Interest Account) as shall be directed pursuant to a Request of the Authority or a Request of the City, as agent of the Authority.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Request of the City as agent for the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions may be oral if promptly confirmed in writing), except that moneys in the Reserve Account shall not be invested in Permitted Investments having a maturity of more than five (5) years, unless any such Permitted Investment is described in clause (vii) of the definition thereof. In the absence of any such directions from the City as agent for the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (iv) of the definition thereof. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Bond Fund, except that interest or gain from investment or amounts in the Costs of Issuance Account shall be retained in therein and used for the purposes thereof, and interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein unless such amount equals the Reserve Requirement and any amount, no later than the Business Day immediately preceding each Interest Payment Date, in the Reserve Account in excess of the Reserve Requirement shall be deposited in the Bond Fund. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. With respect to any Permitted Investment for which the Trustee or an affiliate shall provide services, the Trustee shall be entitled to its customary fees including any investment management fees. The Trustee shall incur no liability for losses arising from any investments, provided they are made in

accordance with this Section 5.08 of the Indenture. The Authority (and the City by its execution of the Installment Sale Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the City the right to receive brokerage confirmations of security transactions as they occur, the Authority and the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the City monthly (unless some other arrangement is mutually agreed to in writing) cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

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

For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund shall be valued at the original cost thereof (excluding any brokerage commissions and excluding any accrued interest).

Covenants of the Authority

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

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created in favor of the Bonds by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

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

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

Private Activity Bond Limitation. The Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any

action to be taken if the result of the same would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Continuing Disclosure. Pursuant to Section 5.11 of each of the Installment Sale Agreements, the City has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds and neither the Authority nor the Trustee shall have any liability to the Owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order. The Trustee shall have no duties or liabilities with respect to any such Continuing Disclosure Certificate.

Installment Sale Agreements

The Trustee shall promptly collect all amounts due from the City pursuant to both the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, and, subject to the provisions of Article VIII of the Indenture, shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City thereunder.

The Authority may at any time amend either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the case may be, pursuant to Section 7.4 thereof for the purpose of providing for the issuance or incurrence of Parity Obligations (as defined therein), without the consent of the Trustee. Except for such amendment pursuant to the preceding sentence, the Authority shall not amend, modify or terminate any of the terms of either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the case may be, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if (a) in the opinion of Bond Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Bond Owners, or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Events of Default

The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of or premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have

continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the Authority of a voluntary petition in bankruptcy, or failure by the Authority promptly to lift any execution, garnishment or attachment, or adjudication of the Authority as a bankrupt, or assignment by the Authority for the benefit of creditors, or the entry by the Authority into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Authority in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence and continuation of an “Event of Default” within the meaning of Section 8.1 of either the Water Installment Sale Agreement or the Natural Gas Installment Sale Agreement, as the case may be.

The Trustee shall not be bound to take notice of a default herein (except for Section 7.01 of the Indenture) absent written notice from the Authority as provided in Section 8.03 (e) of the Indenture.

Remedies Upon Event of Default

If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its attorneys, agents, and advisors) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment

shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon. With respect to determinations made in this paragraph, the Trustee shall be entitled to indemnification under the Indenture, as provided in Section 8.06 of the Indenture.

Application of Revenues and Other Funds after Default

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

(a) To the payment of any expenses necessary in the reasonable opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including internal costs of administration and in-house counsel and reasonable fees and disbursements of its outside counsel) incurred in and about the performance of its powers and duties under the Indenture. Any such costs and expenses are deemed to be reasonable costs of administration under the Indenture or as required under the Federal Bankruptcy Act;

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

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

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Limitation on Bond Owners' Right to Sue

No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreements or any applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than a majority 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; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with

such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Sale Agreement or applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Amendments to Indenture

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each rating agency then rating the Bonds and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, without the consent of any Bond Owners, if the Trustee has been furnished an Opinion of Counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds

(or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code;

(v) to comply with the requirements of a provider of a Qualified Reserve Account Credit Instrument.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of Section 9.01 of the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture pursuant to Article IX of the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the

opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Discharge of Indenture

The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

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

(b) by depositing with the Trustee, in trust, at or before maturity, money or Federal Securities in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem all Bonds, or any portion thereof then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the Bonds, or any portion thereof then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture with respect to the Bonds so paid or delivered for cancellation, as applicable, shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee shall take all such actions and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, including, without limitation, the selection by lot of the Bonds of any maturity that is to be defeased in part, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the City as an Installment Payment refund.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or

securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 of the Indenture.

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

Deposit of Money or Securities with Trustee

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, all unpaid interest thereon to the redemption date and redemption premium (if any); or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Accountant (the "Verification") filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of, as applicable, and all unpaid interest to maturity, or to the redemption date, and, if applicable, redemptions premium as the case may be, on the Bonds to be paid or redeemed, as such principal, interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and (if applicable) redemption premium with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Verification referred to above). Escrows established to provide for the discharge of Bonds pursuant to this Section 10.03 of the Indenture must be sufficient, without reinvestment, to pay all principal and interest as scheduled thereon, including to the date of redemption.

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority shall not be required or obligated or liable to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

Limitation of Rights to Parties and Bond Owners

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

Notices

Any notice to or demand upon the Authority, the City or the Trustee shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telex, fax (with automatic answerback capability), or by being deposited, postage prepaid, in a post office letter box, addressed, as the case may be, to the Authority at 66 North Lassen Street, City of Susanville, California 96130, Attention: Executive Director (or such other address as may have been filed in writing by the Authority with the Trustee), or, to the City at 66 North Lassen Street, City of Susanville, California 96130, Attention: City Administrator (or such other address as may have been filed in writing by the City with the Trustee), or to the Trustee at its Office.

Evidence of Rights of Bond Owners

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Authority if made in the manner provided in this Section 11.08 of the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have

concurrent in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Bonds

The money held by the Trustee for the payment of the interest or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04 of the Indenture, but without any liability for interest thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the City or Authority shall be individually or personally liable for the payment of the principal or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

INSTALLMENT SALE AGREEMENTS

The term "Installment Sale Agreements" means (i) an Installment Sale Agreement related to the City's Water Enterprise (the "Water Enterprise"), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the "Water Installment Sale Agreement"), and (ii) an Installment Sale Agreement related to the City's Gas Enterprise (the "Gas Enterprise" and collectively with the Water Enterprise, the "Utility Enterprises"), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the "Gas Installment Sale Agreement" and, collectively with the Water Installment Sale Agreement, the "Installment Sale Agreements"). Certain definitions under and provisions of the Installment Purchase Agreements are given and summarized below. Other provisions are summarized in the Official Statement under the caption "SECURITY FOR THE BONDS."

Selected Definitions

"Acquisition," "Acquire" or "Acquired" means, with respect to the Project, the acquisition, construction, improvement, equipping, renovation, or perfection of an ownership or capacity interest in the Project.

“Act” means the Joint Exercise of Powers Act, being Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Payments” means the amounts payable by the City pursuant to Section 4.10 of the Installment Sale Agreement.

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

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise in question to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise in question which has become effective (or adopted but not yet effective) prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, was not in effect, 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 such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an Accountant or Fiscal Consultant employed by the City.

“Adjusted Annual Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Utility Fund and/or the Bond Fund from the Rate Stabilization Fund during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Rate Stabilization Fund from the Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Gross Revenues during such Fiscal Year or twelve (12) calendar month period minus the Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Installment Payments and the Parity Payments required to be made under all Supplemental Installment Sale Agreements in such Fiscal Year or twelve (12) calendar month period.

“Authority” means the Susanville Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

“Average Annual Debt Service” means the sum of the Annual Debt Service for the remaining Fiscal Years to the last Fiscal Year in which any Parity Payments are due under the last Outstanding Supplemental Installment Sale Agreement divided by the number of such Fiscal Years.

“Balloon Contract” means any Supplemental Installment Sale Agreement described as such in such Supplemental Installment Sale Agreement.

“Business Day” means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business and on which the Trustee is open for business at its principal corporate trust office.

“Bond Fund” means the fund by that name established pursuant to Section 5.01 of the Indenture.

“Bonds” means collectively, the Series A Bonds and the Series B Bonds, issued pursuant to the Indenture.

“Bond Insurer” or “Insurer” means any insurance company that is then providing a policy of insurance for any outstanding Parity Obligation.

“Bond Year” means each twelve-month period extending from June 2 in one calendar year to June 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on June 1, 2011.

“Certificate of the City” means an instrument in writing signed by the Mayor, Mayor Pro Tem, City Administrator or Finance Director of the City, or by any other officer of the City duly authorized by the City for that purpose.

“City” means the City of Susanville, a municipal corporation duly organized and existing under and by virtue of the laws and Constitution of the State of California; however, any reference to City in the Installment Sale agreement shall specifically mean the Natural Gas Enterprise or the Water Enterprise, as the case may be, of the City, unless the context clearly indicates otherwise.

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

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, and regulations issued thereunder.

“Contract Resource Obligation” means an obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 4.12 of the Installment Sale Agreement, to make payments for any other commodity or service to another person or entity (including without limitation a separate utility system), the payments under which without the application of Section 4.12 of the Installment Sale

Agreement would not be treated as Operation and Maintenance Costs in accordance with Generally Accepted Accounting Principles.

“Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Annual Debt Service plus the Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a reserve account under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Coverage Requirement, the following provisions shall apply:

(A) Generally. Except as otherwise provided by subparagraph (B) of this proviso with respect to Variable Interest Rate Contracts and by subparagraph (C) of this proviso with respect to Obligations with respect to which a Payment Agreement is in force, interest on any Obligation shall be calculated based on the actual amount of interest that is payable under such Obligation;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to the rate (the “assumed SIFMA Index rate”) that is ninety percent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which such calculation is made;

(C) Interest on Obligations with respect to which a Payment Agreement is in force. Interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Obligation and such Payment Agreement, including but not limited to the effects that (i) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Obligation plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Obligation, the following assumptions shall be made:

(1) City Obligated to Pay Net Variable Payments. If a Payment Agreement has been

entered into by the City with respect to an Obligation resulting in the payment of a net variable interest rate with respect to such Obligation and Payment Agreement by the City, the interest rate on such Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the assumed SIFMA Index rate; and

(2) City Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the City with respect to an Obligation resulting in the payment of a net fixed interest rate with respect to such Obligation and Payment Agreement by the City, the interest on such Obligation shall be included in the calculation of the Coverage Requirement (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement; and

(D) For purposes of calculating the Annual Debt Service or the Subordinate Annual Debt Service on any Balloon Contract, it shall be assumed that the principal of such Balloon Contract, together with interest thereon at a rate equal to the assumed SIFMA Index rate, will be amortized in equal annual installments of principal and interest over a term of thirty (30) years.

“Date of Operation” means, with respect to any uncompleted portion of the Project, the estimated date by which such portion of the Project will have been completed and, in the opinion of an Independent Engineer, will be ready for continuous and reliable operation by the City.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Event of Default” means any of the events described in Section 8.1 of the Installment Sale Agreement.

“Financial Guaranty” means a policy of municipal bond insurance or surety bonds issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category by S&P and Moody’s and, if rate by A.M. Best & Company, also in the highest rating category by A.M. Best & Company.

“Fiscal Consultant” means any consultant or firm of such consultants appointed by the Authority and the City and who, or each of whom: (a) is judged by the Authority and the City to have experience in matters relating to the financing of natural gas system enterprises or water system enterprises, as the case may be; (b) is in fact independent and not under domination of the Authority or the City; (c) does not have any substantial interest, direct or indirect, with the Authority or the City other than as purchaser of the Bonds or any Parity Obligations; and (d) is not connected with the Authority or the City as an officer or employee of the Authority or the City, but who may be regularly retained to make reports to the Authority or the City.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

“Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Natural Gas Enterprise or the Water Enterprise, as the case may be, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the City from the operation of the Natural Gas Enterprise or the Water Enterprise, as the case may be, or arising from the Natural Gas Enterprise or the Water Enterprise, as the case may be, determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for the Natural Gas Enterprise or the Water Enterprise, as the case may be, service and the other services of the Natural Gas Enterprise or the Water Enterprise, as the case may be, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Natural Gas Enterprise or the Water Enterprise, as the case may be, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Natural Gas Enterprise or the Water Enterprise, as the case may be, including all income from the investment of amounts on deposit in the applicable Utility Fund, the Parity Obligation Payment Fund, and the Rate Stabilization Fund, (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Natural Gas Enterprise or the Water Enterprise, as the case may be, and (f) all other monies howsoever derived by the City from the operation of the Natural Gas Enterprise or the Water Enterprise, as the case may be, or arising from the Natural Gas Enterprise or the Water Enterprise, as the case may be, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by Section 4.7(c) of the Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by Section 4.7(c) of the Installment Sale Agreement.

“Gross Revenues of the Water Enterprise” means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Water Enterprise in accordance with Water Installment Sale Agreement.

“Indenture” means the Indenture of Trust, dated as of September 1, 2010, by and between Deutsche Bank National Trust Company, as Trustee, and the Authority relating to the Bonds.

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to sanitation collection systems, appointed and paid by the City, and who or each of whom –

- (1) is in fact independent and not under the domination of the City;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the City; and

(3) is not connected with the City as a director, officer or employee of the City, but may be regularly retained to make reports to the City.

“Installment Payment Date” means not less than five (5) Business Days prior to each June 1 and December 1 during the Term of this Installment Sale Agreement, commencing not less than five (5) Business Days prior to December 1, 2010.

“Installment Payments” means the amounts payable by the City pursuant to Section 4.4 of the applicable Installment Sale Agreement, including any prepayments thereof pursuant to Article IX of the applicable Installment Sale Agreement.

“Installment Sale Agreement” means either the Water Installment Sale Agreement or the Gas Installment Sale Agreement, as the case may be, together with any duly authorized and executed amendments hereto.

“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 applicable 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 Section 9.1 of the applicable 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 SIFMA 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.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority.

“Natural Gas Enterprise” means, collectively, the entire natural gas collection, production, transmission and distribution system owned or operated by the City, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, production, transmission and distribution system, including all contractual rights to gas production, supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, production, transmission and

distribution of natural gas, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Net Proceeds” means, when used with respect to any condemnation award or any insurance proceeds received with respect to the of the applicable Enterprise, the amount of such condemnation award or insurance proceeds remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such award or proceeds.

“Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the applicable Gross Revenues during such Fiscal Year or twelve (12) calendar month period less the applicable Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Obligations” means all Parity Obligations and all Subordinate Obligations.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the City for maintaining and operating the Water Enterprise or the Natural Gas Enterprise, as the case may be, including but not limited to (a) costs of acquisition of water or natural gas, as the case may be, including all associated delivery costs, to be used by the Water Enterprise or the Natural Gas Enterprise, as the case may be, (b) costs of electricity and other forms of energy supplied to the Water Enterprise or the Natural Gas Enterprise, as the case may be, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise or the Natural Gas Enterprise, as the case may be, in good repair and working order and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water Enterprise or the Natural Gas Enterprise, as the case may be, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Water Enterprise or the Natural Gas Enterprise, as the case may be, including but not limited to the applicable Installment Payments and any applicable Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Opinion of Counsel” means a written opinion of The Weist Law Firm or such other counsel of recognized national standing in the field of law relating to municipal bonds, retained by the City and satisfactory to the Trustee (who shall be under no liability by reason of such approval).

“Original Purchaser” means Westhoff, Cone & Holmstedt as the first purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Parity Obligations” means Supplemental Installment Sale Agreements, Payment Agreements, and any other leases, loan agreements, bonds, notes or other obligations of the City payable from and secured by a pledge of and lien upon any of the applicable Net Revenues on a parity with the applicable Installment Payments entered into or issued pursuant to and in accordance with Section 4.9 of the applicable Installment Sale Agreement.

“Parity Payments” means all installment payments scheduled to be paid by the City under all Parity Obligations.

“Payment Agreement” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to (but not necessarily concurrent with), the entering into of any Supplemental Installment Sale Agreement, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Payment Agreements.

“Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Payment Agreements.

“Prior Obligations” means collectively the Series 2001-A Certificates, the Series 2001-B Certificates, the Series 2001-C Certificates, and the Series 2003 Certificates.

“Project” means the land, improvements and other property comprising the project described more fully in Exhibit B attached to the applicable Installment Sale Agreement, as such description may be amended by the City from time to time pursuant to and in accordance with the terms thereof.

“Purchase Price” means the purchase price of the Project, together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on the respective dates specified in Exhibit A of the applicable Installment Sale Agreement.

“Qualified Counterparty” means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement and (1) (a) who is rated at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), (b) whose senior debt obligations are rated at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), or guaranteed by an entity so rated, (c) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments, or (d) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain a rating at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

“Qualified Reserve Account 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, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or claims paying ability of such insurance company is AAA or better from S&P and AAA or better from Moody’s and, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) 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; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture.

“Rate Stabilization Fund” means the fund by that name established pursuant to Section 4.7(c) of the applicable Installment Sale Agreement.

“Reserve Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the lesser 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.

“Series A Bonds” means the aggregate principal amount of Susanville Public Financing Authority, 2010 Refunding Revenue Bonds, Senior Series A (Utility Enterprises Project), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“Series B Bonds” means the aggregate principal amount of Susanville Public Financing Authority, 2010 Refunding Revenue Bonds, Subordinate Series B (Utility Enterprises Project), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“SIFMA” means the Securities Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means, with respect to any date, the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data on such date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by SIFMA. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on the applicable date, the SIFMA Index for such date shall be the SIFMA Index for the next preceding date within the preceding 180 days on which the SIFMA Index was available. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on any date in the immediately preceding 180 days, the SIFMA Index for such date shall be an index selected by the City or Authority which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax. If no such index is so selected by the City or Authority, the SIFMA Index for the applicable date shall be an index computed by the City or Authority which shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to the applicable date.

“RSF Requirement” means an amount equal to that specified pursuant to Section 4.7(c) of the applicable Installment Sale Agreement.

“State” means the State of California.

“Subordinate Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Subordinate Payments required to be made under all Supplemental Installment Sale Agreements in such Fiscal Year or twelve (12) calendar month period.

“Subordinate Obligations” means all Supplemental Installment Sale Agreements or Payment Agreements the Subordinate Payments under which (other than Termination Payments related to Subordinate Payment Agreements) are secured by the subordinate lien on applicable Net Revenues created hereby and are payable on a parity therefrom.

“Subordinate Payment Agreements” means a Payment Agreement which is a Subordinate Obligation.

“Subordinate Payments” means all installment payments scheduled to be paid by the City under all Subordinate Obligations.

“Supplemental Installment Sale Agreements” means all installment sale agreements supplemental to this Installment Sale Agreement executed and entered into by the City and the Authority under and pursuant to this Installment Sale Agreement and applicable law, as originally executed and entered into and as they may from time to time be amended or supplemented in accordance herewith and therewith.

“Termination Payments” means any payments due and payable to a Qualified Counterparty in connection with the termination of a Payment Agreement.

“Term of Installment Sale Agreement” means the time during which this Installment Sale Agreement is in effect, as provided in Section 4.2 of the applicable Installment Sale Agreement.

“Utility Fund” means the City’s existing Water Utility Fund or Natural Gas Utility Fund, as the case may be.

“Trustee” means Deutsche Bank National Trust Company, as Trustee under the Indenture or any other banking corporation which may at any time be substituted in its place as provided in the Indenture.

“Variable Interest Rate” means any variable interest rate or rates to be paid under any Supplemental Installment Sale Agreements, the method of computing which variable interest rate shall be as specified in the applicable Supplemental Installment Sale Agreement, which Supplemental Installment Sale Agreement shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“Variable Interest Rate Contracts” means, for any period of time, any Supplemental Installment Sale Agreements that bear a Variable Interest Rate during such period, except that no Supplemental Installment Sale Agreement shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Payments or such Supplemental Installment Sale Agreement and interest rates on any other Payments of the same Supplemental Installment Sale Agreement, as set forth in such Supplemental Installment Sale Agreement, or the net economic effect of a Payment Agreement with respect to any particular Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Supplemental Installment Sale Agreement with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

“Water Enterprise” means, collectively, the entire water collection, storage, treatment, transmission and distribution system now owned or operated by the City, and all other properties, structures or works hereafter acquired and constructed by the City and determined to be a part of the Water Enterprise in accordance with applicable Water Installment Sale Agreement.

“Water Installment Sale Agreement” means the Installment Sale Agreement, dated as of September 1, 2010, by and between the City and the Authority relating to the Water Project, together with any duly authorized and executed amendments thereto.

“Water Project” means the land, improvements and other property comprising the project described more fully in Exhibit B of the Water Installment Sale Agreement.

Covenants and Representations of the City

The City makes the following covenants and representations to the Authority that as of the Closing Date:

(a) The City is a municipal corporation duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into each Installment Sale Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action has duly authorized the execution and delivery of each Installment Sale Agreement.

(b) The representatives of the City executing each Installment Sale Agreement are fully authorized to execute the same.

(c) Each Installment Sale Agreement has been duly authorized, executed and delivered by the City, and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(d) The execution and delivery of each Installment Sale Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions thereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement

or instrument to which the City is a party or by which it or its Project are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by each Installment Sale Agreement, or the financial condition, assets, Project or operations of the Utility Enterprises.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of each Installment Sale Agreement or the consummation of any transaction therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) The City has heretofore established each applicable Utility Fund into which the City deposits and will continue to deposit all applicable Gross Revenues, and which the City will maintain throughout the Term of each Installment Sale Agreement.

(g) There are no outstanding bonds, notes, loans, leases, installment sale agreements or other obligations which have any security interest in or claim upon applicable Net Revenues, which security interest or claim is superior to the Installment Payments.

Covenants and Representations of the Authority

The Authority makes the following covenants and representations as the basis for its undertakings herein contained:

(a) The Authority is a joint powers authority, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by each Installment Sale Agreement and to carry out its obligations thereunder. By proper action of its governing body, the Authority has been duly authorized to execute, deliver and duly perform each Installment Sale Agreement and the Indenture.

(b) To finance the applicable Project, the Reserve Account deposit and the Costs of Issuance, the Authority will issue its Bonds, which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, and pursuant thereto, certain of the Authority's interests in each Installment Sale Agreement have been assigned to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The Authority is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of Section 2.2 of each applicable Installment Sale Agreement.

Purpose of the Installment Sale Agreement

(1) The purposes of each applicable Installment Sale Agreement is to provide for the City's purchase from the Authority of each applicable Project and thereby provide for the refunding of the unpaid Prior Obligations. (2) In consideration of the obligation of the City to pay the Purchase Price as provided therein, the Authority sells, assigns and transfers to the City, and the City purchases from the Authority, all of the Authority's right, title and interest in each Project. All right, title and interest in and to each applicable Project shall vest in the City without any further action by the City or the Authority. (3) As consideration for the sale, assignment and transfer by the Authority to the City of all of the Authority's right, title and interest in each applicable Project, the City agrees to pay to the Authority the applicable Purchase Price. The Purchase Price to be paid by the City to the Authority thereunder is the sum of the principal amount of the City's obligation thereunder plus the interest to accrue on the unpaid balance of such principal amount from the date hereof over the term thereof, subject to prepayment as provided therein.

Term

The Term of each Installment Sale Agreement shall commence on the Closing Date, and shall end on the date on which the City shall have paid all of the applicable Installment Payments, Additional Payments and all other amounts due and payable thereunder.

Deposits into Utility Fund; Transfers to Make Installment Payments

All of the applicable Gross Revenues shall be deposited by the City immediately upon receipt in each applicable Utility Fund, which funds continued in the treasury of the City and which funds shall be maintained by the City, and all money in each applicable Utility Fund shall be set aside by the City and applied to the payment of applicable Maintenance and Operation Costs, as and when required to be paid.

The City covenants and agrees that all applicable Net Revenues will be held by the City in each applicable Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder) 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 each applicable Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of applicable Net Revenues which, together with the balance (but only to the extent that such balance is credited to the applicable Enterprise) then on deposit in the Bond Fund, including all sub accounts, but excluding the Reserve Account (other than amounts resulting from the prepayment of the applicable Installment Payments pursuant to Article IX of each Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each applicable Installment Payment coming due and payable on the next succeeding Installment Payment Date.

Establishment and Maintenance of Accounts

All applicable Gross Revenues in each applicable Utility Fund shall be set aside by the City to pay applicable Operation and Maintenance Costs and for transfer by the City to the Trustee for deposit in the Bond Fund, or transfer to a trustee or fiscal agent with respect to applicable Parity Obligations, as the case

may be, and shall be applied as follows and in the following order of priority:

(1) Operation and Maintenance Costs. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants to pay all applicable Operation and Maintenance Costs of each applicable Enterprise (including amounts reasonably required to be set aside in contingency reserves for applicable Operation and Maintenance Costs of each applicable Enterprise, the payment of which is not then immediately required) from each applicable Utility Fund as they become due and payable. Pursuant to Section 5.1 of the applicable Installment Sale Agreement, the City shall annually prepare a budget for each applicable Operation and Maintenance Costs.

(2) Debt Service Accounts. To pay all applicable Installment Payments, and all other applicable Parity Obligations and payment of amounts owed to an Insurer, or a Qualified Swap Provider hereunder or pursuant to the Indenture or a Supplemental Indenture or Supplemental Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Accounts. All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to an applicable Enterprise), or with respect to Parity Obligations, to replenish reserve accounts therefore, such payments shall be made in accordance with the terms of each applicable Installment Sale Agreement, the Indenture and of such Parity Obligations, as the case may be, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) Subordinate Obligation Payments. After the payments contemplated by subparagraphs (1), (2) and (3) above have been made, any amounts thereafter remaining in each applicable Utility Fund may from time to time be used for the payment of the interest and principal payments becoming due and payable under all applicable Supplemental Installment Sale Agreements that are Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the reserve funds and the reserve accounts for Subordinate Obligations, including all costs of any Qualified Reserve Account Credit Instrument) and any Termination Payments on all Parity Payment Agreements; so long as the following conditions are met:

(i) all Operations and Maintenance Costs are being and have been paid and are then current; and

(ii) all deposits and payments contemplated by subparagraphs (1), (2) and (3) above shall have been made in full and no deficiency in any reserve fund or reserve account for Parity Obligations shall exist and no costs in connection with a Qualified Reserve Account Credit Instrument shall be due and payable, and there shall have been paid, or segregated within the applicable Utility Fund and Bond Fund, the amounts currently payable pursuant to subparagraphs (1), (2) and (3) above.

(5) General Expenditure; Rate Stabilization Fund. All applicable Gross Revenues remaining

after paying all of the sums required to be paid hereunder by the City by the provisions of Sections 4.5(c)(1), (2), (3) and (4) above, may be withdrawn from each applicable Utility Fund for expenditure for any lawful purpose of the City, including (i) the payment of applicable Additional Payments, (ii) the payment of applicable Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the applicable Enterprise, (v) the prepayment of any obligations of the City relating to an applicable Enterprise, or (vi) any other lawful purposes of the City, including, but not limited to, deposits to each applicable Rate Stabilization Fund in accordance with Section 4.7(c) of each applicable Installment Sale Agreement.

Budget and Appropriation of Installment Payments

During the Term of each applicable Installment Sale Agreement, the City shall adopt and make all necessary budgets and appropriations of the applicable Installment Payments from applicable Net Revenues, and shall, upon written request, furnish to the Trustee a Written Certificate stating that the applicable Installment Payments have been included in the final budget of the City for the current Fiscal Year. In the event any Installment Payment requires the adoption by the City of any supplemental budget or appropriation, the City shall promptly adopt the same.

Special Obligation of the City; Obligations Absolute

The City's obligation to pay the applicable Installment Payments, the applicable Additional Payments and any other amounts coming due and payable hereunder shall be a special obligation of the City limited solely to the applicable Net Revenues. Under no circumstances shall the City be required, obligated or liable to advance moneys derived from any source of income other than applicable Net Revenues and other sources specifically identified herein for the payment of the applicable Installment Payments and the applicable Additional Payments, nor shall any other funds or property of the City be liable for the payment of applicable Installment Payments and applicable Additional Payments and any other amounts coming due and payable under each Installment Sale Agreement.

Rates and Charges

(a) Covenant Regarding applicable Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by each applicable Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield applicable Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All applicable Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;

(ii) The applicable Installment Payments and the principal of and interest on (a) any applicable 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 any applicable Parity Obligations are payable from the proceeds of the Bonds or applicable Parity Obligations, or from any other source of legally available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement, but only to the extent that the diminution of the Reserve Account resulted from each Installment Payments being in an amount less than the corresponding amount called for in Exhibit A of the applicable Installment Sale Agreement; and

(iv) All applicable Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable, from applicable Gross Revenues during such Fiscal Year, including payments with respect to Subordinate Obligations.

(b) Covenant Regarding applicable Net Revenues. In addition, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the each applicable Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield applicable Adjusted Annual Net Revenues for such Fiscal Year equal to at least the applicable Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the applicable Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of each applicable Installment Sale Agreement.

(c) Rate Stabilization Fund. The City has created separate funds for each of the Installment Sale Agreements known as "Rate Stabilization Funds," to be funded in the amount of the RSF Requirement, and held, replenished and maintained by the City. The City has agreed to deposit all available surplus moneys annually in each applicable Rate Stabilization Fund as necessary to maintain a balance in each applicable Rate Stabilization Fund at least equal to the RSF Requirement. The City may at any time withdraw from an applicable Rate Stabilization Fund any money therein for deposit in an applicable Utility Fund or Bond Fund; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred eighty (180) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining applicable Adjusted Annual Revenues; and provided further, that no deposit of applicable Net Revenues shall be made into an applicable Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

Superior and Subordinate Obligations

The City shall not issue or incur any additional bonds or other obligations during the Term of either Installment Sale Agreement having any priority in payment of principal or interest out of applicable Gross Revenues or applicable Net Revenues over applicable Installment Payments. The City may at any time execute any applicable Subordinate Obligations; provided that no Event of Default has occurred and is continuing and the provisions of relating to the conditions for the execution of applicable Parity Obligations are satisfied for the execution of such Subordinate Obligation assuming that the first paragraph of the definition of Coverage Requirement is defined as (i) one hundred five percent (105%) of the sum of the applicable Annual Debt Service plus the applicable Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period and (ii) one hundred percent (100%) of all obligations of the City payable in such Fiscal Year or twelve (12) calendar month period.

Nothing shall limit the ability of the City to execute obligations payable from a lien on applicable Net Revenues that is subordinate to the lien of applicable Net Revenues for both Parity Obligations and Subordinate Obligations.

Issuance of Parity Obligations

The City shall have the right from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are hereby made conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the City demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the applicable Adjusted Annual Net Revenues were at least equal to the applicable Coverage Requirement for all outstanding applicable Parity Obligations plus the applicable Parity Obligation proposed to be executed; provided, that for the purpose of providing such Certificate, the City may adjust the foregoing applicable Adjusted Annual Net Revenues to reflect applicable Additional Revenues; or

(2) An Engineer's Report that the estimated applicable Adjusted Annual Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the applicable Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the applicable Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all applicable Projects financed with the applicable Parity Obligation proposed to be executed plus all applicable Projects financed with all existing applicable Parity Obligations are expected to commence operations, will be at least equal to the applicable Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated applicable Adjusted Annual Net Revenues to reflect: (a) An allowance for applicable Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for natural gas service in effect and being charged or from any increase in the rates, fees and charges for water or natural gas service, as applicable, that are expected to be charged; and (b) An allowance for applicable Net Revenues that are estimated to be derived from customers of the applicable Enterprise anticipated to be served by the additions, betterments or improvements to the applicable Gas Enterprise to be financed by the applicable Parity Obligation proposed to be executed;

(b) A Certificate of the City that the applicable Project to be acquired and constructed with the proceeds of such applicable Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted Projects) the rates, fees and charges estimated to be fixed and prescribed for the water or natural gas service, as applicable, for each Fiscal Year from the Fiscal Year in which such applicable Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted applicable Project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of applicable Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such applicable Parity Obligations a reserve account shall be established for such applicable Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such applicable Parity Obligations.

Additional Payments

In addition to the applicable 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 amounts payable to the federal government pursuant to Section 6.08 of the Indenture, 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 under each Installment sale Agreement or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to Section 6.3 of each Installment sale Agreement or Section 8.06 of the Indenture, and all costs and expenses of the Authority's attorneys, auditors, engineers and accountants.

Maintenance, Utilities, Budget, Taxes and Assessments

Throughout the Term of each applicable Installment Sale Agreement, all improvement, repair and maintenance of each applicable Enterprise shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all applicable Operation and Maintenance Costs and other services supplied to each applicable Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of each applicable Enterprise resulting from ordinary wear and tear. On or before the first day of each Fiscal Year, the City will file with the Trustee a budget setting forth the estimated applicable Operation and Maintenance Costs of each applicable Enterprise for such Fiscal Year. The Trustee shall not be required to review, and shall not be deemed to have knowledge of, the contents of such budget, it being understood that the Trustee shall receive and hold such budget as repository for examination and copying by any Owner at such Owner's expense.

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 each applicable 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 each applicable 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 Enterprises

The City covenants and agrees to operate each applicable Enterprise in an efficient and economical manner and to operate, maintain and preserve each applicable 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 applicable Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with each applicable Enterprise which, if unpaid, may become a lien or charge upon the applicable Gross Revenues or the applicable Net Revenues prior or superior to the lien granted thereunder, or which may otherwise impair the ability of the City to pay applicable Installment Payments in accordance therewith.

Public Liability and Property Damage Insurance

The City shall maintain or cause to be maintained, throughout the Term of each applicable 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 each applicable 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 Section 5.5 of each 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 each applicable Installment Sale 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 each applicable 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 Section 5.5 of each 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 each applicable Enterprise shall be applicable Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the applicable Enterprise or otherwise as permitted by the applicable Installment Sale Agreement.

Assignment by the Authority

The Authority's rights (but none of its duties or obligations) under each applicable Installment Sale Agreement, including the right to receive and enforce payment of applicable Installment Payments to be made by the City under each applicable Installment Sale 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

This Installment Sale Agreement may not be assigned by the City.

Sale of Applicable Enterprise

The City will only sell, transfer or otherwise dispose of any of the facilities of either applicable Enterprise or any real or personal property comprising a part of either applicable Enterprise consistent with one or more of the following limitations:

(1) The City in its discretion may carry out such a sale, transfer or other disposition (each, as used in this section, a "transfer") if the facilities or property of applicable Enterprise transferred are not material to the operation of the applicable Enterprise, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the applicable Enterprise, or are no longer necessary, material or useful to the operation of the applicable Enterprise; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of the applicable Enterprise transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of the applicable Enterprise; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the facilities or property of the applicable Enterprise transferred (as used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the applicable Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to the applicable Enterprise; provided, that before any such transfer is made under this subparagraph, (A) the City shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the City, the remaining facilities or property of the each applicable Enterprise will retain their operational integrity and the estimated applicable Adjusted Annual Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated applicable Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in applicable Net Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the applicable Parity Payments and thereafter, the applicable Subordinate Payments, (y) the estimated additional applicable Gross Revenues from customers anticipated to be served by any additions, betterments or improvements to the applicable Enterprise financed by the

portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the preparation of an Engineer's Report under Section 4.9 of the applicable Installment Sale Agreement, or (B) the City shall obtain confirmation from the Rating Agencies to the effect that the ratings then in effect will not be reduced or withdrawn upon such transfer.

Amendment of Installment Sale Agreement

The City and the Authority shall have the right to modify or amend each applicable Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of applicable Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds or the owners of any applicable Parity Obligations in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes-

(a) to provide for the issuance of Parity Obligations pursuant to Section 4.9 of the applicable Installment Sale Agreement;

(b) to add to the covenants and agreements of the City contained in the applicable 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 therein, 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 Code.

Events of Default Defined

The following events shall be Events of Default hereunder:

(a) Failure by the City to pay each applicable Installment Payment when and as the same become due and payable thereunder.

(b) Failure by the City to pay any applicable Additional Payment when due and payable thereunder, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) 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 60-day period, such failure shall not constitute an event

of default hereunder if the City shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter 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 Article VIII of the Indenture, to:

(a) declare all principal components of the unpaid applicable Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the applicable 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 applicable Installment Payments then due or thereafter to become due during the Term of the applicable Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the applicable 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 hereunder, cause the appointment of a receiver or receivers of the applicable Gross Revenues and other amounts pledged thereunder, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid applicable 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 applicable Installment Payments coming due prior to such declaration and all matured interest components (if any) of the applicable Installment Payments, with interest on such overdue principal and interest components calculated at the rate of ten percent (10%) per annum and the reasonable fees and expenses of the Trustee (including any reasonable 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 applicable 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.

Prepayments; Security Deposit

Notwithstanding any other provision of each applicable Installment Sale Agreement, the City may on any date secure the payment of applicable Installment Payments in whole or in part by irrevocably depositing with the Trustee or any other fiduciary an amount of cash which, together with amounts on deposit in the Bond Fund, the accounts therein and the Reserve Account, is either (a) sufficient to pay all such applicable Installment Payments, including the principal and interest components thereof, in accordance with the applicable Installment Payment schedule set forth in Exhibit A of the applicable Installment Sale Agreement, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the written opinion of an Independent Certified Public Accountant, addressed to the Authority and the Trustee, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such applicable Installment Payments when due pursuant to Section 4.4(a) of the applicable Installment Sale Agreement or when due on any optional prepayment date pursuant to Section 9.2 of the applicable Installment Sale Agreement, as the City shall instruct at the time of said deposit. In the event of a security deposit pursuant to Section 9.1 of the applicable Installment Sale Agreement with respect to all of the applicable Installment Payments, and provided that other amounts due and payable by the City thereunder have been paid in full, all obligations of the City under the applicable Installment Sale Agreement, and all security provided by the applicable Installment Sale Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all of such applicable Installment Payments from such security deposit, and the obligation of the City to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3 of the applicable Installment Sale Agreement. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of applicable Installment Payments in accordance with the provisions of the applicable Installment Sale Agreement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDING JUNE 30, 2009**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**CITY OF SUSANVILLE
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



Historical Museum

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CITY OF SUSANVILLE
CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For the fiscal year ended
June 30, 2009

CITY OF SUSANVILLE

TABLE OF CONTENTS

June 30, 2009

INTRODUCTORY SECTION

Letter of Transmittal..... i
Organization Chart vii
City Council viii
CSMFO Certificate of Award for Outstanding Financial Reporting 2007-08 ix

FINANCIAL SECTION

Independent Auditor’s Report 1
Management’s Discussion and Analysis 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 19
Statement of Activities 20

Fund Financial Statements:

Governmental Funds:

Balance Sheet 23
Reconciliation of the Governmental Funds – Balance Sheet to the Statement of Net Assets..... 24
Statement of Revenues, Expenditures, and Changes in Fund Balances..... 25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities 27

Proprietary Funds:

Statement of Net Assets 28
Statement of Revenues, Expenses, and Change in Net Assets..... 32
Statement of Cash Flows 34

Fiduciary Funds:

Statement of Net Assets 39

Notes to Basic Financial Statements 40

Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual - General Fund..... 64

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Gas Tax Special Revenue Fund 65

Other Supplemental Information:

Nonmajor Governmental Funds:

Combining Balance Sheet 70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 78

CITY OF SUSANVILLE

TABLE OF CONTENTS

June 30, 2009

FINANCIAL SECTION (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Local Law Enforcement Block Grant Fund	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – 05-PTAA-1505 Fund	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Solid Waste Fund	88
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Street Mitigation Fund	89
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Police Mitigation Fund.....	90
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Fire Mitigation Fund... ..	91
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Park Land In-Lieu Fund	92
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – State Revolving Fund	93
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Office of Traffic Safety Fund.....	94
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – State Revolving Economic Development Fund	95
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Home Revolving Fund	96
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Community Redevelopment Agency Fund	97
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Traffic Safety Fund	98
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Barry Creek Development Fund.....	99
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – 04-STBG-1968 Fund.....	100
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Skyline Rt. 139 Signal Fund	101
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Chestnut Street Culvert Fund	102
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Skyline Park Project Fund.....	103

CITY OF SUSANVILLE

TABLE OF CONTENTS

June 30, 2009

FINANCIAL SECTION (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Skyline Numa Signal Fund	104
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Skyline Bicycle Lane Fund	105
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Mark Roos 92B Fund	106
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – City Hall Debt Service Fund.....	107
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – STIP Rehabilitation Fund	108
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Building Reserve Fund.....	109
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Prop 1B Local Streets and Roads Fund.....	110
Internal Service Funds:	
Combining Statement of Net Assets	111
Combining Statement of Revenues, Expenses, and Change in Net Assets.....	112
Combining Statement of Cash Flows.....	113
Agency Funds:	
Statement of Changes in Net Assets	114
Independent Auditor’s Report on Internal Control Over Financial Reporting	
And on Compliance and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with Government Auditing Standards.....	115
STATISTICAL SECTION	
Exhibit A-1 Contents	117
Schedule 1 Net Assets by Component	118
Schedule 2 Changes in Net Assets	119
Schedule 3 Fund Balances – Governmental Funds.....	121
Schedule 4 Changes in Fund Balances – Governmental Funds	122
Schedule 5 Assessed Value and Estimated Actual Value of Taxable Property	123
Schedule 6 Direct and Overlapping Property Tax Rates	124
Schedule 7 Principal Property Tax Payers.....	125
Schedule 8 Property Tax Levies and Collections	126
Schedule 9 Ratios of Outstanding Debt by Type.....	127
Schedule 10 Legal Debt Margin Information	128
Schedule 11 Ratios of General Bonded Debt Outstanding	129

CITY OF SUSANVILLE
TABLE OF CONTENTS
June 30, 2009

STATISTICAL SECTION (Continued)

Schedule 12 Pledged Revenue Coverage.....	130
Schedule 13 Demographic and Economic Statistics.....	132
Schedule 14 Principal Employers	133
Schedule 15 Full-time and Part-time City Governmental Employees by Function/Program	134
Schedule 16 Operation Indicators by Function/Program.....	135
Schedule 17 Capital Asset Statistics by Function/Program.....	136
Schedule 18 Water Department – Water Sold by Type of Customer	137
Schedule 19 Water Department – Water Rates.....	138
Schedule 20 Water Department – Top Ten Water Customers.....	139
Schedule 21 Gas Department – Gas Sold by Type of Customer	140
Schedule 22 Gas Department – Gas Rates.....	141
Schedule 23 Gas Department – Top Ten Gas Customers	142



Finance Department

December 2, 2009

To the Honorable Mayor, Members of the City Council, City Administrator, and Citizens of Susanville, California:

The Comprehensive Annual Financial Report of the City of Susanville for the fiscal year ended June 30, 2009 is hereby submitted. In order to better understand the report, this letter of transmittal should be read in conjunction with the Management Discussion and Analysis, which can be found in the financial section of the report.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Susanville's Management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and account groups of the City of Susanville. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) as set forth in pronouncements by the National Council of Governmental Accounting (NCGA), the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) and includes the report of the City's independent certified public accountants, Moss, Levy & Hartzheim, Certified Public Accountants.

BACKGROUND INFORMATION

The City of Susanville is a general-law City incorporated under California law in 1900. The City operates under the City Council/City Administrator form of government. The people of Susanville elect five Council Members, from which the City Council chooses the Mayor and the Mayor pro-tempore. The City Council appoints the City Administrator and the City Attorney. The position of the Mayor and Mayor Pro-Tempore are elected for a two-year term. Council Members are elected to serve alternating four-year terms. The City Clerk is appointed by the City Council and reports to the City Administrator. All municipal elections are non-partisan.

The City of Susanville provides a wide range of municipal services, including police and fire protection, water, natural gas and geothermal utilities, street maintenance, snow removal, parks, planning, zoning, building and safety, housing assistance, and other general government services. Accounting, payroll, revenue collection, accounts payable, treasury, budget, financial reporting, business licensing and utility billing are the responsibility of the Finance Department.

This report includes all funds and account groups of the City of Susanville. It reports all activities to be considered part of, controlled by, and dependent on the City.

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

The report includes all activities carried out by the City as a legal entity, and also includes the activities of the City of Susanville Redevelopment Agency, for which the City Council, acting in the capacity of the Redevelopment Agency Board, is financially accountable as determined under the guidelines of the Governmental Accounting Standards Board (GASB).

ECONOMIC CONDITIONS AND OUTLOOK

LOCATION

The City of Susanville is located in Lassen County in Northeastern California, bounded by Modoc County to the North, Shasta County to the West, Plumas County to the South and by the State of Nevada to the East. State routes 44 and 36 connect the City of Susanville to the greater Sacramento Valley and the City of Redding, while Reno (NV) is an easy and scenic 85-mile drive via interstate 395.

MILEAGE CHART TO OTHER MAJOR CITIES

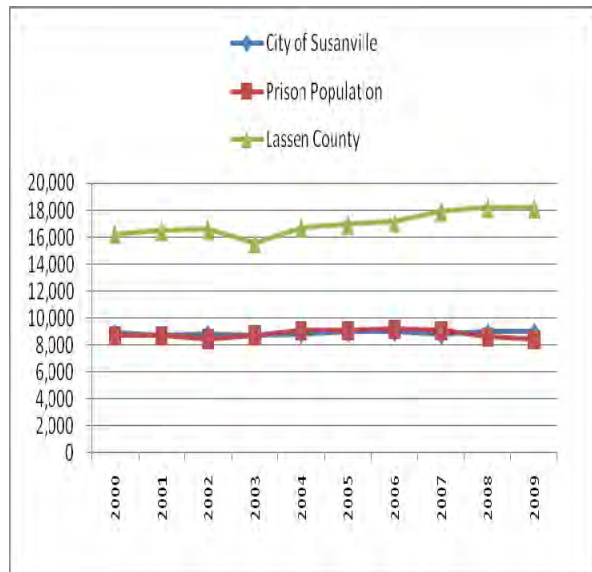
Portland, OR	458 miles	Northwest
San Francisco, CA	280 miles	Southwest
Redding, CA	112 miles	West
Reno, NV	86 miles	Southeast
Sacramento, CA	223 miles	Southwest

LOCAL ECONOMY

The City of Susanville is surrounded by open space with many recreational opportunities. Lake Almanor, Eagle Lake, Antelope Lake, and other lakes are within half an hour drive from the City. The area is well known for hunting, fishing, snowmobiling, motocross races, rodeo, and many other outdoor activities. One of the major employers and consumers in the area is the California Department of Corrections (CDC) with a total population of about 9,000 inmates which equals the amount of the City’s population. The local economy has been consistently stable during the past years, and insulated from the nation’s economy, but it has also been very dependent on the government, since in Susanville, 74% of the work force is employed by the federal, state and local governments. The two prisons alone employ approximately 54% of the total work force. This economic condition is good and bad for the local economy. It was good during the recent recession and economic downturn that rocket the nation, because the local housing market, employment and local sales remained fairly stable. Another reason for the insulation from the economic downturn is the city’s isolation. The City of Susanville is the only city in the county, and the closest city is Reno (Nevada) that is about 100 miles away. On the other hand, for the same reasons, our economy would probably not improve much from the economic recovery that has started to occur.

POPULATION

Year	City of Susanville	Prison Population	Lassen County
2000	8,877	8,688	16,263
2001	8,733	8,676	16,474
2002	8,794	8,446	16,587
2003	8,756	8,750	15,570
2004	8,826	9,082	16,724
2005	8,935	9,114	16,949
2006	8,947	9,166	17,133
2007	8,790	9,093	17,921
2008	8,971	8,599	18,187
2009	8,972	8,430	18,148



(a) County population does not include City and Prison

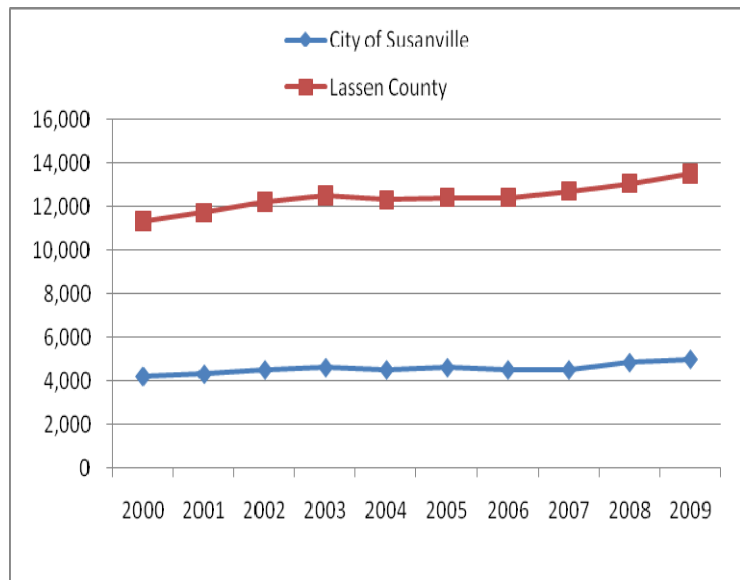
LABOR MARKET

The labor market is a significant indicator of the economic and social condition of a community. It identifies labor trends in the area, defines the supply and demand for employment, and indicates the strengths of the businesses that are supporting the demand.

The labor force of the City and County has been very stable for the last ten years. Unemployment has suffered a slight increase in the City and a higher increase in the County during the recent recession.

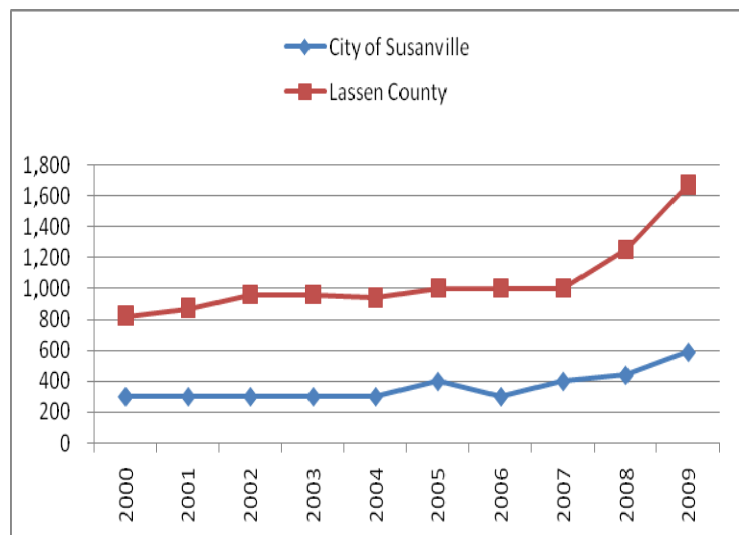
TOTAL LABOR FORCE

Year	City of Susanville	Lassen County
2000	4,200	11,300
2001	4,300	11,700
2002	4,500	12,200
2003	4,600	12,500
2004	4,500	12,300
2005	4,600	12,400
2006	4,500	12,400
2007	4,500	12,700
2008	4,830	13,060
2009	4,980	13,510



UNEMPLOYMENT

Year	City of Susanville	Lassen County
2000	300	820
2001	300	870
2002	300	960
2003	300	960
2004	300	940
2005	400	1,000
2006	300	1,000
2007	400	1,000
2008	440	1,250
2009	590	1,670



MAJOR PROJECTS FOR THE FUTURE

- 1 Remodel of fire station at 1505 Main Street.
- 2 Build a new fire station on Skyline Drive.
- 3 Purchase new equipment for the fire department. This included a front line engine, ladder truck, specialized equipment for hazardous material emergencies and confined space rescue equipment.
- 4 Upgrade financial software and computers for the Finance Department.
- 5 Establish a redevelopment plan and project area.
- 6 Construct curbs, gutters, sidewalks using Community Development Block grant funds.
- 7 Update the Land Use Element of the General Plan.
- 8 Update the Zoning Ordinance.
- 9 Update Susanville Area Plan.
- 10 Complete the water transmission pipeline, storage tank, and pump house project at Cady Springs.
- 11 Increase code enforcement efforts through the use of a citation/infraction process.
- 12 Refinance the \$24 million debt of the Natural Gas System.
- 13 Update and employ an economic development strategic plan.
- 14 Start replacing water lines throughout the city
- 15 Replace all water and natural gas meters with remote reading units.

MAJOR INITIATIVES

The City continues to focus priority efforts on projects that promote quality new development, that include industrial, commercial, and residential projects. The City is actively involved with economic development and the revitalization of the historic uptown area. Some of the activities and events the City sponsors include the annual Bizz-Johnson Marathon, Air Fair, Veterans Parade, Best of Broadway, Main Street Cruise, Susanville Symphony, Rails to Trails Festival, and wine tasting.

ACCOUNTING SYSTEMS AND BUDGETARY CONTROLS

The City's fund accounting records are maintained using a modified accrual basis of accounting as explained in the Notes to the Financial Statements, following the accounting practices for governmental units as recommended by the Governmental Accounting Standards Board. Basic City operations are accounted for in the City's General Fund, with other activities accounted for in separate funds as required by law or determined by management discretion. Generally, revenues are recorded when measurable and available, and expenditures are recorded when incurred.

The Government-Wide financial statements follow the accrual basis of accounting, with a reconciliation statement to foot to the individual funds' financial statements, as required by GASB Statement No. 34. This reconciliation statement follows in the body of the financial statements.

In administering the City's accounting system, primary consideration is given to the adequacy of the internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the reliability of financial records for accurate and fair presentation of financial reports. The concept of reasonable assurance recognizes that the cost of specific controls should not exceed the benefits likely to be derived from exercising these controls, and that this evaluation necessarily involves estimates and judgments by management. It is believed that the City's internal accounting controls adequately safeguard City assets and provide reasonable assurance of proper recording of financial transactions. The level of budgetary control, that is, the level at which expenditures are not to exceed Council approved appropriations is established at the Fund level. An encumbrance (commitment) accounting system is utilized as a technique to enhance budgetary control during the year. Department Heads are responsible for approving expenditures within their respective fund allocations. The Finance Department is responsible for collecting revenues and making payments for expenditures according to the adopted budget.

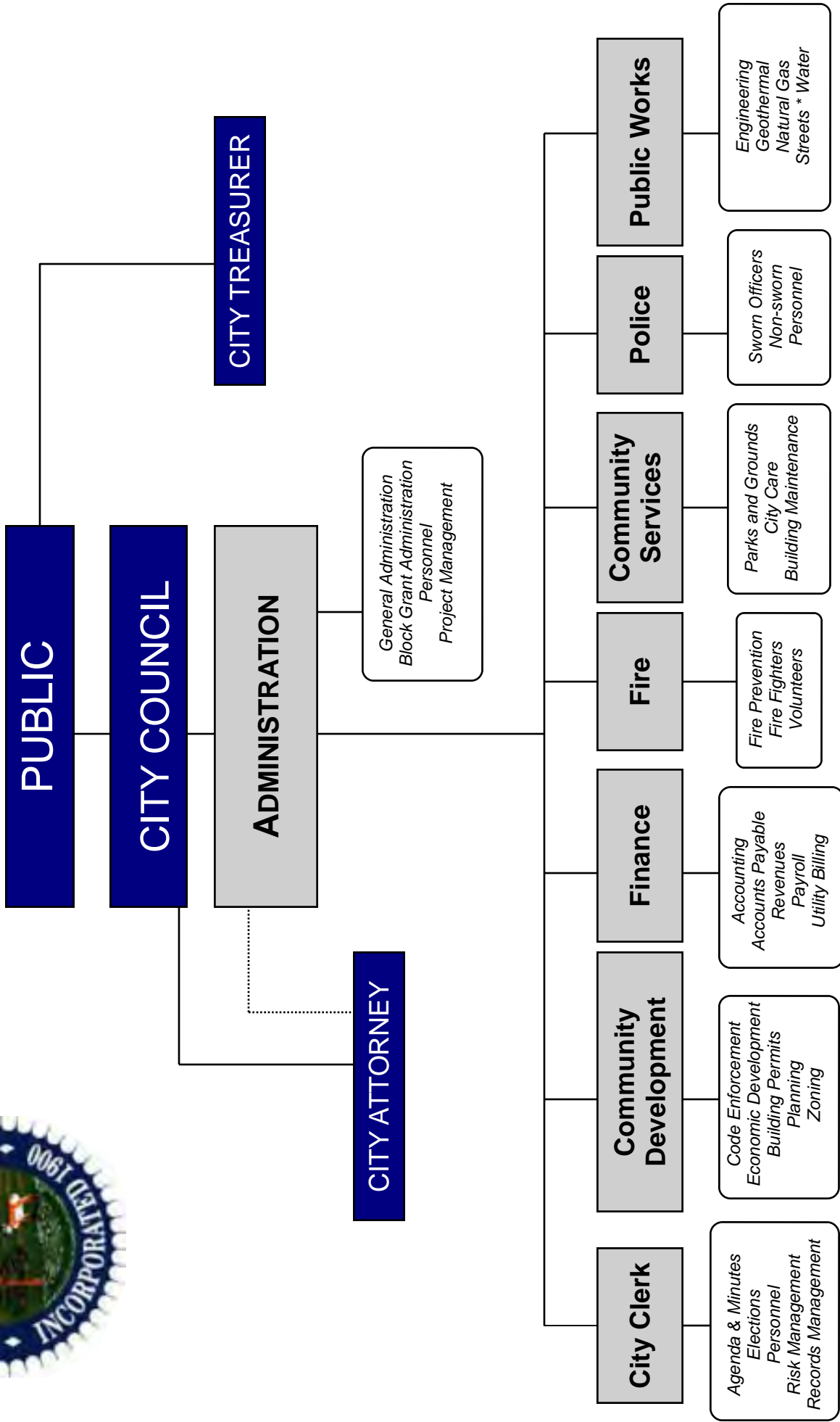
ACKNOWLEDGEMENTS

The preparation of the Comprehensive Annual Financial Report was made possible by the special efforts of the finance department, working in conjunction with the City's independent auditors. We would like to express our appreciation to all who assisted and contributed to the preparation of this report.

Sincerely

Robert Porfiri

Finance Director



Organization Chart



City of Susanville

City Council

Fiscal Year 2008-2009

Mayor

Kurt Bonham

Mayor Pro-Tempore

Vernon Templeton

Council Members

Lino Callegari

Joseph Franco

Douglas Sayers

**California Society of
Municipal Finance Officers**

Certificate of Award

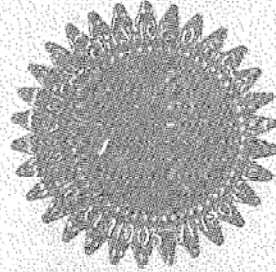
***Outstanding Financial Reporting for the Fiscal
Year ending June 30, 2008***

Presented to the

City of Susanville

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting systems from which the reports were prepared.*

June 2009



Thomas Fil

Thomas Fil, President

Jesse Takahashi

*Jesse Takahashi, Co-Chair
Professional & Technical Standards Committee*

Dedicated Excellence in Municipal Financial Management



PARTNERS
RONALD A. LEVY, CPA
CRAIG A. HARTZHEIM, CPA
HADLEY Y. HOI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the
City Council of the City of Susanville
Susanville, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Susanville (City), California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Susanville as of June 30, 2009, and the respective changes in financial position and cash flows where applicable, thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements effective July 1, 2008, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*.

Management's Discussion and Analysis, on pages 3 through 17, and the budgetary comparison schedules of the General Fund and Gas Tax Fund, on pages 64 and 65 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

In accordance with the *Government Auditing Standards*, we have also issued a report dated December 2, 2009, on our consideration of the City of Susanville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the City of Susanville, taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to all auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
December 2, 2009



City of Susanville
Management's Discussion & Analysis
June 30, 2009

This is the management's discussion and analysis of the financial performance of the City of Susanville for the fiscal year ended June 30, 2009. Please read this in conjunction with the transmittal letter, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

[THIS PAGE INTENTIONALLY LEFT BLANK]

BASIC FINANCIAL STATEMENTS

Fund Financial Statements - A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives.

The basic financial statements, including the accompanying notes, constitute the core of the City's financial section. The fiscal year of the city starts on July 1 and ends on June 30. This report includes a blend of fund accounting and government-wide financial reporting. The financial statements presented are:

- Government-wide funds
- Governmental funds
- Proprietary funds
- Fiduciary funds

These financial statements, together with the note disclosures, constitute the basic financial statements of the City.

Government-Wide Funds

Generally accepted accounting principles (GAAP) for state and local governments prescribe two basic government-wide financial statements: the government-wide *statement of net assets* and the government-wide *statement of activities*.

The government-wide financial statements include all governmental and business type activities of the City, but not its fiduciary activities.

Government-wide statement of net assets

Format

This is the basic government-wide statement of all the city's *permanent accounts* (assets, liabilities, and equity/net assets).

The format is: Assets – Liabilities = Net assets

The difference between assets and liabilities is referred to as *net assets* (rather than *equity*).

Activities columns

GAAP requires that the primary government's governmental activities be reported separately from its business-type activities. Business-type activities include enterprise funds; however, Internal Service funds will be included as part of governmental activities. GAAP requires that the government-wide statement of net assets provide a total column for the primary government. All internal balances (payables and receivables between governmental activities) are generally eliminated from this total column.

Government-wide statement of activities

The government-wide *Statement of Activities* is used to report changes in the net assets reported in the government-wide statement of net assets.

Format

Unlike the operating statement, this statement presents expenses *before* revenues. This is to emphasize that in the public sector, revenues are generated for the purpose of providing services rather than maximizing revenues as the ultimate goal.

Direct expenses - The first column of the government-wide statement of activities presents direct expenses associated with each of the City's functional activities. Examples of functions are: General government, public safety, streets & public works, planning, community services and recreation, and community development.

Indirect expenses - GAAP does not require governments to allocate indirect expenses to their various functional activities.

Program Revenues

Some programs are directly financed, in whole or in part, by resources other than taxes and other general revenues. GAAP requires that such *program revenues* be presented separately. Examples of program revenues include:

- charges for services, fees, permits, licenses, fines
- grants, contributions, donations, etc. that are restricted to specific programs

General revenues

All revenues that do not qualify as program revenues are reported as *general revenues*. Examples of general revenues are: property taxes, sales taxes, transient lodging taxes, franchise taxes, business license taxes, and use of money and property.

GOVERNMENTAL FUNDS

GAAP requires two basic statements: Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. The difference between the assets and liabilities of governmental funds is reported as *fund balance*. Fund balance is divided into *reserved* and *unreserved*.

Major fund reporting

GAAP requires that each *major* fund be reported on a separate column (the general fund is always considered a major fund). All other non-major governmental funds are reported into a single column regardless of fund type.

10 % Criterion – An individual governmental fund reports at least 10 percent of any of the following:

- Total governmental fund assets
- Total governmental fund liabilities
- Total governmental revenues
- Total governmental fund expenditures

5% Criterion – An individual governmental fund reports at least 5 percent of the aggregate total for both governmental funds and enterprise funds of any one of the items for which it met the 10 percent criterion.

A budgetary comparison must be presented for the general fund and for each major individual special revenue fund for which an annual budget is legally adopted. At a minimum, the budgetary comparison must include the following:

- Original appropriated budget
- Final amended budget
- Actual amounts

PROPRIETARY FUNDS

GAAP prescribes three basic financial statements for proprietary funds:

- Statement of net assets/balance sheet
- Statement of revenues, expenses, and changes in fund net assets/equity
- Statement of cash flows

GAAP requires the same major fund reporting for enterprise funds described earlier for governmental funds. However, GAAP also indicates that internal service funds are never to be reported as major funds. Internal service funds are in a unique situation. Although internal service funds are proprietary funds (like enterprise funds) they are consolidated as part of governmental activities because their primary customers are typically the governmental operations. Therefore, internal service funds will be reported in a separate aggregated column on the proprietary fund statement of net assets (balance sheet).

FIDUCIARY FUNDS

Fiduciary funds statements provide information about the financial relationship in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

GAAP prescribe up to two basic financial statements for fiduciary funds:

- Statement of fiduciary net assets
- Statement of changes in fiduciary net assets

Fiduciary funds are never reported as major funds. Therefore, the focus of reporting for the fiduciary fund statements should be the various fund types. That is, the statement should present one column for each fund type reported.

The statement of changes in fiduciary net assets is unique in that all changes in net assets are classified as either *additions or deletions*. The City has three fiduciary funds: Historic Uptown Susanville Association Business Improvement District (HUSA), Section 125 AFLAC and Local Agency Formation Commission (LAFCO).

COMPARATIVE DATA FINANCIAL ANALYSIS

Net assets act as an indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12 million as of June 30, 2008 (\$9.4 million for Governmental Activities and \$2.6 million for Business-type activities); and \$12.5 million as of June 30, 2009 (\$9.2 million for Governmental Activities and \$3.3 million for Business-type Activities). Governmental activities are generally financed through taxes and intergovernmental revenues. These activities are reported in the governmental funds (general fund, special revenue funds, capital projects funds, debt service funds) and internal service funds. Tables A-1 and A-2 below, present a summary of the City's Statement of Net Assets for fiscal years ended June 30, 2008 and 2009.

Table A-1
Statement of Net Assets for June 30, 2008 and 2009
Governmental activities

	2008	2009
Cash & investments	\$ 3,914,139	\$ 4,805,742
Capital assets	5,148,015	4,917,283
Other assets, including cash and investments with fiscal agents	4,105,390	3,173,246
Total assets	\$ 13,167,544	\$ 12,896,271
Long-term liabilities	3,051,467	2,897,344
Other liabilities	664,479	781,027
Total liabilities	\$ 3,715,946	\$ 3,678,371
Invested in capital assets, net of related debt	2,274,687	2,062,283
Restricted for debt service	420,435	1,547,711
Unrestricted net assets	6,756,476	5,607,906
Total net assets	\$ 9,451,598	\$ 9,217,900

Table A-2
Statement of Net Assets for June 30, 2008 and 2009
Business-type activities

	2008	2009
Cash & investments	\$ 1,632,835	\$ 1,809,111
Capital assets	31,852,222	32,332,619
Other assets	4,696,366	4,478,875
Total assets	\$ 38,181,423	\$ 38,620,605
Long-term liabilities	34,287,899	34,139,713
Other liabilities	1,269,210	1,150,661
Total liabilities	\$ 35,557,109	\$ 35,290,374
Invested in capital assets, net of related debt	(2,270,671)	(1,804,335)
Restricted for debt service	2,864,661	2,892,138
Unrestricted net assets	2,030,324	2,242,428
Total net assets	\$ 2,624,314	\$ 3,330,231

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized in Tables B-1 and B-2.

Table B-1
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 and 2009
Governmental Activities

	2008	2009
EXPENSES		
Program expenses (by function):		
General Government	\$ 816,839	\$ 1,228,083
Public Safety	3,696,206	3,593,218
Streets	1,427,687	935,540
Protective Inspections	244,966	235,270
Community Services	325,669	288,355
Community Development	462,648	302,502
Interest on long term debt	194,800	186,060
Total expenses	<u>\$ 7,168,815</u>	<u>\$ 6,769,028</u>
REVENUES		
Program Revenues (by major source):		
Charges for services	\$ 334,600	\$ 457,589
Operating Contributions, Capital Contributions And Grants	2,277,555	1,281,678
Total program revenues	<u>\$ 2,612,155</u>	<u>\$ 1,739,267</u>
General Revenues (by major source):		
Property taxes	\$ 924,914	\$ 913,055
Sales & use taxes	1,326,767	1,193,085
Transient lodging taxes	517,214	405,860
Franchise taxes	55,428	45,197
Business license taxes	247,732	235,283
Other taxes	246,035	70,723
Property tax in lieu of Sales tax	419,193	474,943
Property tax in lieu of VLF	1,396,408	1,488,666
Use of money and property	163,501	(35,749)
Gain on sale of capital assets	(6,491)	---
Miscellaneous revenues	100,101	---
Total general revenues	<u>\$ 5,390,802</u>	<u>\$ 4,791,063</u>
Total revenues	<u>\$ 8,002,957</u>	<u>\$ 6,530,330</u>
Excess (deficiency) before contributions to:	\$ 834,142	\$ (238,698)
Contributions to term & permanent endowments	---	---
Special and extraordinary items	---	---
Transfers	<u>5,000</u>	<u>5,000</u>
Changes in net assets	\$ 839,142	\$ (233,698)
Net assets at July 1, 2007 and 2008	8,536,069	9,451,598
Prior Period Adjustments (See Note #17 to Basic Financial Statement)	<u>76,387</u>	<u>---</u>
Ending net assets at June 30, 2008 and 2009	<u>\$ 9,451,598</u>	<u>\$ 9,217,900</u>

Table B-2
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 and 2009
Business-Type Activities

	2008	2009
EXPENSES		
Expenses (by function):		
Airport	\$ 166,609	\$ 189,488
Water	2,145,401	2,396,179
Geothermal	63,868	55,889
Natural Gas	4,941,853	4,924,613
Day Care	118,160	144,912
Golf Course	99,865	112,179
Total expenses	<u>\$ 7,535,756</u>	<u>\$ 7,823,260</u>
REVENUES		
Program revenues (by major source):		
Charges for Services	\$ 6,930,026	\$ 6,900,740
Operating, Capital Contributions And grants	2,111,713	1,500,068
Total program and general revenues	<u>\$ 9,343,950</u>	<u>\$ 8,534,177</u>
Use of money and property	282,717	120,656
Gain on sale of capital assets	17,982	---
Miscellaneous revenue	1,512	12,713
Excess (deficiency) before contributions to:	\$ 1,808,194	\$ 710,917
Term & Permanent Endowments	---	---
Transfers	<u>(5,000)</u>	<u>(5,000)</u>
Change in net assets	\$ 1,803,194	\$ 705,917
Net Assets, July 1, 2007 and 2008	821,120	2,624,314
Net Assets, June 30, 2008 and 2009	<u>\$ 2,624,314</u>	<u>\$ 3,330,231</u>

OVERALL ANALYSIS

The 2008-09 annual budget was prepared and approved on time and became effective July 1, 2008. The total full time equivalent positions decreased by two (from 66 to 64 from the prior fiscal year. In the Community Development Department 1 position was deleted (Associate Planner) and in the Community Services Department 1 position was deleted (Secretary). Overall, the financial position of the City has improved slightly maintaining fiscal solvency and strict controls on spending. At June 30, 2009 the total pooled cash and investments for all funds increased by \$1,073,446 (from \$5,624,774 to \$6,698,220). Total net assets decreased by (\$233,698) in the governmental activities, and increased by \$705,917 in the business-type activities.

Governmental Activities

Overall, in fiscal year 2008-09, the City's ability to keep its commitments has improved in the General Fund, Mitigation Funds, and Streets Fund.

FUND ANALYSIS

ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

GENERAL FUND - Prudent budgeting and a conservative approach in spending have paid off again in this fiscal year for the General Fund. Fiscal year 2008-09 ended with a positive increase in fund balance of \$244,881. The increase in fund balance is mostly due to salary savings from delaying the hiring of vacant positions and from a re-organization of the staff that had the net effect of deleting two full-time positions as follows:

Community Development	Associate Planner
Community Services	Secretary

On a cash basis, the General Fund cash and investments total increased by \$441,811 from the prior year. The main reason for this increase is a combination of an increase in fund balance (revenues over expenditures \$244,881), the collection of accounts receivable \$49,116 outstanding from prior year, and the increase in accounts payable and deferred revenue for the balance.

Total General Fund revenues increased from prior year by a total of \$34,258 (from \$5,671,712 to 5,705,970). The increase is due to a combination of a decrease in taxes of \$-120,281, a decrease in Licenses and Permits of \$-47,730, a decrease in Fines and Forfeitures of \$-26,971, a decrease in Use of Money and Property of \$-30,630, an increase in Intergovernmental Revenues of \$120,546, and an increase in other miscellaneous revenues of \$139,324.

Compared to prior year, the General Fund expenditures (not including transfers out to other funds) increased by \$310,361 (from \$4,891,881 to \$5,202,242). The increase is a combination of an increase in the General Government of \$273,566, an increase in Public Safety of \$41,338, a decrease in Streets of \$-36,577, a decrease in Protective Inspections of \$-10,663, a decrease in the Community Services Department of \$-45,567, a decrease in Community Development Department of \$-2,563, an increase in Capital Outlay of \$90,827.

Transfers out to other funds decreased by \$150,107.

On June 30, 2009 the General Fund had a fund balance of \$2,272,377 which is an increase of \$244,881 from the prior fiscal year of \$2,027,496. This is a welcome repeat of an increase in fund balance that allowed the City to increase its reserves even during difficult times.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Other Supplemental Information. At June 30, 2009, the total fund balance of these funds was \$3,216,068, a decrease of (\$404,627) when compared to the prior fiscal year of \$3,620,695.

ANALYSIS OF MAJOR PROPRIETARY FUNDS

Business-type Activities

WATER UTILITY ENTERPRISE FUND - At June 30, 2009, the water fund reports an increase in net assets of \$455,165. The gain includes \$336,587 in depreciation and amortization expenses. On a cash basis, the water fund Cash and Investments increased by \$157,979 (from \$1,546,193 to \$1,704,172). The Due-From-Other-Funds account increased by \$362,132 (from \$986,689 to \$1,348,821). The number of water accounts increased from 3,788 at June 30, 2008 to 3,797 at June 30, 2009.

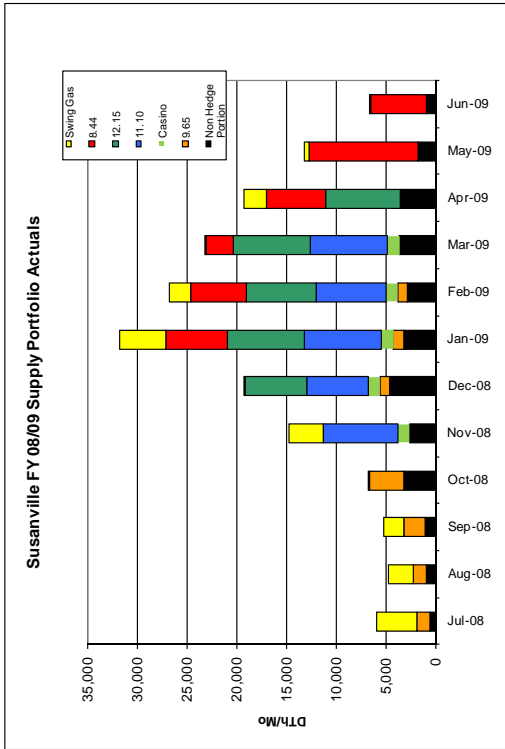
The net assets increase of \$455,165 is mostly due to the increase in water rates that went into effect in August, 2008. The purpose of the increase was to set aside money for imminent capital improvement projects; such as, the replacement of the current aging meters, and the replacement of water lines throughout the water distribution system.

The water rates are reviewed every year to assure that all the costs of operations, debt service, and capital improvements are paid with water revenues. Water rates were increased in fiscal year 2008-09 as mentioned above.

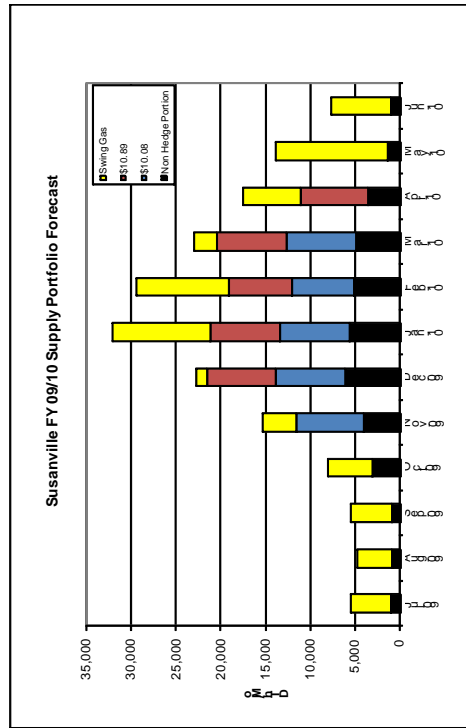
NATURAL GAS ENTERPRISE FUND - Due to a warm winter, the Natural Gas system did not perform as projected and revenues projections were not met during the 2008-09 fiscal year.

The Natural Gas Fund shows a decrease in net assets of (\$611,302) which includes depreciation and amortization expenses for \$511,149. The change in due to other funds was an increase of \$109,156, which means that the Fund needed to borrow an additional \$109,156 as of June 30, 2009, due to negative pooled cash. Because the natural gas was priced competitively, the City was able to continue adding new customers to the system. The number of natural gas accounts increased from 2,449 at June 30, 2008 to 2,546 at June 30, 2009 equivalent to a 4% increase.

The gas purchased in FY 2008-09 was as follows:



The cost of natural gas in the open market has continued to decrease allowing the City to make critical purchases for the following year. As the gas is purchased in the market approximately a year in advance, the City has already secured its FY 2009-10 supply portfolio as follows:



Historically, the cost of natural gas has been lower than its competition (propane, electricity, kerosene and heating oil). During this year, however, the cost of other fuels has matched the natural gas, and at times, has been even lower. Despite, the competitiveness of other fuels, the City has continued adding new customers to the system and in fiscal year 2008-09, a net of 97 new customers were added to the system for an estimated 37,600 additional gas therms.

The City has maintained the services of Interstate Gas Services (IGS), a consulting firm specialized in natural gas, and it is projected to continue through 2009-10 fiscal year. IGS was hired to evaluate and monitor the natural gas system operations and its performance. The firm also acts as an advisor to the City Administrator in the periodical task of purchasing gas in the open market.

AIRPORT ENTERPRISE FUND - The net assets of the Airport Fund increased by \$1,026,333 due to the capitalization of expenses related to capital improvement projects. The operating revenues of the Airport remain insufficient to pay for operating expenses. On a cash-basis, the Airport cash balance at June 30, 2008 went from negative \$-252,170 to negative \$-430,015 as of June 30, 2009 (this amount has been borrowed from the pooled cash fund). The Airport remains a valuable asset to the City and County despite the fact that it needs a cash inflow to continue operating.

BUDGET VARIANCES IN THE GENERAL FUND

	Original Budget	Final Budget	Difference	Actual	Variance
Revenues	\$5,770,097	\$6,034,603	\$ 264,506	\$5,705,970	\$(328,633)
Expenditures	\$5,574,948	\$5,646,205	\$ 71,257	\$5,202,242	\$ 443,963
Difference	\$ 195,149	\$ 388,398	\$ 193,249	\$ 503,728	
Other financing sources and (uses):					
Transfers-In	5,000	5,000	----	5,000	
Transfers-Out	(200,149)	(260,699)	(60,550)	(263,847)	(3,148)
Difference	(195,149)	(255,699)	(60,550)	(258,847)	
Net change in Fund balance	(---)	132,699	132,699	244,881	

Reasons for Variances

General Fund - Original Budget to Final Budget variance:

After the original 2008-09 budget was adopted, the City Council approved several budget amendments. Changes were as follows:

Gas	
Increase Non-Departmental Contingencies	\$28,063
Increase Fire budget for Out of Area Fires	\$186,438
Increase Fire budget for carry over Homeland Grant	\$84,907
Increase Police Budget for LIVE SCAN machine	\$12,257
Decrease Chamber of Commerce Contribution	(\$1,000)
Increase Fire budget for Homeland/FEMA Fire Grant	\$99,307
	<u>(\$49,843)</u>
Increase Transfers - Out	\$60,550
Total Expenditures & Transfers Out	<u>\$10,707</u>

Final Budget to Actual variance

REVENUES: As of June 30, 2009, total General Fund actual revenues were \$5,705,970 or \$328,633 less than budgeted. This variance comes mostly from a decline in general revenues such as property taxes, sales and use taxes, transient occupancy taxes, business licenses, etc.

EXPENDITURES: Expenditures were \$5,202,242 or \$443,963 less than budgeted. This was due mainly from salary savings from unfilled vacant positions in General Government and Public Safety.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

For more detailed information, please read this in conjunction with the notes to the financial statements and with the City's financial statements, which follow this discussion.

Capital assets are reported at historical cost. The cost of capital assets includes capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets are reported at their estimated fair value at the time of acquisition plus ancillary charges if any.

Capital assets includes land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Increase	
(Decreases)	
Decrease Sales Tax Revenue	(\$98,000)
Decrease Interest Revenue	(\$10,000)
Decrease Property Tax in-lieu of Sales Tax	(\$25,057)
Increase for Live Scan Reimbursement	\$12,257
Increase Public Safety Sales Tax	\$4,163
Increase for Out of Area Fires	\$186,438
Increase for Memorial Park Project	\$5,057
Increase Bullet Proof Vest Revenue	\$4,546
Increase Property Tax in-lieu of VLF	\$88,666
Decrease Vehicle License Fees	(\$60,000)
Increase Loan Repayment	\$5,600
Decrease Business License Tax	(\$12,000)
Decrease Hotel Occupancy Tax	(\$20,000)
Decrease Fines and Reimbursements	(\$2,084)
Decrease Building and Planning Revenues	(\$36,000)
Increase Booking Fees and Interest Income	\$32,259
Increase revenue for Rancheria Contribution	\$88,999
Increase for Donations and Grants	\$99,662
	<u>\$264,506</u>
Transfers in	\$0
Total Revenues and Transfers In	<u>\$264,506</u>

Expenditures and Transfers Out:

Decrease Payroll for unfilled positions	(\$221,885)
Increase budget for Net of Open Purchase Orders	\$20,458
Decrease budget for Travel/Training	(\$6,007)
Decrease budget for Net of Supplies	(\$10,193)
Decrease budget for Advertising	(\$2,210)
Decrease budget for Professional/Technical Services	(\$17,970)
Decrease Election budget	(\$8,497)
Increase budget for Net of Machinery and Equipment	\$21,789
Increase Non-Departmental for Property Insurance	\$2,000
Decrease Administrative Overhead Reimbursement	(\$200,087)
Decrease Non-Departmental Custodial and Natural	(\$37,213)

Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water systems, dams and lighting systems.

The City of Susanville depreciates its capital assets according to their estimated useful lives and does not use the Modified Approach.

Long-term debt activity

The City's total outstanding long-term debt at June 30, 2009 was as follows (not including notes payable or compensated absences):

Natural Gas Utility	\$24,240,000	Secured by gas revenues
Water Utility	\$ 9,050,000	Secured by water revenues
City Hall	\$ 1,910,000	Secured by vehicle license fees
Capital Leases	\$ 0	Secured by equipment
Mark Roos Assessment	\$ 945,000	Secured by property assessments

All debt service principal and interest payments are current.

OTHER POTENTIALLY SIGNIFICANT MATTERS

As with many other cities in California, the City of Susanville's ability to provide services decreases overtime. So far, the City has done an excellent job in maintaining services to the public despite increased costs. However, due to the limitations, imposed on California cities by Proposition 13 and 218, in generating new revenues, the City has continued to balance its budget by cutting expenditures wherever the Council has control over; mostly by cutting positions.

The City has a Redevelopment Agency; however, currently, it does not have an approved redevelopment project. Without an approved project area the City cannot take advantage of the redevelopment laws that would allow capturing revenues for the needed work in the blighted areas.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Country's mortgage crisis, the stock plunge, the drop in retail sales, the increase in unemployment, the fear of economic recession, the banks' rescue by the federal government and the repercussions on the European and World markets, have created a very difficult economic condition that is not going to improve significantly in the next year or two. The City of Susanville as well as most other cities in the State and in the Country are faced with declining revenues and increased cost of services. The State budget shortfall for the coming fiscal year is in the \$21 billion range. City governments should not be surprised if the State will again try to balance its budget with local governments' money. Unless there are new annexations, the City's revenues are not going to grow significantly. The City's population is expected to grow at a very

slow rate and the unemployment rate is expected to stay the same as the prior fiscal year. The 2009-10 budget includes changes to local government funding including the triple flip (loss of 1/4 cent of sales tax for property tax, and loss of the Vehicle License Fees for property tax).

The General Fund expenditures budget for 2009-10 (including transfers out) has been reduced significantly from the 2008-09. The reduction is \$451,171 or 7.6% (from \$5,906,904 in 2008-09 to \$5,455,733 in 2009-10). The main reasons for the decrease are: projected declining general revenues, reduction in full-time and part-time positions and in total employee benefits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This annual financial report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department, at 66 North Lassen Street, Susanville, California 96130.

CITY OF SUSANVILLE
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	\$ 4,805,742	\$ 1,809,111	\$ 6,614,853
Cash and investments with fiscal agents	464,520	3,141,071	3,605,591
Investment in bonds	940,000		940,000
Accounts receivable	393,420	724,542	1,117,962
Internal balances	70,624	(70,624)	
Interest receivable	16,410	6,988	23,398
Prepaid expenses	33,449	12,809	46,258
Inventory	30,761	129,920	160,681
Deposits		75,000	75,000
Loans receivable	1,113,531		1,113,531
Deferred charges - net of accumulated amortization	110,531	459,169	569,700
Capital assets:			
Nondepreciable:			
Land	2,930,975		2,930,975
Construction in progress	2,177	1,435,470	1,437,647
Depreciable:			
Buildings, improvements, equipment, and vehicles	5,876,112	37,760,228	43,636,340
Accumulated depreciation	(3,891,981)	(9,089,164)	(12,981,145)
Total assets	12,896,271	38,620,605	51,516,876
LIABILITIES			
Accounts payable	364,335	165,421	529,756
Accrued wages	107,580		107,580
Accrued interest payable	57,026	276,273	333,299
Deposits payable	39,672	150,795	190,467
Unearned revenue	45,567		45,567
Noncurrent liabilities:			
Due within one year	166,847	558,172	725,019
Due in more than one year	2,897,344	34,139,713	37,037,057
Total liabilities	3,678,371	35,290,374	38,968,745
NET ASSETS			
Invested in capital assets, net of related debt	2,062,283	(1,804,335)	257,948
Restricted for:			
Debt service	1,547,711	2,892,138	4,439,849
Unrestricted	5,607,906	2,242,428	7,850,334
Total net assets	\$ 9,217,900	\$ 3,330,231	\$ 12,548,131

THIS PAGE IS INTENTIONALLY LEFT BLANK

The notes to the financial statements are an integral part of this statement.
19

CITY OF SUSANVILLE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Net Business-type Activities	Totals
Governmental activities:							
General government	\$ 1,228,083	\$ 132,822	\$ 152,206	\$ -	\$ (943,055)	\$ -	\$ (943,055)
Public safety	3,593,218	137,948	486,007	51,707	(2,917,556)		(2,917,556)
Streets	935,540	36,417	545,255	46,503	(307,365)		(307,365)
Protective inspections	235,270	31,433			(203,837)		(203,837)
Community services	288,355	18,526			(269,829)		(269,829)
Community development	302,502	100,443			(202,059)		(202,059)
Interest on long term debt	186,060				(186,060)		(186,060)
Total governmental activities	6,769,028	457,589	1,183,468	98,210	(5,029,761)		(5,029,761)
Business-type activities:							
Airport	189,488	58,097	10,000	1,147,621		1,026,230	1,026,230
Water	2,396,179	2,424,802		342,247		370,870	370,870
Geothermal	55,889	69,391				13,502	13,502
Natural gas	4,924,613	4,271,575				(653,038)	(653,038)
Day care	144,912	76,875		200		(67,837)	(67,837)
Golf course	112,179					(112,179)	(112,179)
Total business-type activities	7,823,260	6,900,740	10,000	1,490,068		577,548	577,548
Total government	\$ 14,592,288	\$ 7,358,329	\$ 1,193,468	\$ 1,588,278	(5,029,761)	577,548	(4,452,213)
	General Revenues						
		Taxes:					
		Secured and unsecured property taxes			913,055		913,055
		Sales and use taxes			1,193,085		1,193,085
		Transient lodging taxes			405,860		405,860
		Franchise taxes			45,197		45,197
		Business license tax			235,283		235,283
		Other taxes			70,723		70,723
		Property tax in lieu of sales tax, unrestricted			474,943		474,943
		Property tax in lieu of VLF, unrestricted			1,488,666		1,488,666
		Use of money and property			(35,749)	120,656	84,907
		Miscellaneous revenue				12,713	12,713
		Transfers			5,000	(5,000)	
		Total general revenues and transfers			4,796,063	128,569	4,924,432
		Change in net assets			(233,698)	705,917	472,219
		Net Assets, July 1, 2008			9,451,598	2,624,314	12,075,912
		Net assets, June 30, 2009			9,217,900	3,330,231	12,548,131

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

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

CITY OF SUSANVILLE
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2009

	General Fund	Gas Tax Fund	Other Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 1,998,394	\$ 73	\$ 2,053,124	\$ 4,051,591
Cash and investments with fiscal agent			464,520	464,520
Investment in bonds			940,000	940,000
Accounts receivable	272,601	74,116	46,703	393,420
Interest receivable	8,242		6,059	14,301
Prepaid expenditures	18,405	473	3,253	22,131
Inventory	30,761			30,761
Due from other funds	18,656		1,022,698	1,041,354
Loans receivable	90,833			90,833
Advances to other funds	355,947		381,372	737,319
Total assets	\$ 2,793,839	\$ 74,662	\$ 4,917,729	\$ 7,786,230

THIS PAGE IS INTENTIONALLY LEFT BLANK

LIABILITIES AND FUND BALANCES

Liabilities:				
Accounts payable	\$ 345,006	\$ 1,867	\$ 12,268	\$ 359,141
Deposits payable	39,672			39,672
Deferred revenue	136,784	35,567	1,022,698	1,195,049
Due to other funds	18,656			18,656
Advances from other funds			666,695	666,695
Total liabilities	521,462	56,090	1,701,661	2,279,213

Fund Balances:

Reserved:				
Debt service			1,604,737	1,604,737
Advances	355,947		381,372	737,319
Prepaid expenditures	18,405	473		22,131
Inventory	30,761			30,761
Encumbrances	6,500			6,500
Unreserved, designated:				
Capital improvements	22,528		124,749	147,277
Unreserved, undesignated				
Reported in:				
General Fund	1,838,236		792,027	1,838,236
Special Revenue Funds		18,099		18,099
Capital Projects Funds			309,930	309,930
Total fund balances	2,272,377	18,572	3,216,068	5,507,017
Total liabilities and fund balances	\$ 2,793,839	\$ 74,662	\$ 4,917,729	\$ 7,786,230

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

CITY OF SUSANVILLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,507,017

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

Capital assets at historical cost \$ 8,809,264
 Accumulated depreciation (3,891,981)

Net

4,917,283

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred.

In governmental funds balance sheet, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt.

Issuance costs 153,515
 Accumulated amortization (42,984)

Net

110,531

Internal service funds are used by management to charge the costs of certain activities, such as fleet, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Long-term liabilities: In the governmental funds balance sheet, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Bonds payable (2,855,000)
 Compensated absences payable (209,191)

Total

(3,064,191)

In the governmental funds balance sheet, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES

\$ 9,217,900

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

CITY OF SUSANVILLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 For the Fiscal Year Ended June 30, 2009

	General Fund	Gas Tax Fund	Other Governmental Funds	Totals
Revenues:				
Taxes and assessments	\$ 4,522,565	\$ -	\$ 68,964	\$ 4,591,529
Licenses and permits	103,413			103,413
Fines and forfeitures	47,614			47,614
Use of money and property	39,512	5,678	(91,012)	(45,822)
Intergovernmental revenues	446,934	502,936	208,101	1,157,971
Program income	4,583		49,386	53,969
Charges for services	308,690			308,690
Other revenues	232,659	9,097	115,106	356,862
Total revenues	<u>5,705,970</u>	<u>517,711</u>	<u>350,545</u>	<u>6,574,226</u>
Expenditures:				
Current:				
General government	996,336		126,959	996,336
Public safety	3,366,410	711,740	200,837	3,493,369
Streets				912,577
Protective inspections	234,303			234,303
Community services	219,456			219,456
Community development	250,510		111,678	362,188
Capital outlay	135,227	20,454	28,961	184,642
Debt service:				
Principal			135,000	135,000
Interest and fiscal agent fees			182,529	182,529
Total expenditures	<u>5,202,242</u>	<u>732,194</u>	<u>785,964</u>	<u>6,720,400</u>
Excess of revenues over (under) expenditures	<u>503,728</u>	<u>(214,483)</u>	<u>(435,419)</u>	<u>(146,174)</u>
Other Financing Sources (Uses):				
Transfers in	5,000	124,656	753,992	883,648
Transfers out	(263,847)	(400,000)	(214,801)	(878,648)
Total other financing sources (uses)	<u>(258,847)</u>	<u>(275,344)</u>	<u>539,191</u>	<u>5,000</u>
Net changes in fund balances	244,881	(489,827)	103,772	(141,174)
Fund balances - July 1, 2008	2,027,496	508,399	3,112,296	5,648,191
Fund balances - June 30, 2009	<u>\$ 2,272,377</u>	<u>\$ 18,572</u>	<u>\$ 3,216,068</u>	<u>\$ 5,507,017</u>

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

CITY OF SUSANVILLE
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ (141,174)

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances 155,718

Depreciation expense is not reported in governmental funds (379,793)

THIS PAGE IS INTENTIONALLY LEFT BLANK

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balances 135,000

Amortization expense of costs of issuance not reported in governmental funds (6,141)

The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and therefore are not reported as revenues or expenditures in governmental funds (net change):

Interest payable 2,610

Compensated absences (5,478)

Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which prior year deferred revenue exceeded current year 12,217

Dispositions of capital assets result in no gain or loss on the governmental funds statements, however, on the Statement of Activities gains and losses on sales and dispositions are reported. (6,657)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (233,698)

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

CITY OF SUSANVILLE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2009

	Business-type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Airport Fund	Water Fund	Geothermal Fund	Geothermal Fund		
ASSETS						
Current Assets:						
Cash and investments	\$ -	\$ 1,704,172	\$ 104,939		\$ 1,809,111	\$ 754,151
Cash and investments with fiscal agents		802,410			3,141,071	
Accounts receivable - net	145,047	337,478	8,625		724,542	
Interest receivable	(1,682)	12,483	415		6,988	2,109
Prepaid expenses	1,616	2,103	1,200		12,809	11,318
Due from other funds		1,348,821			1,348,821	
Inventory		58,477			129,920	
Deposits					75,000	
Total Current Assets	144,981	4,265,944	115,179		7,248,262	767,578
Noncurrent Assets:						
Deferred charges, net of accumulated amortization		315,538			459,169	
Capital Assets:						
Nondepreciable						
Land	43,189	943,183	249,124		990,589	2,226,085
Construction in progress	1,345,314	9,015			363	1,435,470
Total Nondepreciable Capital Assets	1,388,503	952,198	249,124		990,952	3,661,555
Depreciable						
Buildings	166,873	315,266	24,852		374,632	881,623
Improvements	1,094,493	8,047,894			1,555,951	32,322,904
Equipment	128,400	3,796,303	228,666		125,000	4,555,701
Total Depreciable Capital Assets	1,389,766	12,159,463	253,518		2,055,583	37,760,228
Less accumulated depreciation	(560,902)	(6,043,733)	(246,682)		(223,910)	(9,089,164)
Net Depreciable Capital Assets	828,864	6,115,730	6,836		1,831,673	28,671,064
Net Capital Assets	2,217,367	7,067,928	255,960		2,822,625	32,332,619
Total Noncurrent Assets	2,217,367	7,383,466	255,960		2,822,625	32,791,788
Total Assets	2,362,348	11,649,410	371,139		22,828,011	40,040,050

(Continued)

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

CITY OF SUSANVILLE
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Airport Fund	Water Fund	Geothermal Fund	Natural Gas Fund	Day Care Fund	Golf Course Fund	
Operating Revenues:							
Sales and charges for services	\$ 58,097	\$ 2,424,802	\$ 69,391	\$ 4,271,575	\$ 76,875	\$ -	\$ 6,900,740
Total Operating Revenues	58,097	2,424,802	69,391	4,271,575	76,875	-	6,900,740
Operating Expenses:							
Direct:							
Purchase of natural gas				1,769,160			1,769,160
Administration	100,677	1,452,857	53,607	1,144,779	133,691	10,996	2,896,607
Insurance costs and claims				511,149		72,698	990,842
Depreciation and amortization	170,464	1,789,444	54,228	3,425,088	133,691	83,694	5,656,609
Total Direct Operating Expenses	11,394	73,768	1,661	85,450	5,888	4,145	182,306
Indirect:							
Overhead allocation	11,394	73,768	1,661	85,450	5,888	4,145	182,306
Total Indirect Operating Expenses	11,394	73,768	1,661	85,450	5,888	4,145	182,306
Total Operating Expenses	181,858	1,863,212	55,889	3,510,538	139,579	87,839	5,838,915
Operating Income (Loss)	(123,761)	561,590	13,502	761,037	(62,704)	(87,839)	1,061,825
Non-Operating Revenues (Expenses):							
Interest income		83,204	2,167	35,291		(6)	120,656
Interest expense	(7,630)	(532,967)		(1,414,075)	(5,333)	(24,340)	(1,984,345)
Reimbursements	103	6,091	74	6,445			12,713
Grants and subsidies	10,000						10,000
Total Non-Operating Revenue(Expenses)	2,473	(443,672)	2,241	(1,372,339)	(5,333)	(24,346)	(1,840,976)
Income (Loss) Before Transfers and Capital Contributions and Grants	(121,288)	117,918	15,743	(611,302)	(68,037)	(112,185)	(779,151)
Capital contributions and grants	1,147,621	342,247			200		1,490,068
Transfers:							
Transfers out		(5,000)					(5,000)
Change in Net Assets	1,026,333	455,165	15,743	(611,302)	(67,837)	(112,185)	705,917
Net Assets, July 1, 2008	902,852	976,598	340,981	(1,868,508)	(198,411)	2,470,802	2,624,314
Net Assets, June 30, 2009	\$ 1,929,185	\$ 1,431,763	\$ 356,724	\$ (2,479,810)	\$ (266,248)	\$ 2,358,617	\$ 3,330,231

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

CITY OF SUSANVILLE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds		
	Airport Fund	Water Fund	Geothermal Fund	Natural Gas Fund	Day Care Fund	Golf Course Fund	Totals	Totals	Internal Service Funds
Cash Flows from Operating Activities:									
Receipts from customers	10,509	2,541,064	\$ 62,726	\$ 4,329,826	\$ 74,862	\$ -	\$ 7,018,987	\$ 773,710	
Payments to suppliers and users	84,739	(1,288,004)	(41,480)	(2,099,199)	53,438	996	(3,289,510)	(792,172)	
Payments to employees	(63,719)	(781,062)	240	(776,442)	(124,220)	(7,897)	(1,753,100)	(757)	
Net Cash Provided (Used) by Operating Activities	31,529	471,998	21,486	1,454,185	4,080	(6,901)	1,976,377	(19,219)	
Cash Flow from Non-Capital Financing Activities:									
Grants and contributions received	10,000			6,445			10,000		
Other non-operating revenues	103	6,091	74				12,713		
Transfers in/ (out)		(5,000)					(5,000)		
Net Cash Provided (Used) by Non-Capital Financing Activities	10,103	1,091	74	6,445			17,713		
Cash Flows from Capital and Related Financing Activities:									
Purchase of capital assets	(1,183,305)	(51,410)		(92,998)		(363)	(1,328,076)		
Capital grants received	1,147,621	342,247		200			1,490,068		
Proceeds from issuance of debt						385,123	385,123		
Interest paid	(7,630)	(533,554)		(1,414,075)	(5,333)	(30,412)	(1,991,004)		
Principal payments - long-term debt		(161,000)				(353,222)	(514,222)		
Net Cash Provided (Used) by Capital and Related Financing Activities	(43,314)	(403,717)		(1,507,073)	(5,133)	1,126	(1,958,111)		
Cash Flows from Investing Activities:									
Proceeds from advances from other funds	1,682	90,084	2,436	38,444	1,053	76	133,775		12,108
Interest received	1,682	90,084	2,436	38,444	1,053	76	133,775		12,108
Net Cash Provided (Used) by Investing Activities									
Net Increase (Decrease) in Cash and Cash Equivalents		159,456	23,996	(7,999)		(5,699)	169,754		(7,111)
Cash and Cash Equivalents, July 1, 2008		2,347,126	80,943	2,346,660		5,699	4,780,428		761,262
Cash and Cash Equivalents, June 30, 2009	\$ -	\$ 2,506,582	\$ 104,939	\$ 2,338,661	\$ -	\$ -	\$ 4,950,182	\$ 754,151	
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets									
Cash and investments	\$ -	\$ 1,704,172	\$ 104,939	\$ -	\$ -	\$ -	\$ 1,809,111	\$ 754,151	
Cash and investments with fiscal agents		802,410		2,338,661			3,141,071		
Total Cash and Investments	\$ -	\$ 2,506,582	\$ 104,939	\$ 2,338,661	\$ -	\$ -	\$ 4,950,182	\$ 754,151	

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

(Continued)

CITY OF SUSANVILLE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds		
	Airport Fund	Water Fund	Geothermal Fund	Natural Gas Fund	Day Care Fund	Golf Course Fund	Totals		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:									
Operating Income (Loss)	\$ (123,761)	\$ 561,590	\$ 13,502	\$ 761,037	\$ (62,704)	\$ (87,839)	\$ 1,061,825	\$	\$ (10,073)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:									
Depreciation and amortization	69,787	336,587	621	511,149		72,698	990,842		
(Increase) Decrease in Operating Assets:									
Accounts receivable	(47,588)	114,838	(6,665)	53,285	(2,013)		111,857	228	
Inventory		(48,589)		(5,811)			(54,400)		
Prepaid expenses		(81)		(2,685)	(1)		(2,767)	(7,801)	
Due from other funds		(362,132)					(362,132)		
Increase (Decrease) in Operating Liabilities:									
Accounts payable	(45,900)	(129,642)	13,788	14,433	(822)	366	(147,777)	(816)	
Accrued wages									(757)
Due to other funds	177,845			109,156	68,866	6,265	362,132		
Compensated absences	1,146	(1,997)	240	8,655	754	1,609	10,407		
Deposits payable		1,424		4,966			6,390		
Net Cash Provided (Used) by Operating Activities	\$ 31,529	\$ 471,998	\$ 21,486	\$ 1,454,185	\$ 4,080	\$ (6,901)	\$ 1,976,377	\$	\$ (19,219)

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

CITY OF SUSANVILLE
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
 June 30, 2009

	Agency Funds			Totals
	Section 125 Aflac Fund	LAFCO Fund	HUSA Business Improvement Fund	
ASSETS				
Cash and investments	\$ 14,682	\$ 68,376	\$ 957	\$ 84,015
Accounts receivable			212	212
Interest receivable		291		291
Total Assets	14,682	68,667	1,169	84,518
LIABILITIES				
Liabilities:				
Accounts payable		5,230		5,230
Deposits payable	14,682	63,437	1,169	79,288
Total Liabilities	14,682	68,667	1,169	84,518
NET ASSETS				
Unrestricted				
Total Net Assets	\$ -	\$ -	\$ -	\$ -

THIS PAGE IS INTENTIONALLY LEFT BLANK

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying basic financial statements present the financial activities of the City of Susanville (City), which is the primary government, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in a substance part of the City's operations and are reported as an integral part of the City's basic financial statements. This City's component units, which are described below, are blended component units of the City.

The City Council serves in a separate session as the governing body of the Susanville Redevelopment Agency (Agency), although the Agency is a legal entity apart from the City.

The Agency is included as component units in the accompanying financial statements. The financial activities of the foregoing entities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as they meet the criteria for inclusion as set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The Agency was established, by the City Council to eliminate blight within the defined project areas by encouraging and assisting planned development of low income housing and commercial projects. Separate financial statements are prepared by the Agency and are available at City Administration offices.

Currently there is no approved project area; therefore, there was no activity for the fiscal year ended June 30, 2009 for the Redevelopment Agency.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-wide Statements

The Statement of Net Assets and the Statement of Activities display information about the primary government (City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds. Internal service funds are also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Change in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liabilities are incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains three funds – HUSA Business Improvement, Section 125 Affac, and LAFCO.

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the City's major governmental funds and major proprietary funds are identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures/expenses equal to at least ten percent of their fund-type total and at least five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds (Continued)

The City reported the following major governmental fund in the accompanying financial statements:

General Fund

This fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Gas Tax Fund

This fund accounts for gas tax monies received from the State of California, which are used to construct and maintain streets, alleys, etc., and provide emergency snow-removal services within the City of Susanville.

The City reported the following major proprietary funds:

Airport Fund

This fund accounts for the activities of the City's airport.

Water Fund

This fund accounts for the activities of providing water to the residents of the City.

Geothermal Fund

This fund accounts for the activities of providing geothermal heat to the residents of the City.

Natural Gas Fund

This fund accounts for the activities of providing natural gas to the residents of the City.

Day Care Fund

This fund accounts for the activities of the City's day care.

Golf Course Fund

This fund accounts for the City's golf course.

Additionally, the government reports the following fund types:

The Internal Service Funds are used to account for financial transactions related to the City's public works and engineering program, payroll, and risk management program. These services are provided to other departments or agencies of the City on a cost reimbursement basis.

D. Basis of Accounting

The government-wide, proprietary funds, and fiduciary funds financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. However, due to the complexities of the State of California's "Triple Flip" calculations, the City is using ninety days in accruing these revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures/expenses. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

E. Compensated Absences

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued compensatory and vacation time in relevant funds. For governmental type funds, the current liability appears in the respective funds. All vacation is accrued when incurred in the government-wide and proprietary funds financial statements. This liability is set up for the current employees at the current rates of pay. If compensatory and vacation time are not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

F. Property Taxes

California Constitution Article XIII A, limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The state legislature has determined the method of distributing the one percent tax levy among the various taxing jurisdictions.

Property tax revenues are recognized in the fiscal year for which taxes have been levied and collected within sixty days of fiscal year end. Property taxes are billed and collected as follows:

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

Valuation/Lien Date(s)	Secured	Unsecured
Levy Date(s)	January 1	January 1
Due Date(s)	July 1	July 1
	November 1 (50%)	August 1
Delinquency Date(s)	February 1 (50%)	August 31
	December 10 (Nov.)	
	April 10 (Feb.)	

G. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical costs are not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all assets with costs exceeding \$5,000 and with useful lives exceeding two years.

As required under GASB Statement No. 34, phase III governments were required to report the cost and accumulated depreciation of infrastructure as of June 30, 2008. Phase III governments also had the option of reporting all infrastructure assets acquired prior to June 30, 2004, but were required to report all infrastructure assets acquired on July 1, 2004 and thereafter. The City has elected not to report infrastructure acquired prior to June 30, 2004 and has not had any infrastructure acquisitions or contributions/donations since that time.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	20-40	Years
Improvements	10-45	Years
Equipment	2-15	Years
Parks	20	Years

H. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and American Institute of Certified Public Accountants (AICPA), require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

I. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of supplies are expended when purchased because the amounts are not considered to be material. Inventories of governmental funds are recorded as expenditures when used or consumed.

J. New Accounting Pronouncements

The City has implemented the requirements of GASB Statement No. 49, No. 52, No. 55, and No. 56 during the fiscal year ended June 30, 2009.

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. New Accounting Pronouncements (Continued)

GASB Statement No. 49—Accounting and Financial Reporting for Pollution Remediation Obligations
This Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. Implementation of GASB Statement No. 49 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2009.

GASB Statement No. 52—Land and Other Real Estate Held as Investments by Endowments
This Statement is effective for periods beginning after June 15, 2008. The Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Implementation of GASB Statement No. 52 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2009.

GASB Statement No. 55—The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

This Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. Implementation of GASB Statement No. 55 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2009.

GASB Statement No. 56—Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards

This Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. Implementation of GASB Statement No. 56 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2009.

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for governmental funds. The City's budget ordinance requires that in June of each year the City Administrator must submit a preliminary budget that includes projected expenditures and the means of financing them to the City Council for the fiscal year commencing the following July 1. As modified during public study sessions, the preliminary budget becomes the proposed budget. Following public hearings on the proposed budget, the final annual budget is adopted by the City Council in June of the fiscal year. After adoption of the final budget, transfers of appropriations within the general fund departments may be done by the City Administrator. Budget transfers within a department/fund may be done by department heads. Budget modifications between funds and increases or decreases to a fund's overall budget must be approved by the City Council or Agency Board. Numerous properly authorized amendments are made during the fiscal year. Budgetary control is enhanced by integrating the budget into the general ledger accounts. Encumbrance accounting (e.g. purchase orders) is employed by the City.

There was no budget adopted for the Jensen Slough Pedestrian Bridge Fund.

There was approximately a \$3,605,362 change in appropriations from the original budget to the final budget.

B. Deficit Fund Balances/Net Assets

Major Funds

A deficit net assets of \$2,479,810 exists in the Natural Gas Fund. The deficit is due to the City incurring costs in excess of revenues.

A deficit of net assets of \$266,248 exists in the Day Care Fund. The deficit is due to the City incurring costs in excess of revenues.

Nonmajor Fund

A deficit fund balance of \$666,706 exists in the Community Redevelopment Agency Fund. The deficit is due to the City incurring costs in advance of receiving revenue.

NOTE 3 – CASH AND INVESTMENTS

Statement of Net Assets:

Cash and investments	\$ 6,614,853
Cash and investments with fiscal agent	3,605,591
Investment in bonds	940,000
Statement of Fiduciary Net Assets:	
Cash and investments	84,015
Total	\$ 11,244,459

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 650
Deposits with financial institutions	147,018
Investments in bonds	940,000
Investments	10,156,791
Total	\$ 11,244,459

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage/Amount of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Bankers Acceptance (must be dollar denominated)	6 months	30%	None
Commercial Paper	6 months	15%	None
Negotiable Time Certificates of Deposit	6 months	30%	None
Non-negotiable Time Certificates of Deposit	1 year	20%	None
Federally Insured Time Deposits	1 year	20%	None

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage/Amount of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposit	1 year	20%	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Repurchase Agreements	90 days	None	None
Money Market Accounts	N/A	None	None
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
Guaranteed Investment Contracts	N/A	None	None
Local Assessment District Bonds	30 years	None	None

CITY OF SUSANVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 3 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
State Investment Pool	\$ 6,551,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Held by debt trustees:							
Money market funds	3,605,591	3,605,591					
Miller Fletcher bonds	940,000	75,000	80,000	85,000	95,000	105,000	500,000
	<u>\$ 11,096,791</u>	<u>\$ 10,231,791</u>	<u>\$ 80,000</u>	<u>\$ 85,000</u>	<u>\$ 95,000</u>	<u>\$ 105,000</u>	<u>\$ 500,000</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA	A
State Investment Pool	\$ 6,551,200	N/A	\$ -	\$ -	\$ -	\$ 6,551,200
Held by debt trustees:						
Money market funds	3,605,591	N/A	3,605,591			
Miller Fletcher bonds	<u>940,000</u>					<u>940,000</u>
Total	<u>\$ 11,096,791</u>		<u>\$ -</u>	<u>\$ 3,605,591</u>	<u>\$ -</u>	<u>\$ 7,491,200</u>

CITY OF SUSANVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2009

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There is one investment that represents more than 5% of total City investments (Miller Fletcher bonds), other than the State Investment Pool. These bonds exceed 5% of investments in the governmental activities and aggregate remaining fund information opinion units. These bonds are payable annually on a set schedule from the property owners in the assessment district. These annual payments are used to pay the principal and interest of the 1992 Series B Revenue bonds.

Custodial Credit Risk

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

As of June 30, 2009, the City did not have any deposits with financial institutions in excess of federal depository insurance limits.

Investment in State Investment Pool

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

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental Activities				
Nondepreciable capital assets:				
Land	\$ 2,930,975	\$ -	\$ -	\$ 2,930,975
Construction in progress	5,902	1,221	(4,946)	2,177
Total nondepreciable capital assets	2,936,877	1,221	(4,946)	2,933,152
Depreciable capital assets:				
Buildings	1,252,436			1,252,436
Machinery and equipment	2,187,842	154,497	(83,713)	2,258,626
Other improvements	2,365,050			2,365,050
Total depreciable capital assets	5,805,328	154,497	(83,713)	5,876,112
Less accumulated depreciation	(3,594,190)	(379,793)	82,002	(3,891,981)
Net depreciable capital assets	2,211,138	(225,296)	(1,711)	1,984,131
Net capital assets	\$ 5,148,015	\$ (224,075)	\$ (6,657)	\$ 4,917,283
Business-type Activities				
Airport				
Nondepreciable capital assets:				
Land	\$ 43,189	\$ -	\$ -	\$ 43,189
Construction in progress	162,009	1,183,305		1,345,314
Total nondepreciable capital assets	205,198	1,183,305		1,388,503
Depreciable capital assets:				
Buildings	166,873			166,873
Machinery and equipment	128,400			128,400
Other improvements	1,094,493			1,094,493
Total depreciable capital assets	1,389,766			1,389,766
Less accumulated depreciation	(491,115)	(69,787)		(560,902)
Net depreciable capital assets	898,651	(69,787)		828,864
Net capital assets	\$ 1,103,849	\$ 1,113,518	\$ -	\$ 2,217,367

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Business-type Activities					
Water					
Nondepreciable capital assets:					
Land	\$ 943,183	\$ -	\$ -	\$ -	\$ 943,183
Construction in progress	2,575,645	25,415		(2,592,045)	9,015
Total nondepreciable capital assets	3,518,828	25,415		(2,592,045)	952,198
Depreciable capital assets:					
Infrastructure	1,520,819			2,592,045	4,112,864
Buildings	315,266				315,266
Machinery and equipment	3,796,303				3,796,303
Other improvements	3,909,035	25,995			3,935,030
Total depreciable capital assets	9,541,423	25,995		2,592,045	12,159,463
Less accumulated depreciation	(5,722,086)	(321,647)			(6,043,733)
Net depreciable capital assets	3,819,337	(295,652)		2,592,045	6,115,730
Net capital assets	\$ 7,338,165	\$ (270,237)	\$ -	\$ -	\$ 7,067,928
Geothermal					
Nondepreciable capital assets:					
Land	\$ 249,124	\$ -	\$ -	\$ -	\$ 249,124
Total nondepreciable capital assets	249,124				249,124
Depreciable capital assets:					
Buildings	24,852				24,852
Machinery and equipment	228,666				228,666
Total depreciable capital assets	253,518				253,518
Less accumulated depreciation	(246,061)	(621)			(246,682)
Net depreciable capital assets	7,457	(621)			6,836
Net capital assets	\$ 256,581	\$ (621)	\$ -	\$ -	\$ 255,960

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Business-type Activities				
Natural Gas				
Nondepreciable capital assets:				
Construction in progress	\$ -	\$ 80,778	\$ -	\$ 80,778
Total nondepreciable capital assets		80,778		80,778
Depreciable capital assets:				
Infrastructure	21,612,346	12,220		21,624,566
Machinery and equipment	277,332			277,332
Total depreciable capital assets	21,889,678	12,220		21,901,898
Less accumulated depreciation	(1,631,008)	(382,929)		(2,013,937)
Net depreciable capital assets	20,258,670	(370,709)		19,887,961
Net capital assets	\$ 20,258,670	\$ (289,931)	\$ -	\$ 19,968,739

Golf Course

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Nondepreciable capital assets:				
Land	\$ 990,589	\$ -	\$ -	\$ 990,589
Construction in progress		363		363
Total nondepreciable capital assets	990,589	363		990,952
Depreciable capital assets:				
Buildings	374,632			374,632
Machinery and equipment	125,000			125,000
Other improvements	1,555,951			1,555,951
Total depreciable capital assets	2,055,583			2,055,583
Less accumulated depreciation	(151,212)	(72,698)		(223,910)
Net depreciable capital assets	1,904,371	(72,698)		1,831,673
Net capital assets	\$ 2,894,960	\$ (72,335)	\$ -	\$ 2,822,625

Depreciation Allocations

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental Activities:	
General government	\$ 187,272
Public safety	98,138
Community development	6,500
Streets	22,963
Protective inspections	967
Community services	63,953
Total Depreciation Expense-Governmental Activities	\$ 379,793

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation Allocations (Continued)

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Business-type Activities:	
Airport	\$ 69,787
Water	321,647
Geothermal	621
Natural gas	382,929
Golf course	72,698
Total Depreciation Expense-Business-type Activities	\$ 847,682

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances at June 30, 2009, is as follows:

Due to/from other funds:	Amount
Receivable Fund	
Major Governmental Fund:	
General Fund	\$ 18,656
Major Proprietary Fund:	
Water Fund	\$ 430,015
Water Fund	646,471
Water Fund	266,070
Water Fund	6,265
	<u>\$ 1,348,821</u>
Payable Fund	
Major Governmental Fund:	
Gas Tax Fund	\$ 18,656
Major Proprietary Funds:	
Airport Fund	\$ 430,015
Natural Gas Fund	646,471
Day Care Fund	266,070
Golf Course Fund	6,265
	<u>\$ 1,348,821</u>

Advances To / From Other Funds:

Receivable Fund	Amount
Major Governmental Fund:	
General Fund	\$ 18,656
Major Proprietary Fund:	
Water Fund	\$ 430,015
Water Fund	646,471
Water Fund	266,070
Water Fund	6,265
	<u>\$ 1,348,821</u>
Payable Fund	
Nonmajor Governmental Funds:	
Community Redevelopment Agency Fund	\$285,323
Major Proprietary Fund:	
Golf Course Fund	70,624
Nonmajor Governmental Funds:	
State Revolving Fund	Community Redevelopment Agency Fund 247,549
State Revolving Economic Development Fund	Community Redevelopment Agency Fund 133,823
	<u>\$77,319</u>

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers:

Major Governmental Funds:	Transfer In	Explanation	Transfer Out	Explanation
General Fund	\$ 5,000	Fire hydrant maintenance	\$ (263,847)	City Hall debt service, street lights, snow removal, and Park Dedication Fund
Gas Tax Fund	124,656	Street maintenance, street lights, and snow removal	(400,000)	Prob IB funds to CIP Project Fund
Major Proprietary Fund:			(5,000)	Fire hydrant maintenance
Water Fund				
Nonmajor Governmental Funds:				
Special Revenue Funds:				
05-PTAA-1505 Fund			(2,321)	Return unspent city matching funds
Street Mitigation Fund			(25,000)	Street maintenance
Police Mitigation Fund			(15,000)	Purchase 1/2 airport hangar
Fire Mitigation Fund	15,000	Sale of 1/2 airport hangar		
Park Land In-Lieu Fund	75,000	Park project closed - return funds		
Park Land In-Lieu Fund	98,430	Park project closed - return funds		
State Revolving Fund	2,321	Return unspent city matching funds	(172,480)	Park project closed - return funds
Skyline Park Project Fund				
Debt Service Fund:				
City Hall Debt Service Fund	163,241	General fund vehicle license fees for debt service		
Capital Projects Fund:				
Prop IB Local Streets and Road Fund	400,000	To establish a capital project		
Total	\$ 883,648	Total	\$ (883,648)	

Current interfund balances arise in the normal course of business and to assist funds with negative cash balance at the fiscal year end. They are expected to be repaid shortly after the end of the fiscal year.

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

NOTE 6 – NOTES AND LOANS RECEIVABLE

The following schedule summarizes notes and loans receivables as of June 30, 2009:

Note Receivable for business assistance	\$ 90,833
State Revolving Fund notes receivable	222,113
State Revolving Economic Development fund notes receivable	128,627
Home Revolving Loan funds notes receivable	<u>671,958</u>
Total notes receivable, Nonmajor Governmental Funds	\$ 1,113,531

These notes and loans represent amounts loaned to individuals and businesses to assist in the purchase or rehabilitation of residences or businesses.

NOTE 7 – LONG-TERM DEBT

A. Compensated Absences

City employees accumulate earned but unused vacation and compensatory time benefits which can be converted to cash at termination of employment. Since no means exists to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Assets. No expenditure is reported for these amounts in the fund statements. However, in the Statement of Activities the expenditure is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2009, total \$209,191 for governmental activities and \$101,764 for business-type activities. The current portion is \$26,847 and \$1,051, respectively.

B. Revenue Bonds

1992 Revenue Bond, Series B – Interest from 6.6% to 7.75% is payable on March 1 and September 1, maturities are payable on September 1 in annual redemptions of \$35,000 and above. Final payment is on September 1, 2017. Original issue was \$1,650,000. The balance at June 30, 2009 is \$945,000.

2002 City Hall Revenue Bond – Interest from 2.2% to 5.0% is payable on March 1 and September 1, maturities are payable on September 1 in annual redemptions of \$55,000 and above. Final payment is on September 1, 2027. Original issue was \$2,270,000. The balance at June 30, 2009 is \$1,910,000.

Future debt service requirements on the 1992 and 2002 Revenue bonds are:

Fiscal Year Ended June 30,	Revenue Bonds		Total
	Principal	Interest	
2010	\$ 140,000	\$ 166,903	\$ 306,903
2011	145,000	158,330	303,330
2012	160,000	148,973	308,973
2013	165,000	138,794	303,794
2014	180,000	127,826	307,826
2015-2019	935,000	447,178	1,382,178
2020-2024	560,000	235,613	795,613
2025-2028	<u>570,000</u>	<u>65,175</u>	<u>635,175</u>
	\$ 2,855,000	\$ 1,488,792	\$ 4,343,792

2000 Water Revenue Bond – Interest from 4.05% to 5.7% is payable on June 1 and December 1, maturities are payable on June 1 in annual redemptions of \$110,000 to \$445,000. Final payment is on June 1, 2030. Original issue was \$6,880,000. Proceeds were used to repay the 1992 Revenue Bonds Series A and provide funds for water system improvements and equipment. The liability is shown in the Water Enterprise Fund. The balance at June 30, 2009 is \$5,730,000.

2004 Water Revenue Bond – Interest from 4.75% to 5.35% is payable on June 1 and December 1, maturities are payable on June 1 in annual redemptions of \$5,000 to \$585,000. Final payment is on June 1, 2036. Original issue was \$3,330,000. The balance at June 30, 2009 is \$3,320,000.

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM DEBT (Continued)

B. Revenue Bonds (Continued)

Water Enterprise debt service requirements for the 2000 and 2004 Revenue bonds are:

Fiscal Year Ending June 30,	Revenue Bonds		Total
	Principal	Interest	
2010	\$ 160,000	\$ 487,133	\$ 647,133
2011	170,000	479,540	649,540
2012	175,000	471,307	646,307
2013	185,000	462,663	647,663
2014	190,000	453,343	643,343
2015-2019	1,125,000	2,103,835	3,228,835
2020-2024	1,470,000	1,757,900	3,227,900
2025-2029	1,945,000	1,288,080	3,233,080
2030-2034	2,470,000	693,910	3,163,910
2035-2036	1,160,000	90,740	1,250,740
Total	\$ 9,050,000	\$ 8,288,451	\$ 17,338,451

C. Certificates of Participation

Certificates of Participation are summarized as follows:

Natural Gas Enterprise Fund

2001-1 Certificate of Participation (COP's), Series A - \$8,785,000 Financing secured by City Enterprise Fund improvements and equipment, interest only at 6% until May 2011 when the principal is due in full. Proceeds from this financing are to be used for construction costs related to the City's natural gas utility.

2001-1 Certificate of Participation (COP's), Series B - \$8,280,000 Financing secured by City Enterprise Fund improvements and equipment, interest only at 6% until May 2011 when the principal is due in full. Proceeds from this financing are to be used for construction costs related to the City's natural gas utility.

2001-1 Certificate of Participation (COP's), Series C - \$5,185,000 Financing secured by City Enterprise Fund improvements and equipment, interest only at 5.75% until May 2011 when the principal is due in full. Proceeds from this financing are to be used for construction costs related to the City's natural gas utility.

2003-3 Certificate of Participation (COP's) - \$1,990,000 Financing secured by City Enterprise Fund improvements and equipment, interest only at 4.625% until May 2011 when the principal is due in full. Proceeds from this financing are to be used for construction costs related to the City's natural gas utility.

Debt service requirements for the Certificates of Participation are:

Fiscal Year Ended June 30,	Certificates of Participation		Total
	Principal	Interest	
2010	\$ -	\$ 1,414,075	\$ 1,414,075
2011	2,424,000	1,414,075	25,654,075
Total	\$ 2,424,000	\$ 2,828,150	\$ 27,068,150

NOTE 7 – LONG-TERM DEBT (Continued)

D. Notes Payable

Notes payable at June 30, 2009, consisted of the following:

Water Fund to United States Department of Agriculture, bears interest at 4.25%. Principal is payable annually on September 23 and interest is payable semi-annually on March and September 23. The note matures on September 23, 2043.	\$ 921,000
Golf Course Fund to Plumas Bank, bears interest at 6.50%. This note was used to pay off a settlement agreement. Principal was payable on June 30, 2009, but was not paid until July 6, 2009. Interest is due on the 25 th of each month.	<u>385,123</u>
	<u>\$1,306,123</u>

The scheduled annual minimum debt service requirements at June 30, 2009, are as follows:

Fiscal Year Ending June 30,	Notes Payable		Total
	Principal	Interest	
2010	\$ 397,123	\$ 38,888	\$ 436,011
2011	12,000	38,378	50,378
2012	13,000	37,846	50,846
2013	14,000	37,273	51,273
2014	14,000	36,677	50,677
2015-2019	81,000	173,634	254,634
2020-2024	100,000	154,488	254,488
2025-2029	125,000	130,581	255,581
2030-2034	153,000	101,171	254,171
2035-2039	189,000	64,919	253,919
2040-2044	208,000	20,655	228,655
	<u>\$ 1,306,123</u>	<u>\$ 834,510</u>	<u>\$ 2,140,633</u>

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM DEBT (Continued)

E. Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2009, was as follows:

	July 1, 2008 Balance	Additions	Reductions	June 30, 2009 Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Revenue	\$ 2,990,000	\$ -	\$ 135,000	\$ 2,855,000	\$ 140,000
Compensated absences	203,713	5,478		209,191	26,847
Governmental activities Long-term liabilities	\$ 3,193,713	\$ 5,478	\$ 135,000	\$ 3,064,191	\$ 166,847
Business-type activities:					
Bonds Payable:					
Revenue	\$ 9,200,000	\$ -	\$ 150,000	\$ 9,050,000	\$ 160,000
Certificates of participation	24,240,000			24,240,000	
Notes payable	1,285,222	385,123	364,222	1,306,123	397,123
Compensated absences	91,555	10,409		101,962	1,049
Business-type activities Long-term liabilities	\$ 34,816,575	\$ 395,532	\$ 514,222	\$ 34,697,885	\$ 558,172

F. Deferred Debt Expense

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

NOTE 8 - CITY EMPLOYEES' RETIREMENT PLAN (Defined Benefit Pension Plan)

Plan Description

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

Funding Policy

The City contributes the employees and employer shares for the Miscellaneous Plan and the Safety Plan. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2008-09 was 21.235% for miscellaneous employees and 33.235% for safety employees. The contribution requirements of the plan members are established by the State statute and the employer contribution rate is established and may be amended by CalPERS. The City's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$856,400, \$842,328, and \$821,698, respectively, and equal 100% of the required contributions for each fiscal year. The City also paid the employees portion of their required contribution, which was \$271,044, \$269,402, and \$272,224 for the fiscal years ending June 30, 2009, 2008, and 2007, respectively.

NOTE 9 – INSURANCE

The City is a member of a Joint Powers Agreement (JPA) with the Small Cities Organized Risk Effort (SCORE). This JPA provides liability and workers compensation coverage for its members by pooling risk.

Member cities participate in a Banking Plan for the first \$25,000 of loss. The portion of loss greater than \$25,000 but less than \$250,000 is shared among the Member Cities in the Shared Risk Pool. The JPA participates in the California Joint Powers Risk Management Authority (CJPRMA) for the portion of losses greater than \$250,000. The JPA is comprised of twenty small cities located in Northern and Central California. Upon review of the application, a new member may be admitted by a three-quarters (3/4) vote of the board. Members may be expelled by a two-thirds (2/3) vote. Upon entry into the JPA, members may not voluntarily withdraw for a period of three years and in no case before the JPA's commitment to CJPRMA is satisfied. Members must submit six months written notice prior to voluntarily withdrawing. After withdrawal a member may not re-enter the JPA for a period of three years.

The City adopted the provisions of GASB Statement Number 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues".

The City makes payments to SCORE based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Condensed financial information of the Small Cities Organized Risk Effort (SCORE) for the fiscal year ended June 30, 2007, is as follows:

	Liability Program	Workers Comp. Program	Total
Total Assets	\$ 5,336,908	\$ 6,066,865	\$ 11,403,773
Total Liabilities	\$ 1,418,550	\$ 2,984,000	\$ 4,402,550
Fund Equity	3,918,358	3,082,865	7,001,223
Total Liabilities and Equity	\$ 5,336,908	\$ 6,066,865	\$ 11,403,773
Total Revenues	\$ 1,842,411	\$ 2,145,153	\$ 3,987,564
Total Expenditures	1,364,505	992,650	2,357,155
Net Increase/(Decrease)	\$ 477,906	\$ 1,152,523	\$ 1,630,429

The financial information above is the latest available information, as neither the June 30, 2008 or 2009 information was available as of the date of these financial statements.

Copies of the financial statements are available from SCORE, located in San Francisco, California.

The City is also a member of a Joint Powers Agreement with Employment Risk Management Authority (ERMA). ERMA is in an overall deficit position.

Condensed draft financial information of ERMA for the fiscal year ended June 30, 2009, is as follows:

Total Assets	\$ 16,382,303
Total Liabilities	\$ 15,863,170
Fund Equity	519,133
Total Liabilities and Equity	\$ 16,382,303
Total Revenues	\$ 7,740,857
Total Expenditures	5,480,391
Net Increase/(Decrease)	\$ 2,260,466

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 9 – INSURANCE (Continued)

Copies of the financial statements are available from ERMA, located in Sacramento, California.

As of June 30, 2008, no claims exceeded insurance coverage in the last three fiscal years.

NOTE 10 – POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFITS

The City provides post-retirement health care benefits to eligible employees who retire from the City. On June 30, 2009 all full time permanent City employees were eligible for this benefit, upon retirement.

The retirement benefit is limited to one-half of the employee's unused sick leave at the date of retirement, which may be applied only to fifty percent of health benefits for as long as the employee is eligible to receive those benefits. Fifty percent of the total sick leave liability on June 30, 2009, is \$363,869. This cost is funded on a pay-as-you-go basis and is not accrued as a long-term liability because the present value of future benefits is not estimable. During 2008/2009 fiscal year, the City paid \$2,857 for two retirees receiving this benefit.

NOTE 11 – DEFERRED COMPENSATION PLANS

The City offers its employees deferred compensation plans through three different financial services companies. These plans were created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The Internal Revenue Service regulations allow an employer to designate a 457(b) Deferred Compensation Plan as an alternative to social security. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City matches employee contributions at rate of 2% to 100%, with a maximum of \$25 to \$40 per pay period.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (AIG Valic, Pebsco, or ICMA) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

NOTE 12 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three captions under GASB Statement No. 34. These captions apply only to net assets, which are determined at the government-wide, proprietary fund, and fiduciary fund level and are described below.

Invested in capital assets, net of related debt describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net assets which is not restricted as to use.

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 12 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances, Reserves, and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Reserves:

Portions of fund balance have been reserved for specific purposes as follows:

Debt Service – Funds which legally may only be used for debt service are reserved within the appropriate fund.

Advances – Advances held within governmental funds is reserved as it is not available to finance current operations.

Prepaid Expenditures – This reserve is maintained for prepaid items.

Inventory – This reserve is maintained as the aggregate of the balances in the inventory accounts and does not represent resources available for appropriation.

Encumbrances – This reserve is maintained to account for outstanding purchase orders and contractual commitments.

Designations:

Capital Improvements – The City has designated unexpended appropriations for capital outlay projects.

Fund balances unreserved/designated on June 30, 2009 are as follows:

Schedule of Designated Fund Balances	General Fund	Other Governmental Funds
Unreserved and designated for:	<u>\$ 22,528</u>	<u>\$ 124,749</u>
Capital improvements		

NOTE 13 – REVENUE LIMITATIONS IMPOSED BY CALIFORNIA PROPOSITION 218

Proposition 218, which was approved by the voters in November 1996, will regulate the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

NOTE 14 – CONTINGENCIES AND COMMITMENTS

The City is involved in various litigations. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the City's financial statements.

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

The City had \$6,362 in construction commitments for contracts awarded but not completed as of June 30, 2009.

CITY OF SUSANVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE 15 – SUBSEQUENT EVENTS

Natural Gas System

The City financed construction of the natural gas system through four issuances of Certificates of Participation (COPs) totaling \$24,240,000. All COP issues require interest only payments until they mature in May 2011. During the fiscal year ending June 30, 2002, the City began operation of its Natural Gas Enterprise to provide natural gas to the citizens of the City of Susanville.

As of June 30, 2009, the Natural Gas Fund has borrowed \$646,471 of pooled cash in order to maintain its operations. It is estimated, based on unaudited information that for the fiscal year ending June 30, 2010, that the natural gas system's total loss will be \$102,432, including depreciation and amortization expenses. However, on a cash flow basis, the Natural Gas system is expected to provide a positive cash flow, assuming no additional capital outlay expenses. The Gas System has not reached its projected customer base or gas usage necessary to make the system self-supporting where revenues support its expenditures, although customers continue to convert to natural gas at approximately 7 per month.

Note Payable

On July 6, 2009, the City issued a note payable to Plumas Bank in the amount of \$410,025. This note relates to the outstanding note payable of \$385,125 in the Golf Course Fund as of June 30, 2009, and is a part of a settlement agreement. The interest rate is 6.50% and is due in full on June 30, 2010. It is anticipated that this note will be paid off by a fourth note, with similar terms.

CaIPERS

On August 5, 2009, the City Council approved an amendment to the contract between the City of Susanville and the Board of Administration of CaIPERS. The amendment includes a 2% at 55 plan for Miscellaneous employees and a 2% at 50 plan for Safety employees hired after September 5, 2009.

NOTE 16 – DEBT WITHOUT GOVERNMENT COMMITMENT

Local Agency Revenue Bonds – 1992

On October 29, 1992, the Susanville Public Financing Authority issued \$1,650,000 of 1992 Revenue Bonds - Series B (the "Authority Bonds") for the purpose of acquiring the Assessment District 92-1 Miller Fletcher Bonds, (the "District Bonds") in the amount of \$1,465,000. The Miller Fletcher Bonds were issued to provide the District with funds to design or acquire certain public improvements relating to the District.

The Authority Bonds are payable from and secured by repayment of the District Bonds. Interest was payable on March 1, 1993, and semiannually thereafter on March 1 and September 1 of each year until maturity, with principal due every September 1. Series B Bonds have interest rates of 6.60% to 7.75% and are due September 1, 2017.

The District Bonds are not general obligations of the City nor any other political subdivision and the full faith and credit of the City is not pledged for repayment thereof. Since these debts do not constitute an obligation of the City and the City is not obligated to make payment beyond the available bond reserves, these bonds have not been reflected in the long-term debt in the accompanying financial statements. The outstanding indebtedness on June 30, 2009 was \$945,000.

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 2,844,763	\$ 2,908,372	\$ 2,876,664	\$ (31,708)
Taxes other than property	1,981,000	1,871,709	1,645,901	(225,808)
Licenses and permits	168,600	116,800	103,413	(13,387)
Fines and forfeitures	58,154	56,394	47,614	(8,780)
Use of money and property	18,000	42,636	39,512	(3,124)
Intergovernmental	190,878	429,795	446,934	17,139
Program income	289,195	299,018	4,583	(1,017)
Charges for services	219,507	304,279	308,690	9,672
Other revenues			232,659	(71,620)
Total revenues	5,770,097	6,034,603	5,705,970	(328,633)
Expenditures:				
Current:				
General government	1,114,872	1,096,893	996,336	100,557
Public safety	3,694,354	3,665,090	3,366,410	298,680
Streets				
Protective inspections	257,786	263,444	234,303	29,141
Community development	298,980	269,753	250,510	19,243
Community services	208,956	212,008	219,456	(7,448)
Capital outlay		139,017	135,227	3,790
Total expenditures	5,574,948	5,646,205	5,202,242	443,963
Excess of revenues over (under) expenditures	195,149	388,398	503,728	115,330
Other Financing Sources (Uses):				
Transfers in	5,000	5,000	5,000	
Transfers out	(200,149)	(260,699)	(263,847)	(3,148)
Total other financing sources (uses)	(195,149)	(255,699)	(258,847)	(3,148)
Net changes in fund balance		132,699	244,881	112,182
Fund balance - July 1, 2008	2,027,496	2,027,496	2,027,496	
Fund balance - June 30, 2009	<u>\$ 2,027,496</u>	<u>\$ 2,160,195</u>	<u>\$ 2,272,377</u>	<u>\$ 112,182</u>

CITY OF SUSANVILLE
GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ 5,678	\$ 5,678	\$ -
Intergovernmental	609,793	573,224	502,936	(70,288)
Other revenues		3,761	9,097	5,336
Total revenues	609,793	582,663	517,711	(64,952)
Expenditures:				
Current:				
Streets	629,904	756,179	711,740	44,439
Capital outlay	1,621	20,454	20,454	
Total expenditures	631,525	776,633	732,194	44,439
Excess of revenues over (under) expenditures	(21,732)	(193,970)	(214,483)	(20,513)
Other Financing Sources (Uses):				
Transfers in	23,000	124,656	124,656	
Transfers out		(400,000)	(400,000)	
Total other financing sources (uses)	23,000	(275,344)	(275,344)	
Net changes in fund balance	1,268	(469,314)	(489,827)	(20,513)
Fund balance - July 1, 2008	508,399	508,399	508,399	
Fund balance - June 30, 2009	<u>\$ 509,667</u>	<u>\$ 39,085</u>	<u>\$ 18,572</u>	<u>\$ (20,513)</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTAL INFORMATION

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Local Law Enforcement Block Grant Fund – A State grant used to fund a Police Sergeant's position to supplement the number of personnel assigned to provide law enforcement services to the city.

05-PTAA-1505 Fund – A grant from the Department of Housing and Community Development to fund a Household Income Survey to be used for future CDBG applications.

Solid Waste Fund – General Fund money set aside for the City use in any solid waste matters.

Street, Police, & Fire Mitigation Funds – Fees collected from new developments within the City are placed in these separate funds and used to purchase and maintain vehicles, equipment, and various facilities.

Park Land In-lieu Fund – Fees collected from new developments within the City are used to purchase necessary equipment and land to maintain and expand the City's parks.

State Revolving Fund – Program income received from Community Development Block Grant loans given for Housing Rehabilitation are deposited to this fund and re-issued in the form of new loans.

Office of Traffic Safety Fund – A grant from the State of California to be used for the Vehicle Impound Program. This grant will be used to fund a full time traffic officer and purchase a motorcycle for traffic enforcement. Funding for the full time officer is 100% year one of the grant and 50% year two of the grant. Grant expired 9/30/08.

State Revolving Economic Development & Home Revolving Funds - Program income received from Façade Improvement, Business Assistance, and First-Time Home Buyers loan re-payments are deposited to these funds and re-issued in the form of new loans.

Community Redevelopment Agency Fund - This fund represents the City's Redevelopment Area. At this time the City does not have a project area on file.

Traffic Safety Fund – A portion of the fines and forfeitures received by the City for any arrests by a City Officer under VC 42200 shall be deposited in this fund for the purchase and maintenance of equipment associated with Traffic Law Enforcement.

Barry Creek Development & Chestnut Street Culvert Funds – Fees collected from new development within the Barry Creek and Chestnut Street areas are deposited in these funds to repay the City for installation of the culverts.

04-STBG-1968 Fund – A grant from the State of California to provide Housing Rehabilitation to citizens within the City that fall within the Target Income Group. Grant expired 12/31/08.

Skyline Route 139 Signal, Skyline Park Project, Skyline Numa Signal, and Skyline Bicycle Lane Funds – Fees collected from new development within the Skyline area are deposited in these funds to be used for installation and maintenance of traffic signals, parks and parkways.

Jensen Slough Pedestrian Bridge Fund – The construction and maintenance of the pedestrian bridge over Jensen Slough.

DEBT SERVICE FUNDS

Mark Roos 92B Fund – Assessments collected from the homeowners within the Miller/Fletcher Housing Development are deposited in this Debt Service account to repay the bond that was issued in 1992 to install the infrastructure within this development.

City Hall Debt Service Fund – Payment of the bond issued to remodel City Hall is charged to this Debt Service Fund.

CAPITAL PROJECTS FUNDS

STIP Rehabilitation Fund – State of California, Department of Transportation funds used to rehab project streets within the City.

Building Reserve Fund – Capital set aside to upgrade the City Hall facility. Fund was closed in 08/09.

Prop. IB Local Streets and Road Fund – Proposition IB revenues and expenditures are accounted for in this fund.

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
 June 30, 2009

	Special Revenue Funds							
	Local Law Enforcement Block Grant Fund	05-PTAA-1505 Fund	Solid Waste Fund	Street Mitigation Fund	Police Mitigation Fund	Fire Mitigation Fund	Park Land In-lieu Fund	State Revolving Fund
ASSETS								
Cash and investments	\$ 6,093	\$ -	\$ 38,471	\$ 4,808	\$ 83,988	\$ 202,469	\$ 179,952	\$ 527,453
Cash and investments with fiscal agent								
Investment in bonds	46,703							2,157
Accounts receivable	57			12	333	816	730	247,549
Interest receivable								
Advances to other funds								
Prepaid expenditures								
Loans receivable								222,113
Total assets	<u>\$ 52,853</u>	<u>\$ -</u>	<u>\$ 38,471</u>	<u>\$ 4,820</u>	<u>\$ 84,321</u>	<u>\$ 203,285</u>	<u>\$ 180,682</u>	<u>\$ 999,272</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable								273
Deferred revenue								222,113
Advances from other funds								
Total liabilities								<u>222,386</u>
Fund Balances:								
Reserved:								
Advances								247,549
Debt service								
Prepaid expenditures								
Unreserved:								
Designated for capital improvements								
Undesignated	52,853		38,471	4,820	84,321	203,155	180,682	529,337
Total fund balances	<u>52,853</u>		<u>38,471</u>	<u>4,820</u>	<u>84,321</u>	<u>203,155</u>	<u>180,682</u>	<u>776,886</u>
Total liabilities and fund balances	<u>\$ 52,853</u>	<u>\$ -</u>	<u>\$ 38,471</u>	<u>\$ 4,820</u>	<u>\$ 84,321</u>	<u>\$ 203,285</u>	<u>\$ 180,682</u>	<u>\$ 999,272</u>

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
 June 30, 2009

	Special Revenue Funds							
	Office of Traffic Safety Fund	State Revolving Economic Development Fund	Home Revolving Fund	Community Redevelopment Agency Fund	Traffic Safety Fund	Barry Creek Development Fund	04-STBG-1968 Fund	Skyline Rt. 139 Signal Fund
Assets								
Cash and investments	\$ -	\$ 182,711	\$ 124,529	\$ -	\$ 55,922	\$ 479	\$ -	\$ 17,380
Cash and investments with fiscal agent								
Investment in bonds								
Accounts receivable		733	505		213	2		71
Interest receivable		133,823						
Advances to other funds		128,627	671,958					
Prepaid expenditures								
Loans receivable								
Total assets	\$ -	\$ 445,894	\$ 796,992	\$ -	\$ 56,135	\$ 481	\$ -	\$ 17,451
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ 11	\$ -	\$ -	\$ -	\$ -
Deferred revenue		128,627	671,958	666,695				
Advances from other funds								
Total liabilities		128,627	671,958	666,706				
Fund Balances:								
Reserved:								
Advances		133,823						
Debt service								
Prepaid expenditures								
Unreserved:								
Designated for capital improvements								
Undesignated		183,444	125,034	(666,706)	56,135	481		17,451
Total fund balances		317,267	125,034	(666,706)	56,135	481		17,451
Total liabilities and fund balances	\$ -	\$ 445,894	\$ 796,992	\$ -	\$ 56,135	\$ 481	\$ -	\$ 17,451

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
 June 30, 2009

	Special Revenue Funds			Debt Service Funds			Capital Projects Funds	
	Chestnut Street Culvert Fund	Skyline Park Project Fund	Jensen Slough Pedestrian Bridge Fund	Skyline Numa Signal Fund	Skyline Bicycle Lane Fund	Mark Roos 92B Fund	City Hall Debt Service Fund	STIP Rehabilitation Fund
Assets								
Cash and investments	\$ 24,719	\$ -	\$ 956	\$ 74,852	\$ 6,341	\$ 187,096	\$ 13,121	\$ -
Cash and investments with fiscal agent						153,335	311,185	
Investment in bonds						940,000		
Accounts receivable	100			304	26	799	2,454	
Interest receivable								
Advances to other funds								
Prepaid expenditures								
Loans receivable								
Total assets	\$ 24,819	\$ -	\$ 956	\$ 75,156	\$ 6,367	\$ 1,281,230	\$ 326,760	\$ -
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue								
Advances from other funds								
Total liabilities								
Fund Balances:								
Reserved:								
Advances								
Debt service						1,280,431	324,306	
Prepaid expenditures						799	2,454	
Unreserved:								
Designated for capital improvements	24,819		956	75,156	6,367			
Undesignated								
Total fund balances	24,819		956	75,156	6,367	1,281,230	326,760	
Total liabilities and fund balances	\$ 24,819	\$ -	\$ 956	\$ 75,156	\$ 6,367	\$ 1,281,230	\$ 326,760	\$ -

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
 June 30, 2009

Capital Projects Funds

	<u>Building Reserve Fund</u>	<u>Prop 1B Local Streets and Road Fund</u>	<u>Totals</u>
Assets			
Cash and investments	\$ -	\$ 321,784	\$ 2,053,124
Cash and investments with fiscal agent			464,520
Investment in bonds			940,000
Accounts receivable			46,703
Interest receivable			6,059
Advances to other funds			381,372
Prepaid expenditures			3,253
Loans receivable			1,022,698
Total assets	<u>\$ -</u>	<u>\$ 321,784</u>	<u>\$ 4,917,729</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 11,854	\$ 12,268
Deferred revenue			1,022,698
Advances from other funds			666,695
Total liabilities		<u>11,854</u>	<u>1,701,661</u>
Fund Balances:			
Reserved:			
Advances			381,372
Debt service			1,604,737
Prepaid expenditures			3,253
Unreserved:			
Designated for capital improvements		309,930	124,749
Undesignated			1,101,957
Total fund balances		<u>309,930</u>	<u>3,216,068</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 321,784</u>	<u>\$ 4,917,729</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	Special Revenue Funds							
	Local Law Enforcement Block Grant Fund	05-PTAA-1505 Fund	Solid Waste Fund	Street Mitigation Fund	Police Mitigation Fund	Fire Mitigation Fund	Park Land In-lieu Fund	State Revolving Fund
Revenues:								
Taxes and assessments	832	-	727	118	-	-	-	-
Use of money and property	100,000	-	-	1,691	-	3,617	2,630	12,973
Intergovernmental revenues								
Program income								
Other revenues				34,707		32,173	9,770	26,001
Total revenues	100,832	-	727	36,398	35,790	12,400		38,974
Expenditures:								
Current:								
Public safety	98,837					8,843		
Streets								46,400
Community development								
Capital outlay								
Debt service:								
Principal					28,799			
Interest and fiscal agent fees								
Total expenditures	98,837			28,799	8,843			46,400
Excess of revenues over (under) expenditures	1,995		727	7,599	26,947	12,400		(7,426)
Other Financing Sources (Uses):								
Transfers in								
Transfers out		(2,321)		15,000	75,000	98,430		2,321
Total other financing sources (uses)		(2,321)		15,000	60,000	98,430		2,321
Net changes in fund balances	1,995	(2,321)	727	22,599	86,947	110,830		(5,105)
Fund balances (deficits) - July 1, 2008	50,858	2,321	37,744	61,722	116,208	69,852		781,991
Fund balances (deficits) - June 30, 2009	\$ 52,853	\$ -	\$ 38,471	\$ 84,321	\$ 203,155	\$ 180,682		\$ 776,886

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2009

	Special Revenue Funds							
	Office of Traffic Safety Fund	State Revolving Economic Development Fund	Home Revolving Fund	Community Redevelopment Agency Fund	Traffic Safety Fund	Barry Creek Development Fund	04-STBG-1968 Fund	Skyline Rt. 139 Signal Fund
Revenues:								
Taxes and assessments	-	-	-	-	-	-	-	-
Use of money and property		2,847	2,894		1,097		-	402
Intergovernmental revenues	19,279							
Program income		17,141					6,244	
Other revenues								221
Total revenues	19,279	19,988	2,894		12,232	11	6,244	623
Expenditures:								
Current:								
Public safety	19,279							
Streets								
Community development				744			64,143	
Capital outlay								
Debt service:								
Principal								
Interest and fiscal agent fees								
Total expenditures	19,279			744			64,143	
Excess of revenues over (under) expenditures		19,988	2,894	(744)	12,232	11	(57,899)	623
Other Financing Sources (Uses):								
Transfers in								
Transfers out								
Total other financing sources (uses)								
Net changes in fund balances		19,988	2,894	(744)	12,232	11	(57,899)	623
Fund balances (deficits) - July 1, 2008		297,279	122,140	(665,962)	43,903	470	57,899	16,828
Fund balances (deficits) - June 30, 2009	-	317,267	125,034	(666,706)	56,135	481	-	17,451

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2009

	Special Revenue Funds			Debt Service Funds			Capital Projects Funds		
	Chestnut Street Culvert Fund	Skyline Park Project Fund	Jensen Slough Pedestrian Bridge Fund	Skyline Numa Signal Fund	Skyline Bicycle Lane Fund	Mark Roos 92B Fund	City Hall Debt Service Fund	STIP Rehabilitation Fund	
Revenues:									
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,964	\$ -	\$ -	
Use of money and property	575	2,288		1,730	140	(127,864)	2,280		
Intergovernmental revenues								88,822	
Program income									
Other revenues				1,099	776				
Total revenues	575	2,288		2,829	916	(58,900)	2,280	88,822	
Expenditures:									
Current:									
Public safety									
Streets								110,929	
Community development									
Capital outlay									
Debt service:									
Principal							65,000		
Interest and fiscal agent fees							102,910		
Total expenditures							167,910	110,929	
Excess of revenues over (under) expenditures	575	2,288		2,829	916	(208,519)	(165,630)	(22,107)	
Other Financing Sources (Uses):									
Transfers in							163,241		
Transfers out		(172,480)							
Total other financing sources (uses)		(172,480)					163,241		
Net changes in fund balances	575	(170,192)		2,829	916	(208,519)	(2,389)	(22,107)	
Fund balances (deficits) - July 1, 2008	24,244	170,192	956	72,327	5,451	1,489,749	329,149	22,107	
Fund balances (deficits) - June 30, 2009	\$ 24,819	\$ -	\$ 956	\$ 75,156	\$ 6,367	\$ 1,281,230	\$ 326,760	\$ -	

(Continued)

CITY OF SUSANVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2009

Capital Projects Funds			
	Building Reserve Fund	Prop 1B Local Streets and Road Fund	Totals
Revenues:			
Taxes and assessments	\$ -	\$ -	\$ 68,964
Use of money and property			(91,012)
Intergovernmental revenues			208,101
Program income			49,386
Other revenues			115,106
Total revenues			<u>350,545</u>
Expenditures:			
Current:			
Public safety			126,959
Streets		89,908	200,837
Community development	391		111,678
Capital outlay		162	28,961
Debt service:			
Principal			135,000
Interest and fiscal agent fees			182,529
Total expenditures	<u>391</u>	<u>90,070</u>	<u>785,964</u>
Excess of revenues over (under) expenditures	<u>(391)</u>	<u>(90,070)</u>	<u>(435,419)</u>
Other Financing Sources (Uses):			
Transfers in		400,000	753,992
Transfers out		(400,000)	(214,801)
Total other financing sources (uses)			<u>539,191</u>
Net changes in fund balances	(391)	309,930	103,772
Fund balances (deficits) - July 1, 2008	391		3,112,296
Fund balances (deficits) - June 30, 2009	<u>\$ -</u>	<u>\$ 309,930</u>	<u>\$ 3,216,068</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF SUSANVILLE
 05-PTAA-1505 FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

CITY OF SUSANVILLE
 LOCAL LAW ENFORCEMENT BLOCK GRANT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Other Financing Sources (Uses):			
Transfers out	\$ (2,321)	\$ (2,321)	\$ -
Total other financing sources (uses)	(2,321)	(2,321)	
Net changes in fund balances	(2,321)	(2,321)	
Fund balances - July 1, 2008	2,321	2,321	
Fund balances - June 30, 2009	\$ -	\$ -	\$ -

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	832	\$ 832	\$ -
Intergovernmental revenues	100,000	100,000	
Total revenues	100,832	100,832	
Expenditures:			
Current:			
Public safety	100,858	98,837	2,021
Total expenditures	100,858	98,837	2,021
Net changes in fund balances	(26)	1,995	2,021
Fund balances - July 1, 2008	50,858	50,858	
Fund balances - June 30, 2009	\$ 50,832	\$ 52,853	\$ 2,021

CITY OF SUSANVILLE

SOLID WASTE FUND

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

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 727	\$ 727	\$ -
Total revenues	727	727	
Net changes in fund balances	727	727	
Fund balances - July 1, 2008	37,744	37,744	
Fund balances - June 30, 2009	\$ 38,471	\$ 38,471	\$ -

CITY OF SUSANVILLE

STREET MITIGATION FUND

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

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 118	\$ 118	\$ -
Other revenues	25,000	25,225	225
Total revenues	25,118	25,343	225
Excess of revenues over (under) expenditures	25,118	25,343	225
Other Financing Sources (Uses):			
Transfers out	(25,000)	(25,000)	
Total other financing sources (uses)	(25,000)	(25,000)	
Net changes in fund balances	118	343	225
Fund balances - July 1, 2008	4,477	4,477	
Fund balances - June 30, 2009	\$ 4,595	\$ 4,820	\$ 225

CITY OF SUSANVILLE
FIRE MITIGATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 3,617	\$ 3,617	\$ -
Other revenues	33,182	32,173	(1,009)
Total revenues	36,799	35,790	(1,009)
Expenditures:			
Current:			
Public safety	53,300	8,843	44,457
Total expenditures	53,300	8,843	44,457
Excess of revenues over (under) expenditures	(16,501)	26,947	43,448
Other Financing Sources (Uses):			
Transfers in	75,000	75,000	
Transfers out	(15,000)	(15,000)	
Total other financing sources (uses)	60,000	60,000	
Net changes in fund balances	43,499	86,947	43,448
Fund balances - July 1, 2008	116,208	116,208	
Fund balances - June 30, 2009	<u>\$ 159,707</u>	<u>\$ 203,155</u>	<u>\$ 43,448</u>

CITY OF SUSANVILLE
POLICE MITIGATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 1,691	\$ 1,691	\$ -
Other revenues	31,000	34,707	3,707
Total revenues	32,691	36,398	3,707
Expenditures:			
Capital outlay	44,000	28,799	15,201
Total expenditures	44,000	28,799	15,201
Excess of revenues over (under) expenditures	(11,309)	7,599	18,908
Other Financing Sources (Uses):			
Transfers in	15,000	15,000	
Total other financing sources (uses)	15,000	15,000	
Net changes in fund balances	3,691	22,599	18,908
Fund balances - July 1, 2008	61,722	61,722	
Fund balances - June 30, 2009	<u>\$ 65,413</u>	<u>\$ 84,321</u>	<u>\$ 18,908</u>

CITY OF SUSANVILLE
STATE REVOLVING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 12,973	\$ 12,973	\$ -
Program income	50,000	26,001	(23,999)
Total revenues	62,973	38,974	(23,999)
Expenditures:			
Current:			
Community development	500,000	46,400	453,600
Total expenditures	500,000	46,400	453,600
Excess of revenues over (under) expenditures	(437,027)	(7,426)	429,601
Other Financing Sources (Uses):			
Transfers in	2,321	2,321	100,000
Transfers out	(100,000)		
Total other financing sources (uses)	(97,679)	2,321	100,000
Net changes in fund balances	(534,706)	(5,105)	529,601
Fund balances - July 1, 2008	781,991	781,991	
Fund balances - June 30, 2009	\$ 247,285	\$ 776,886	\$ 529,601

CITY OF SUSANVILLE
PARK LAND IN-LIEU FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 2,630	\$ 2,630	\$ -
Other revenues	6,000	9,770	3,770
Total revenues	8,630	12,400	3,770
Excess of revenues over (under) expenditures	8,630	12,400	3,770
Other Financing Sources (Uses):			
Transfers in	96,349	98,430	
Total other financing sources (uses)	96,349	98,430	2,081
Net changes in fund balances	104,979	110,830	5,851
Fund balances - July 1, 2008	69,852	69,852	
Fund balances - June 30, 2009	\$ 174,831	\$ 180,682	\$ 5,851

CITY OF SUSANVILLE
OFFICE OF TRAFFIC SAFETY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental revenues	\$ 19,279	\$ 19,279	\$ -
Total revenues	19,279	19,279	
Expenditures:			
Current:			
Public safety	19,279	19,279	
Total expenditures	19,279	19,279	
Net changes in fund balances			
Fund balances - July 1, 2008			
Fund balances - June 30, 2009	\$ -	\$ -	\$ -

CITY OF SUSANVILLE
STATE REVOLVING ECONOMIC DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 4,025	\$ 2,847	\$ (1,178)
Program income	13,322	17,141	3,819
Total revenues	17,347	19,988	2,641
Expenditures:			
Current:			
Community development	136,434		136,434
Total expenditures	136,434		136,434
Net changes in fund balances	(119,087)	19,988	139,075
Fund balances - July 1, 2008	297,279	297,279	
Fund balances - June 30, 2009	\$ 178,192	\$ 317,267	\$ 139,075

CITY OF SUSANVILLE
HOME REVOLVING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 2,894	\$ 2,894	\$ -
Total revenues	<u>2,894</u>	<u>2,894</u>	
Expenditures:			
Current:			
Community development	100,000		100,000
Total expenditures	<u>100,000</u>		<u>100,000</u>
Net changes in fund balances	(97,106)	2,894	100,000
Fund balances - July 1, 2008	<u>122,140</u>	<u>122,140</u>	
Fund balances - June 30, 2009	<u>\$ 25,034</u>	<u>\$ 125,034</u>	<u>\$ 100,000</u>

CITY OF SUSANVILLE
COMMUNITY REDEVELOPMENT AGENCY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Expenditures:			
Current:			
Community development	\$ 5,733	\$ 744	\$ 4,989
Total expenditures	<u>5,733</u>	<u>744</u>	<u>4,989</u>
Net changes in fund balances	(5,733)	(744)	4,989
Fund balances (deficits) - July 1, 2008	<u>(665,962)</u>	<u>(665,962)</u>	
Fund balances (deficits) - June 30, 2009	<u>\$ (671,695)</u>	<u>\$ (666,706)</u>	<u>\$ 4,989</u>

CITY OF SUSANVILLE
TRAFFIC SAFETY FUND

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

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 1,097	\$ 1,097	\$ -
Other revenues	10,000	11,135	1,135
Total revenues	11,097	12,232	1,135
Net changes in fund balances	11,097	12,232	1,135
Fund balances - July 1, 2008	43,903	43,903	
Fund balances - June 30, 2009	\$ 55,000	\$ 56,135	\$ 1,135

CITY OF SUSANVILLE
BARRY CREEK DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 11	\$ 11	\$ -
Total revenues	11	11	
Net changes in fund balances	11	11	
Fund balances - July 1, 2008	470	470	
Fund balances - June 30, 2009	\$ 481	\$ 481	\$ -

CITY OF SUSANVILLE

04-STBG-1968 FUND

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

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Program income	\$ 594,662	\$ 6,244	\$ (588,418)
Total revenues	594,662	6,244	(588,418)
Expenditures:			
Current:			
Community development	594,662	64,143	530,519
Total expenditures	594,662	64,143	530,519
Net changes in fund balances		(57,899)	(57,899)
Fund balances - July 1, 2008	57,899	57,899	
Fund balances - June 30, 2009	\$ 57,899	\$ -	\$ (57,899)

CITY OF SUSANVILLE

SKYLINE RT. 139 SIGNAL FUND

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

For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 402	\$ 402	\$ -
Other revenues	1,500	221	(1,279)
Total revenues	1,902	623	(1,279)
Net changes in fund balances	1,902	623	(1,279)
Fund balances - July 1, 2008	16,828	16,828	
Fund balances - June 30, 2009	\$ 18,730	\$ 17,451	\$ (1,279)

CITY OF SUSANVILLE
SKYLINE PARK PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 2,288	\$ 2,288	\$ -
Total revenues	2,288	2,288	
Excess of revenues over (under) expenditures	2,288	2,288	
Other Financing Sources (Uses):			
Transfers out	(171,349)	(172,480)	(1,131)
Total other financing sources (uses)	(171,349)	(172,480)	(1,131)
Net changes in fund balances	(169,061)	(170,192)	(1,131)
Fund balances - July 1, 2008	170,192	170,192	
Fund balances - June 30, 2009	\$ -	\$ -	\$ (1,131)

CITY OF SUSANVILLE
CHESTNUT STREET CULVERT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 575	\$ 575	\$ -
Total revenues	575	575	
Net changes in fund balances	575	575	
Fund balances - July 1, 2008	24,244	24,244	
Fund balances - June 30, 2009	\$ 24,819	\$ 24,819	\$ -

CITY OF SUSANVILLE
 SKYLINE BICYCLE LANE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 140	\$ 140	\$ -
Other revenues	1,125	776	(349)
Total revenues	1,265	916	(349)
Net changes in fund balances	1,265	916	(349)
Fund balances - July 1, 2008	5,451	5,451	
Fund balances - June 30, 2009	\$ 6,716	\$ 6,367	\$ (349)

CITY OF SUSANVILLE
 SKYLINE NUMA SIGNAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 1,730	\$ 1,730	\$ -
Other revenues	2,250	1,099	(1,151)
Total revenues	3,980	2,829	(1,151)
Net changes in fund balances	3,980	2,829	(1,151)
Fund balances - July 1, 2008	72,327	72,327	
Fund balances - June 30, 2009	\$ 76,307	\$ 75,156	\$ (1,151)

CITY OF SUSANVILLE
 MARK ROOS 92B FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes and assessments	\$ 149,950	\$ 68,964	\$ (80,986)
Use of money and property	(127,864)	(127,864)	
Total revenues	22,086	(58,900)	(80,986)
Expenditures:			
Debt service:			
Principal	70,000	70,000	
Interest and fiscal agent fees	79,950	79,619	331
Total expenditures	149,950	149,619	331
Net changes in fund balances	(127,864)	(208,519)	(80,655)
Fund balances - July 1, 2008	1,489,749	1,489,749	
Fund balances - June 30, 2009	\$ 1,361,885	\$ 1,281,230	\$ (80,655)

CITY OF SUSANVILLE
 CITY HALL DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 7,000	\$ 2,280	\$ (4,720)
Total revenues	7,000	2,280	(4,720)
Expenditures:			
Debt service:			
Principal	65,000	65,000	
Interest and fiscal agent fees	103,043	102,910	133
Total expenditures	168,043	167,910	133
Excess of revenues over (under) expenditures	(161,043)	(165,630)	(4,587)
Other Financing Sources (Uses):			
Transfers in	161,043	163,241	2,198
Total other financing sources (uses)	161,043	163,241	2,198
Net changes in fund balances		(2,389)	(2,389)
Fund balances - July 1, 2008	329,149	329,149	
Fund balances - June 30, 2009	\$ 329,149	\$ 326,760	\$ (2,389)

CITY OF SUSANVILLE
STIP REHABILITATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Intergovernmental revenues	\$ 88,822	\$ 88,822	\$ -
Total revenues	88,822	88,822	
Expenditures:			
Current:			
Streets	110,929	110,929	
Total expenditures	110,929	110,929	
Net changes in fund balances	(22,107)	(22,107)	
Fund balances - July 1, 2008	22,107	22,107	
Fund balances - June 30, 2009	\$ -	\$ -	\$ -

CITY OF SUSANVILLE
BUILDING RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Expenditures:			
Current:			
Community development	391	391	-
Total expenditures	391	391	
Net changes in fund balances	(391)	(391)	
Fund balances - July 1, 2008	391	391	
Fund balances - June 30, 2009	\$ -	\$ -	\$ -

CITY OF SUSANVILLE
PROP 1B LOCAL STREETS AND ROAD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Expenditures:			
Current:			
Streets	\$ 399,838	\$ 89,908	\$ 309,930
Capital outlay	162	162	
Total expenditures	400,000	90,070	309,930
Excess of revenues over (under) expenditures	(400,000)	(90,070)	309,930
Other Financing Sources (Uses):			
Transfers in	400,000	400,000	
Total other financing sources (uses)	400,000	400,000	
Net changes in fund balances		309,930	309,930
Fund balances - July 1, 2008			
Fund balances - June 30, 2009	\$ -	\$ 309,930	\$ 309,930

CITY OF SUSANVILLE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2009

	Public Works Administration Fund	Risk Management Fund	Payroll Fund	Totals
ASSETS				
Current Assets:				
Cash and investments	\$ 4,820	\$ 641,751	\$ 107,580	\$ 754,151
Interest receivable	112	1,997		2,109
Prepaid expenses	295	11,023		11,318
Total current assets	5,227	654,771	107,580	767,578
Total assets	5,227	654,771	107,580	767,578
LIABILITIES				
Current Liabilities:				
Accounts payable	5,194		107,580	5,194
Accrued wages				107,580
Total current liabilities	5,194		107,580	112,774
Total liabilities	5,194		107,580	112,774
NET ASSETS				
Unrestricted	33	654,771		654,804
Total net assets	\$ 33	\$ 654,771	\$ -	\$ 654,804

CITY OF SUSANVILLE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	Public Works Administration Fund	Risk Management Fund	Payroll Fund	Totals
Revenues:				
Charges for services	\$ 83,016	\$ 690,466	\$ -	\$ 773,482
Total Revenues	83,016	690,466		773,482
Expenses:				
Administration	83,482	4,616		88,098
Insurance costs and claims		695,457		695,457
Total Expenses	83,482	700,073		783,555
Operating Income (Loss)	(466)	(9,607)		(10,073)
Non-Operating Revenues (Expenses):				
Interest income	466	9,607		10,073
Change in Net Assets				
Net Assets, July 1, 2008	33	654,771		654,804
Net Assets, June 30, 2009	\$ 33	\$ 654,771	\$ -	\$ 654,804

112

CITY OF SUSANVILLE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	Public Works Administration Fund	Risk Management Fund	Payroll Fund	Totals
Cash Flows from Operating Activities:				
Receipts from customers	\$ 83,244	\$ 690,466	\$ -	\$ 773,710
Payment to suppliers and users	(83,321)	(708,851)		(792,172)
Payment to employees			(757)	(757)
Net Cash Provided (Used) by Operating Activities	(77)	(18,385)	(757)	(19,219)
Cash flows from Investing Activities:				
Interest received	489	11,619		12,108
Net Cash Provided by Investing Activities	489	11,619		12,108
Net Increase (Decrease) in Cash and Cash Equivalents	412	(6,766)	(757)	(7,111)
Cash and Cash Equivalents, July 1, 2008	4,408	648,517	108,337	761,262
Cash and Cash Equivalents, June 30, 2009	\$ 4,820	\$ 641,751	\$ 107,580	\$ 754,151
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (466)	\$ (9,607)	\$ -	\$ (10,073)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in Operating Assets:				
Prepaid expenses	315	(8,116)		(7,801)
Accounts receivable	228			228
Increase (Decrease) in Operating Liabilities:				
Accounts payable	(154)	(662)		(816)
Accrued wages			(757)	(757)
Net Cash Provided (Used) by Operating Activities	\$ (77)	\$ (18,385)	\$ (757)	\$ (19,219)

113

CITY OF SUSANVILLE
AGENCY FUNDS

STATEMENT OF CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Section 125 Affac Fund				
ASSETS				
Cash and investments	\$ 15,787	\$ -	\$ (1,105)	\$ 14,682
Total Assets	<u>\$ 15,787</u>	<u>\$ -</u>	<u>\$ (1,105)</u>	<u>\$ 14,682</u>
LIABILITIES				
Deposits payable	\$ 15,787	\$ -	\$ (1,105)	\$ 14,682
Total Liabilities	<u>\$ 15,787</u>	<u>\$ -</u>	<u>\$ (1,105)</u>	<u>\$ 14,682</u>
LAFCO Fund				
ASSETS				
Cash and investments	\$ 61,147	\$ 10,986	\$ (3,757)	\$ 68,376
Interest receivable	492	291	(492)	291
Total Assets	<u>\$ 61,639</u>	<u>\$ 11,277</u>	<u>\$ (4,249)</u>	<u>\$ 68,667</u>
LIABILITIES				
Accounts payable	\$ 4,249	\$ 5,230	\$ (4,249)	\$ 5,230
Deposits payable	57,390	6,047		63,437
Total Liabilities	<u>\$ 61,639</u>	<u>\$ 11,277</u>	<u>\$ (4,249)</u>	<u>\$ 68,667</u>
HUSA Business Improvement Fund				
ASSETS				
Cash and investments	\$ 1,151	\$ -	\$ (194)	\$ 957
Accounts receivable	2,837	212	(2,837)	212
Total Assets	<u>\$ 3,988</u>	<u>\$ 212</u>	<u>\$ (3,031)</u>	<u>\$ 1,169</u>
LIABILITIES				
Accounts payable	\$ 631	\$ -	\$ (631)	\$ -
Deposits payable	3,357	212	(2,400)	1,169
Total Liabilities	<u>\$ 3,988</u>	<u>\$ 212</u>	<u>\$ (3,031)</u>	<u>\$ 1,169</u>



PARTNERS
RONALD A. LEVY, CPA
CRAIG A. HARTZHEIM, CPA
HADLEY Y. HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mhlcpas.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the
City Council of the City of Susanville
Susanville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Susanville, California, as of and for the fiscal year ended June 30, 2009 which collectively comprise the City of Susanville's basic financial statements, and have issued our report thereon dated December 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Susanville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Susanville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Susanville's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Susanville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Susanville's financial statements that is more than inconsequential will not be prevented or detected by the City of Susanville's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Susanville's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the City of Susanville in a separate letter dated December 2, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Susanville are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
December 2, 2009

STATISTICAL SECTION

Exhibit A-1

Statistical Section

This part of the report is consisted of the City of Susanville's comprehensive annual financial report which presents detailed information as a context for understanding in regarding to what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

Contents

- Financial Trends**
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.
- Revenue Capacity**
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.
- Debt Capacity**
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.
- Demographic and Economic Information**
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparison over time and with other governments.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 as of June 30, 2004; schedules presenting government-wide information, include information beginning in that year.

Schedule 1
City of Susanville
Net Assets by Component,
Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Governmental activities						
Invested in capital assets, net of related debt	\$ 2,154,482	\$ 2,525,295	\$ 2,648,771	\$ 2,480,051	\$ 2,274,687	\$ 2,062,283
Restricted	253,461	1,600,652	1,565,208	1,651,776	1,780,484	1,547,711
Unrestricted	3,378,973	3,515,171	3,830,893	4,404,242	5,396,427	5,607,906
Total governmental activities net assets	\$ 5,786,916	\$ 7,641,118	\$ 8,044,872	\$ 8,536,069	\$ 9,451,598	\$ 9,217,900
Business-type activities						
Invested in capital assets, net of related debt	\$ 352,514	\$ 1,651,318	\$ (3,892,035)	\$ 3,673,059	\$ (2,285,127)	\$ (1,804,335)
Restricted for Debt Service	2,373,866	3,328,579	3,089,827	2,971,552	2,864,661	2,892,138
Unrestricted	(844,764)	(3,708,004)	1,368,985	(5,823,491)	2,044,780	2,242,428
Total business-type activities net assets	\$ 1,881,616	\$ 1,271,893	\$ 566,777	\$ 821,120	\$ 2,624,314	\$ 3,330,231
Primary government						
Invested in capital assets, net of related debt	\$ 2,506,996	\$ 4,176,613	\$ (1,243,264)	\$ 6,153,110	\$ (10,440)	\$ 257,948
Restricted	2,627,327	4,929,231	4,655,035	4,623,328	4,645,145	4,439,849
Unrestricted	2,534,209	(192,833)	5,199,878	(1,419,249)	7,441,207	7,850,334
Total primary government net assets	\$ 7,668,532	\$ 8,913,011	\$ 8,611,649	\$ 9,357,189	\$ 12,075,912	\$ 12,548,131

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003-04.

Schedule 2
City of Susansville
Changes in Net Assets
Last Six Fiscal Years
(Accrual basis of accounting)

	2004	2005	2006	2007	2008	2009
Expenses						
Governmental activities:						
General government	\$2,085,249	\$1,991,240	\$1,629,410	\$1,616,449	\$816,839	\$1,228,083
Public safety	3,451,988	3,407,302	3,398,809	3,537,646	3,696,206	3,479,617
Streets	887,797	763,635	663,794	884,532	1,427,687	935,540
Protective Inspections	213,806	190,003	203,979	212,454	244,966	235,270
Community services	473,055	415,340	328,252	504,755	325,669	288,355
Community development	255,211	185,535	867,183	336,742	462,648	416,103
Interest on long term debt	199,930	402,890	294,672	230,157	194,800	186,060
Total governmental activities expenses	7,537,036	7,355,945	7,386,099	7,322,735	7,168,815	6,769,028
Business-type activities:						
Rodeo	\$70,032	55,031	36,508	145,780	166,609	189,488
Airport	81,362	116,260	113,600	2,180,730	2,145,401	2,396,179
Water	1,442,121	2,207,464	2,200,070	2,146,800	63,868	55,889
Geothermal	190,297	207,914	104,637	4,783,357	4,941,853	4,924,613
Natural Gas	2,814,468	3,858,071	4,855,872	4,783,357	4,941,853	4,924,613
Swimming Pool (closed in 2004-05)	193,679	148,842				
Day Care	130,794	140,657	140,796	133,493	118,100	144,912
Golf Course	1,036	7,701	6,400	37,749	99,865	112,179
Total business-type activities expenses	4,923,789	6,741,940	7,457,883	7,327,909	7,535,756	7,823,260
Total primary government expenses	\$12,460,825	\$14,097,885	\$14,843,982	\$14,650,644	\$14,704,571	\$14,592,288

	2004	2005	2006	2007	2008	2009
Program Revenues						
Governmental activities						
Charges for services:						
General government	\$362,530	\$854,062	\$1,020,336	\$743,153	\$27,937	\$132,822
Public safety	273,909	448,104	179,907	308,352	121,247	137,948
Streets	97,142	277,403	265,907	265,907	121,247	36,417
Protective Inspections	195,483	219,654	232,684	167,645	167,645	31,433
Community services	24,349	31,918	4,784	5,932	8,931	18,526
Community development	44,159	48,584	45,392	48,620	176,485	100,443
Operating contributions and grants	2,834,407	675,192	890,330	690,816	1,178,902	1,183,468
Capital contributions and grants	0	53,172	337,178	494,448	1,098,653	98,210
Total governmental activities program revenues	3,831,919	2,608,089	2,711,211	2,724,873	2,612,155	1,739,267
Business-type activities:						
Charges for services:						
Rodeo	61,297	50,700	29,654			
Airport	32,867	36,553	41,302	50,190	52,477	58,097
Water	1,796,393	2,118,368	2,046,516	2,064,187	2,049,606	2,424,802
Geothermal	250,742	223,565	71,124	73,653	69,389	69,391
Natural Gas	1,749,040	2,724,148	4,264,151	4,325,805	4,650,665	4,271,575
Swimming Pool	93,474	43,391				
Day Care	98,485	134,231	121,386	117,446	107,890	76,875
Operating contributions and grants	25,666	174,347	202,667	283,641	439,104	10,000
Capital contributions and grants	4,107,964	5,505,303	6,776,800	7,335,856	9,041,739	8,400,808
Total business-type activities program revenues	\$7,959,943	8,113,392	9,488,011	10,078,729	11,653,894	10,140,075

Net (Expense)/Revenue
Governmental activities
Business-type activities
Total primary government net expense

General Revenues and Other Changes in Net Assets
Governmental activities:

Taxes	\$717,840	\$746,508	\$884,863	\$906,170	\$924,914	\$913,055
Property taxes	1,605,629	1,516,274	1,263,661	1,398,022	1,326,767	1,193,085
Sales taxes	354,338	462,246	465,369	523,774	517,214	405,860
Transient Lodging Taxes	47,608	45,275	39,161	48,027	55,428	45,197
Franchise taxes	205,664	233,690	276,044	240,592	247,732	235,283
Business license taxes	163,305	326,140	330,685	364,779	246,035	70,723
Other taxes	0	988,907	1,138,723	1,256,457	1,396,408	1,488,666
Property tax in lieu of VLF, unrestricted	0	308,668	417,836	506,153	419,193	474,943
Use of Money and Property	45,068	351,453	227,236	161,206	163,501	(35,749)
Gain (loss) on sale of capital assets	0	277,911	227,732	42,099	100,101	(6,491)
Transfers	760,288	(239,589)	5,000	(29,920)	5,000	5,000
Total governmental activities	3,899,740	5,017,593	5,276,330	5,089,059	5,395,802	4,796,063

Business-type activities:
Use of Money and Property
Gain on sale of capital assets
Miscellaneous revenues
Transfers

42,627	184,777	142,518	189,756	282,717	120,656
(760,288)	239,569	(5,000)	29,920	5,083	1,512
(717,661)	424,346	137,518	228,396	297,211	128,369
3,182,079	5,441,849	5,413,848	5,317,455	5,693,013	4,924,432

Total business-type activities
Total primary government
Change in Net Assets
Governmental activities
Business-type activities
Total primary government

194,683	269,647	601,442	491,197	839,142	(233,698)
(1,533,486)	(812,291)	(545,565)	254,343	1,803,194	705,917
(\$1,338,803)	(\$542,644)	\$57,877	\$745,540	\$2,642,336	\$472,219

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003-04.

Schedule 3
 City of Susanville
 Fund Balances - Governmental Funds,
 Last Six Fiscal Years
 (Modified accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
General Fund	\$83,392	\$ 102,413	\$ 305,858	\$ 370,296	\$ 418,932	\$ 411,613
Reserved	711,771	844,902	971,144	1,281,067	1,608,564	1,860,764
Unreserved	795,163	\$ 947,315	\$ 1,277,002	\$ 1,651,363	\$ 2,027,496	\$ 2,272,377
Total general fund						
All Other Governmental Funds	574,208	\$ 420,365	\$ 688,726	\$ 399,192	\$ 382,257	\$ 385,098
Reserved	753,032	589,990	501,016	566,069	1,108,885	934,875
Unreserved, reported in:	503,734	281,564	13,370	275,168	289,433	309,930
Special Revenue Funds	(178,461)	1,657,994	1,620,694	1,712,950	1,840,120	1,604,737
Capital Projects Funds						
Debt Service Funds						
Total all other governmental funds	\$1,652,513	\$ 2,949,913	\$ 2,823,806	\$ 2,953,379	\$ 3,620,695	\$ 3,234,640

Schedule 4
 City of Susanville
 Changes in Fund Balances - Governmental Funds,
 Last Six Fiscal Years
 (Modified accrual basis of accounting)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Revenues						
Taxes and assessments	\$3,191,838	\$4,019,990	\$4,518,116	\$5,113,507	\$4,749,716	\$4,591,529
Licenses and permits	195,483	324,535	258,277	189,740	151,143	103,413
Fines and forfeitures	28,343	41,118	54,872	67,621	74,585	47,614
Use of money and property	45,068	680,604	232,778	141,181	145,591	(45,822)
Intergovernmental revenues	2,567,689	1,001,651	1,228,108	1,185,264	2,277,555	1,157,971
Program income	0	138,092	590,316	1,103,399	222,302	53,969
Charges for services	132,043	1,322,127	1,115,460	792,797	318,628	308,690
Other revenues	810,967	763,810	608,611	333,591	276,331	356,862
Total revenues	6,971,431	8,291,927	8,606,538	8,927,100	8,215,851	6,574,226
Expenditures						
General government	1,553,060	1,806,528	1,591,271	1,399,497	722,770	996,336
Public safety	3,347,798	3,211,146	3,453,212	3,486,523	3,601,675	3,379,768
Streets	506,158	712,216	670,762	848,692	1,397,936	912,577
Protective inspections	212,278	188,475	203,470	212,454	244,966	234,303
Community services	443,568	324,616	273,198	441,325	265,023	219,456
Community development	255,211	414,785	863,933	1,500,658	634,274	475,789
Capital outlay	1,085,611	593,457	717,791	119,358	104,490	184,642
Debt service:						
Principal	245,192	213,106	400,559	152,884	144,355	135,000
Interest	191,951	375,182	290,388	217,507	191,019	182,529
Total expenditures	7,840,827	7,839,511	8,464,584	8,378,898	7,306,508	6,720,400
Excess of revenues over (under) expenditures	(869,396)	452,416	141,954	548,202	909,343	(146,174)
Other Financing Sources (Uses)						
Contributions from trust funds			56,626			
Transfers in	1,030,131	830,452	736,834	377,575	555,154	883,648
Transfers out	(696,723)	(1,073,316)	(731,834)	(421,843)	(550,154)	(878,648)
Total other financing sources (uses)	333,408	(242,864)	61,626	(44,268)	5,000	5,000
Net changes in fund balances	(535,988)	209,552	203,580	503,934	914,343	(141,174)
Debt service as a percentage of non-capital expenditures	6.5%	8.1%	8.9%	4.5%	4.7%	4.9%

Schedule 5
 City of Susanville
 Assessed Value and Estimated Actual Value of Taxable Property,
 Last Six Fiscal Years

Fiscal Year	Secured	Utility	Unsecured	Less: Tax Exemptions	Total Taxable Assessed Value	Total Direct Tax Rate
2004	\$375,828,965	\$207,787	\$25,279,665	\$12,003,306	\$389,313,111	1.0000
2005	\$399,569,372	\$206,940	\$25,966,041	\$12,284,799	\$413,457,554	1.0000
2006	\$435,313,349	\$206,482	\$26,084,788	\$12,428,869	\$449,175,750	1.0000
2007	\$484,139,014	\$13,587	\$26,234,905	\$12,657,141	\$497,730,365	1.0000
2008	\$568,493,249	\$12,420	\$26,872,204	\$12,432,005	\$582,945,868	1.0000
2009	\$578,912,881	\$12,420	\$30,360,571	\$12,561,467	\$596,724,405	1.0000

Source:
 Lassen County - Assessor's Office

Notes:

The voters of the State of California passed Proposition 13 in 1978 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property. Each year, the assessed value of property may be increased by an "inflation factor" of no more than 2%. Property is assessed at 100% of the original purchase price and is reassessed upon each subsequent sale.

Tax rates are per \$1,000 of assessed value.

Schedule 6
 City of Susanville
 Direct and Overlapping Property Tax Rates,
 Last Ten Fiscal Years
 Rate per \$1,000 of assessed value

Fiscal Year	City Direct Rate		Overlapping Rates (a)		Total Direct Rate
	Basic Rate	Elementary School Bond	Basic Rate	Elementary School Bond	
2000	1.0000	0.0605	1.0000	0.0605	1.0605
2001	1.0000	0.0586	1.0000	0.0586	1.0586
2002	1.0000	0.0606	1.0000	0.0606	1.0606
2003	1.0000	0.0606	1.0000	0.0606	1.0606
2004	1.0000	0.0598	1.0000	0.0598	1.0598
2005	1.0000	0.0090	1.0000	0.0090	1.0090
2006	1.0000	0.0096	1.0000	0.0096	1.0096
2007	1.0000	0.0008	1.0000	0.0008	1.0008
2008	1.0000		1.0000		1.0000
2009	1.0000		1.0000		1.0000

Source:
 Lassen County

Notes:

The city's basic property tax rate is the same rate as Lassen County. Refer to Schedule 5 for explanation on direct rate limits.

(a) Overlapping rates are those of city and county governments that apply to property owners within the City of Susanville. Not all overlapping rates apply to all Susanville property owners.

Schedule 7
 City of Susanville
 Principal Property Tax Payers
 Current Year and Nine Years Ago

	2009		Percentage of Total City Taxable Assessed Value (1)
	Taxable Assessed Value	Rank	
Taxpayer			
Wal-Mart	10,473,979	1	1.76%
Rassier-Mariani	9,952,774	2	1.67%
Triple E Investment Co. Inc.	8,968,996	3	1.50%
Susanville Limited Partnership	6,728,458	4	1.13%
Foxdale Associates LTD (Walgreens)	6,126,120	5	1.03%
Nolen Properties	5,435,290	6	0.91%
Lassen Station LP	4,256,350	7	0.71%
Trav-Cor & Investment Inc	4,172,301	8	0.70%
Standiford, Larr & Reta	3,925,866	9	0.66%
Indar Kaur	3,494,111	10	0.59%
Total	\$63,534,245		10.65%

Source:
 Lassen County Assessors Office

Notes:
 (1) For total taxable assessed value, see schedule 5.
 (2) Information for 9 years ago unavailable, but will be accumulated over time as it becomes available.

Schedule 8
 City of Susanville
 Property Tax Levies and Collections,
 Last Six Fiscal Years

Fiscal Year Ended June 30,	County Taxes Levied	AB8 City Allocation Factor	Percent Growth	AB8 Allocations Fiscal Year	Collected within the Fiscal Year of the Levy		Total Collections to Date		
					Amount	Percentage of Levy	Amount	Percentage of Levy	
2004	\$14,508,790	0.04118791	1.03366934	\$617,707	94.48%	\$583,624	94.48%	\$626,389	101.41%
2005	\$15,302,568	0.04136327	1.08078017	\$684,095	89.70%	\$613,665	89.70%	\$644,698	94.24%
2006	\$16,409,859	0.04168806	1.09983310	\$752,391	87.90%	\$661,347	87.90%	\$686,693	91.27%
2007	\$18,125,879	0.04150919	1.08755598	\$818,267	86.45%	\$707,387	86.45%	\$752,391	91.95%
2008	\$19,437,444	0.04209745	1.06588089	\$872,175	88.72%	\$773,822	88.72%	\$867,571	99.47%
2009	\$20,699,884	0.04252227	1.02306917	\$900,512	85.88%	\$773,350	85.88%	\$773,350	85.88%

Source:
 Lassen County Assessors Office

Notes:
 Taxes levied are totals for Lassen County. Taxes are based on 1% of assessed value. Taxes are distributed using an AB8 allocation factor. Therefore, city tax amounts will not compute using this 1% as a basis.

Schedule 9
City of Susanville
Ratios of Outstanding Debt by Type,
Last Six Fiscal Years

Governmental Activities

Business-type Activities

Fiscal Year	General Obligations			Special Assessment Bonds (3)			Water Revenue Bonds			Term Loan			Certificate of Participation			Capital Leases			Business-type Activities			Total Government Values (1)	Percentage of Property Values (1)	Per Capita (2)	
	General Bonds	Capital Leases	Total	Special Assessment Bonds (3)	Capital Leases	Total	Water Revenue Bonds	Term Loan	Total	Certificate of Participation	Capital Leases	Total	Business-type Activities	Government	Primary	Total									
2004	\$2,215,000	\$185,904	\$3,600,904	\$1,200,000	\$3,600,904	\$6,405,000	\$973,390	\$24,240,000	\$5,572	\$31,623,962	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866	\$35,224,866
2005	\$2,155,000	\$87,798	\$3,387,798	\$1,145,000	\$3,387,798	\$9,610,000	\$963,000	\$24,240,000	\$4,669	\$34,817,669	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467	\$38,205,467
2006	\$2,095,000	\$52,238	\$3,287,238	\$1,140,000	\$3,287,238	\$9,480,000	\$953,000	\$24,240,000	\$4,669	\$34,677,669	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907	\$37,964,907
2007	\$2,035,000	\$19,549	\$3,134,549	\$1,080,000	\$3,134,549	\$9,345,000	\$943,000	\$24,240,000	\$0	\$34,528,000	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549	\$37,662,549
2008	\$1,975,000	\$0	\$2,990,000	\$1,015,000	\$2,990,000	\$9,200,000	\$1,285,222	\$24,240,000	\$0	\$34,725,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222	\$37,715,222
2009	\$1,910,000	\$0	\$2,855,000	\$945,000	\$2,855,000	\$9,050,000	\$1,306,123	\$24,240,000	\$0	\$34,596,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123	\$37,451,123

Notes:

- Details regarding the City's outstanding debt can be found in the notes to the financial statements.
- (1) Personal Income for the City is unavailable. Substituted property values in this calculation. See Schedule 5 for values.
- (2) Population data can be found in schedule 13.
- (3) Payment for this bond is responsibility of property owners within the assessment district.

Schedule 10
City of Susanville
Legal Debt Margin Information
Last Six Fiscal Years

	2004	2005	2006	2007	2008	2009
Assessed Valuation	\$389,313,111	\$413,457,554	\$449,175,750	\$497,730,365	\$582,945,868	\$596,724,405
Conversion Percentage	25%	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	\$97,328,278	\$103,364,389	\$112,293,938	\$124,432,591	\$145,736,467	\$149,181,101
Debt Limit Percentage	15%	15%	15%	15%	15%	15%
Debt Limit	\$14,599,242	\$15,504,658	\$16,844,091	\$18,664,889	\$21,860,470	\$22,377,165
Total net debt applicable to limit	\$2,215,000	\$2,155,000	\$2,095,000	\$2,035,000	\$1,975,000	\$1,910,000
Legal debt margin	\$12,384,242	\$13,349,658	\$14,749,091	\$16,629,889	\$19,885,470	\$20,467,165
Total net debt applicable to the limit as a percentage of debt limit	15.2%	13.9%	12.4%	10.9%	9.0%	8.5%

Source:
Lassen County Assessors Office
City of Susanville Finance Department

Notes:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. With the implementation of Prop 13, property is now assessed at 100% of market value (as of the most recent ownership of that parcel). The computations above reflect the 25% conversion from full valuation that would have been in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Schedule 11
 City of Susanville
 Ratios of General Bonded Debt Outstanding
 Last Six Fiscal Years

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita (a)
	General Revenue Bonds	Capital Leases	Total		
2004	\$2,215,000	\$185,904	\$2,400,904	0.62%	272
2005	\$2,155,000	\$87,798	\$2,242,798	0.54%	251
2006	\$2,095,000	\$52,238	\$2,147,238	0.48%	240
2007	\$2,035,000	\$19,549	\$2,054,549	0.41%	234
2008	\$1,975,000	\$0	\$1,975,000	0.34%	220
2009	\$1,910,000	\$0	\$1,910,000	0.32%	213

Notes:
 Details regarding the City's outstanding debt can be found in the notes to the financial statements.
 (a) Population data can be found in Schedule 13

Schedule 12
 City of Susanville
 Pledged Revenue Coverage
 Last Six Fiscal Years

Fiscal Year	Water Revenue Bonds						Coverage
	Gross Income and Revenue	Less: Operating Expenses	Net Available Revenue	Debt Principal	Debt Service Interest		
2004	\$ 1,804,093	\$ 764,660	\$ 1,039,433	\$ 115,000	\$ 373,114	2.13	
2005	2,175,791	1,330,188	845,603	134,440	503,440	1.33	
2006	2,188,482	1,308,937	879,545	140,000	553,358	1.27	
2007	2,252,280	1,298,562	953,718	145,000	547,213	1.38	
2008	2,207,718	1,275,999	931,719	156,000	540,691	1.34	
2009	2,514,097	1,531,625	982,472	161,000	532,967	1.42	

Fiscal Year	Natural Gas Revenue Bonds						Coverage
	Gross Income and Revenue	Less: Operating Expenses	Net Available Revenue	Debt Principal	Debt Service Interest		
2004	\$ 1,749,040	\$ 1,252,460	\$ 496,580	\$ -	\$ 1,514,314	0.33	
2005	2,775,708	1,922,169	853,539	-	1,428,059	0.60	
2006	4,207,739	2,863,838	1,343,901	-	1,470,486	0.91	
2007	4,363,546	2,941,944	1,421,602	-	1,414,075	1.01	
2008	4,735,092	3,010,223	1,724,870	-	1,414,075	1.22	
2009	4,278,020	2,999,389	1,278,631	-	1,414,075	0.90	

Notes:
 Details regarding the City's outstanding debt can be found in the notes to the financial statements.
 Operating expenses do not include interest, depreciation, or amortization expenses.

Schedule 13
 City of Susanville and County of Lassen
 Demographic and Economic Statistics
 Last Ten Fiscal Years

Fiscal Year	City Population	Prison Population	Total City & Prison Population	Total County Population	County Personal Income	Per Capita Personal Income	City Unemployment Rate
2000	8,877	8,688	17,565	33,828	\$589,375,000	\$17,423	6.90%
2001	8,733	8,676	17,409	33,883	\$605,104,000	\$17,859	7.10%
2002	8,794	8,446	17,240	33,827	\$628,276,000	\$18,573	7.50%
2003	8,756	8,750	17,506	34,076	\$666,873,000	\$19,570	7.50%
2004	8,826	9,082	17,908	34,632	\$708,056,000	\$20,445	7.40%
2005	8,935	9,114	18,049	34,998	\$736,266,000	\$21,037	7.70%
2006	8,947	9,166	18,113	35,246	\$783,732,000	\$22,236	7.60%
2007	8,790	9,093	17,883	35,804	\$824,244,000	\$23,563	7.80%
2008	8,971	8,599	17,570	35,757	n/a	n/a	9.10%
2009	8,972	8,430	17,402	35,550	n/a	n/a	n/a

Sources:
 Personal income and unemployment data - Labor Market Info - Employment Development Department
 City and County population - State of California Department of Finance Demographic
 Total County population includes the correctional facilities

Special Assessment Collections	Debt Service		Coverage
	Principal	Interest	
\$ 72,163	\$ 50,000	\$ 98,750	0.49
572,406	55,000	94,744	3.82
417,794	55,000	90,481	2.87
228,473	60,000	86,025	1.56
112,407	65,000	81,181	0.77
138,964	70,000	75,950	0.95

Vehicle License Fees	City Hall Revenue Bond		Coverage	
	Property Tax In Lieu of VLF	Debt Service		
	Principal	Interest		
\$ 952,051	\$ -	\$ 55,000	\$ 107,930	5.84
120,328	988,907	60,000	106,605	6.66
174,072	1,138,723	60,000	105,015	7.96
116,605	1,256,457	60,000	103,215	8.41
83,753	1,396,408	60,000	101,265	9.18
63,206	1,488,666	65,000	99,043	9.46

Schedule 14
 City of Susanville
 Principal Employers
 Current Year and Nine Years Ago

Employer	2009			2000		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
High Desert State Prison	1504	1	30.20%			
California Correctional Center	1268	2	25.46%			
Lassen County	464	3	9.32%			
Wal-Mart	226	4	4.54%			
Banner Lassen Medical Center	200	5	4.02%			
Diamond Mountain Casino	159	6	3.19%			
Lassen Community College	153	7	3.07%			
Susanville Indian Rancheria	143	8	2.87%			
Susanville School District	141	9	2.83%			
Lassen Union High School	122	10	2.45%			
Northeastern Rural Health	110	11	2.21%			
Countryville Riverview Rehab	105	12	2.11%			
Safeway	100	13	2.01%			
City of Susanville	62	14	1.24%			
Susanville Supermarket	52	15	1.04%			
	4809		96.57%			

Information Unavailable

Schedule 15
 City of Susanville
 Full-time City Governmental Employees by Function/Program,
 Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administration	3.1	3.4	3.4	3.5	3.5	2.5	2.5	2.5	2.5	2.5
City Clerk	4.1	4.1	4.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Finance	6.5	6.5	6.5	7	7	7	6	6	6	5
Police	23	24	24	24	22	22	21	20	20	19
Fire	8.8	9.7	9.7	11	10.5	8.5	9	11	11	11
Community Development	10	9.8	9.8	5	4.5	4.5	4	4	3	3
Community Services	5.9	6.9	6.9	9	9	8	6	3	2	2
Public Works	16.6	18.6	18.6	19	20	17	18	18	18	18
Total	78	83	83	80	78	71	68	66	64	62

Source:
 City Finance Department

Notes:

A full-time employee is scheduled to work 2,080 hours per year.

Notes:
 (a) Total Labor Force for the City is 4980.
 (b) Information unavailable for past nine years, but will be accumulated over time as it becomes available.

Source:
 Employment Development Department, Lassen County Chamber of Commerce

Schedule 16
 City of Susanville
 Operating Indicators by Function/Program,
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government	n/a	300	377	465	532	453	467	352	281	332
Building Permits Issued	n/a	n/a	690	1094	1452	1821	2249	1921	1152	1145
Police	496	634	578	601	485	681	479	400	565	483
Physical arrests	0	0	0	0	271	819	498	401	338	256
Parking violations	580	677	1093	472	425	650	724	832	1180	790
Traffic violations	597	738	1098	1067	1087	1311	1309	1383	1390	1467
Emergency responses	82	72	84	70	73	82	96	89	94	67
Fires extinguished	n/a	n/a	n/a	n/a	406	217	350	224	n/a	201
Inspections	0	0	6,27	0	0	0	0.25	0	2.3	0
Public Works	50	110	75	125	150	150	180	165	172	168
Street resurfacing (miles)	4	4	4	4	4	4	4	4	4	4
Potholes repaired	2	16	31	41	91	34	8	68	-12	22
Community Services	2693	3026	3057	2954	3039	3152	2758	2116	2123	3173
Athletic field permits issued	4255	4932	5055	4394	4642	4900	4777	4809	5308	5500
Water										
New connections										
Average daily consumption (thousands of gallons)	1480	329	323	323	124	69	109	73	84	
Peak daily consumption (thousands of gallons)	246	328	441	457	513	499	539	472		
Natural Gas										
New connections	481	824	768	834	870	1044	1099	980		
Average daily consumption (MMBTU's)										
Peak daily consumption (MMBTU's)										

Sources:
 Various City Departments

Notes:
 City's Natural Gas Department began operating in 2002
 MMBTU's equals one million British thermal units

Schedule 17
 City of Susanville
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police	1	1	1	1	1	1	1	1	1	1
Stations	7	7	7	7	7	7	8	7	8	13
Patrol units										
Fire	1	1	1	1	1	1	1	1	1	1
Fire Stations	5	5	5	5	5	6	6	6	6	6
Fire engines										
Public works	53	53	53	53	54	54	54	54	54	54
Streets (miles)	0	0	0	0	0	0	0	0	0	0
Highways (miles)	494	494	496	502	512	528	532	532	532	532
Street lights	0	0	0	0	0	0	0	0	0	0
Traffic signals										
Community Services	97	97	97	97	147	147	147	147	147	147
Parks acreage	2	2	2	2	2	2	2	2	2	2
Playgrounds	3	3	3	3	3	3	3	3	3	3
Baseball/softball diamonds	1	1	1	1	1	1	1	1	1	1
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Museums	1	1	1	1	1	1	1	1	1	1
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	63	63	63	64	64	65	65	65	65	65
Fire Hydrants	340	344	352	356	371	389	396	403	403	410
Storage capacity (thousands of gallons)	2000	2000	2000	3000	4000	4000	4000	4000	4000	4000
Water meters	3420	3436	3467	3508	3599	3633	3641	3709	3788	3797
Natural Gas										
Gas mains (miles)	44	56	56	56	56	57	57	59	59	59
Gas meters	1480	1809	2063	2143	2212	2281	2462	2546		

Sources:
 Various City departments

Notes:
 Traffic Signals and Highways are owned and maintained by CalTrans.
 City's Natural Gas Department began operating in 2002
 In December 2005, Roosevelt Pool was closed due to structural damage to the building that housed the pool.

Schedule 18
 City of Susanville
 Water Department
 Water Sold by Type of Customer
 Last Six Fiscal Years
 (In Millions of Gallons)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Residential	569.45	548.37	567.09	558.7	549.86	541.7
Commercial	245.6	216.2	209.1	214.91	205.6	206.75
Total	815.0	764.5	776.2	773.6	755.5	748.5

Water Sales \$ 1,796,393 \$ 2,118,368 \$ 2,046,516 \$ 2,064,187 \$ 2,049,605 \$ 2,424,802
 City Direct Rate Per Gallon 0.0022 0.0027 0.0026 0.0027 0.0027 0.0032

Source:
 City of Susanville Finance Department

Notes:
 Ten years of data unavailable due to software conversion.
 Data will be accumulated from 2004 forward.
 City Direct Rate Calculation equals charges for service (as found in the statement of activities) divided by water sold.
 Charges for services include water revenue, meter fees, reconnect fees, new meter install, etc.

Schedule 19
 City of Susanville
 Water Department
 Water Rates
 Last Six Fiscal Years

Fiscal Year Ended June 30	Monthly Base Rates	Average Rate per 1,000 Gallons
2005	\$16.50	\$1.41
2006	\$18.20	\$1.41
2007	\$18.20	\$1.41
2008	\$18.20	\$1.41
2009	\$23.65 **	\$1.16

Source
 City of Susanville Finance Department

Notes:
 Rates are based on 5/8" meter, which is standard household meter size.
 Commercial accounts charged differently based on meter size.
 ** First 300 cubic feet now included in base rate.

Schedule 20
 City of Susanville
 Water Department
 Top Ten Water Customers
 Current Year and Nine Years Ago

	2009		2000	
	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues
Water Customer				
Lassen County	\$76,078.13	3.14%		
Susanville Indian Rancheria	\$40,644.08	1.68%		
Lassen High School	\$31,599.39	1.30%		
Lassen County Fairgrounds	\$23,471.09	0.97%		
Hidden Acres	\$22,767.71	0.94%		
Diamond View School	\$19,581.51	0.81%		
Meadowview School	\$16,910.89	0.70%		
Meadowbrook Apartments	\$15,426.55	0.64%		
Mathiallu Properties	\$12,449.63	0.51%		
Citrus Manor Apartments	\$12,045.90	0.50%		
	\$270,974.88	11.18%		

Source:
 City of Susanville Finance Department

Notes:
 Total Water Revenue equals charges for services as found in the statement of activities.
 Ten years of information unavailable but will be accumulated as available.

Schedule 21
 City of Susanville
 Gas Department
 Gas Sold by Type of Customer
 Last Six Fiscal Years
 (In Therms)

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Residential	749,716	974,574	932,384	881,058	942,696	837,390
Commercial	548,769	730,558	941,029	945,663	1,024,591	926,457
Total	1,298,485	1,705,112	1,873,413	1,824,721	1,967,287	1,763,847
Natural Gas Sales	\$ 1,749,040	\$ 2,724,148	\$ 4,264,151	\$ 4,325,805	\$ 4,650,465	\$ 4,271,575
City Direct Rate per Therm	\$1.35	\$1.60	\$2.28	\$2.37	\$2.36	\$2.42

Source:
 City of Susanville Finance Department - Utility Billing

Notes:
 100 cubic feet=100,000 BTUs=1 Therm
 BTU is British Thermal Unit
 Ten years of information unavailable but will be accumulated as available.

Schedule 22
 City of Susanville
 Gas Department
 Gas Rates
 Last Seven Fiscal Years

Schedule 23
 City of Susanville
 Gas Department
 Top Ten Gas Customers
 Current Year and Nine Years Ago

Fiscal Year Ended June 30	Monthly Base Rates	Rate per Therm	Gas Customer	2009	2000
2003	\$6.00	\$1.20	Lassen Community College	Gas Charges \$223,015.65	Percent of Total Gas Revenues 5.22%
2004	\$6.00	\$1.42	Banner Lassen Hospital	\$138,484.24	3.24%
2005	\$7.00	\$1.65	Susanville Indian Rancheria	\$134,041.73	3.14%
2006	\$7.00	\$2.44	Lassen County Jail/Sheriff	\$89,950.42	2.11%
2007	\$7.00	\$2.21 (A)(B)	Northeastern Rural Health Clinic	\$65,134.12	1.52%
2008	\$7.00	\$2.21 (A)(B)(C)	Safeway	\$63,457.46	1.49%
2009	\$7.00	\$2.30 (A)(B)(C)	Susanville Garden Apartments	\$60,854.03	1.42%
			Diamond View School	\$60,799.40	1.42%
			McKinley School	\$50,974.46	1.19%
			Lassen High School	\$49,410.70	1.16%
				\$936,122.21	21.92%

Source:
 City of Susanville Finance Department

Notes:
 City of Susanville Natural Gas Department began operation in 2002
 (A) - City of Susanville currently has winter and summer rates as follows:
 Winter rates apply from November-March

	Winter	Summer
0-30 Therms	\$2.19	\$2.36
30-450 Therms	\$2.60	\$2.60
450 + Therms	\$2.12	\$2.12

(B) - Resolution 07-4306 set variable price index billing for the city's largest consuming customers capable of using alternate fuels as their primary energy source in place of natural gas. The variable gas rate is set monthly by comparing one or both of the propane and heating oil indexes to the city's variable monthly gas cost. The lowest of the three shall be used as the current billing rate.

(C) - Resolution 07-4119 gave the city's largest users that qualify for the variable price index the opportunity to lock into a fixed price for all or a portion of their supply. The fixed price is a mutually agreeable fixed price offered through City of Susanville's gas supplier for the quantities specified by the customer, plus customer's variable price natural gas adder.

1 Therm=100,000 BTU's

Source:
 City of Susanville Finance Department

Notes:
 Total Gas Revenue equals charges for services as found in the statement of activities.
 Ten years of information unavailable but will be accumulated as available.

THIS PAGE IS INTENTIONALLY LEFT BLANK

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Susanville (the “City”) in connection with the issuance of above-captioned “Susanville Public Financing Authority, Refunding Revenue Bonds, Senior Series A (the “Series A Bonds”) and the Susanville Public Financing Authority, Refunding Revenue Bonds, Subordinate Series B (the “Series B Bonds” and, collectively with the Series A Bonds, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2010, by and between the Susanville Public Financing Authority (the “Authority”) and Deutsche Bank National Trust Company (the “Trustee”).

The Bonds are special limited obligations of the Authority. The Series A Bonds are payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under (i) an Installment Sale Agreement related to the City’s Water Enterprise (the “Water Enterprise”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Water Installment Sale Agreement”), and (ii) an Installment Sale Agreement related to the City’s Gas Enterprise (the “Gas Enterprise” and collectively with the Water Enterprise, the “Utility Enterprises”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Gas Installment Sale Agreement” and, collectively with the Water Installment Sale Agreement, the “Installment Sale Agreements”), and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein).

The Series B Bonds are also payable from and secured by Revenues of the Authority pledged under the Indenture, but on a subordinate basis to the pledge of Revenues for payment of the Series A Bonds. Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

The obligation of the City to make payments under each of the Installment Sale Agreements is limited solely to Net Revenues consisting generally of all gross income and revenue from the Water Enterprise, and from the Gas Enterprise, respectively, less the maintenance and operations costs of the Water Enterprise and the Gas Enterprise, respectively.

In connection therewith, the City, as an “obligated person” with respect to the Bonds (within the meaning of the Rule, as defined herein) Pursuant to the Installment Sale Agreements, the City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture of Trust or the Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Dissemination Agent*” shall mean Deutsche Bank National Trust Company, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“Official Statement” shall mean the Official Statement, dated August __, 2010, relating to the Bonds.

“*Participating Underwriter*” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Repository*” shall mean each National Repository and each State Repository.

“*Rule*” shall mean rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the City’s Fiscal Year, commencing with the report for the 2009-10 Fiscal Year (each a “Filing Date”), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in an electronic format as prescribed by the MSRB, accompanied by such identifying information as is prescribed by the MSRB. Not later than fifteen (15) Business Days prior each Filing Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A. Such notice must be submitted in an electronic format as prescribed by the MSRB, accompanied by such identifying information as is prescribed by the MSRB.

(c) The Dissemination Agent shall:

(i) file the Annual Report with MSRB; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided to MSRB pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain the following information:

(i) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(ii) Financial information and operating data with respect to the City, as such information and data relate to the City's Utility Enterprises, for the most recently completed Fiscal Year of the type included in the Official Statement, in the following categories (to the extent not included in the City's audited financial statements):

(a) Annual number of connections (residential and commercial) for the prior Fiscal Year;

(b) Total Net Revenues of each of the Utility Enterprises received by the City during the prior Fiscal Year, and the amount of debt service coverage provided thereby (expressed as a percentage of total Net Revenues to total debt service on the Bonds and any Parity Obligations in such Fiscal Year), in the format of Tables 6 and 16 in the Official Statement relating to the Bonds;

(c) Largest ten users of each of the Utility Enterprises, based on annual billings for the prior calendar year; and

(d) Any additional indebtedness incurred during the prior Fiscal Year which is payable from Revenues of the Utility Enterprises on a parity with the Bonds.

In addition to any of the information specifically required to be provided under provisions of this Section, the City shall provide such further information, if any, as may be necessary to make the statements of specifically required information, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that are available to the public on the MSRB's Internet web site or filed with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) Modifications to rights of the owners of the Bonds;
- (viii) Contingent or unscheduled Bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (iv) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

(d) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the MSRB with a copy to the City. Such notice must be submitted in an electronic format as prescribed by the MSRB, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Deutsche Bank National Trust Company.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or any Supplemental Indenture or the Installment Sale Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the City to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the City to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate shall be deemed to obligate the City to disclose information concerning any owner of land within the City except as required as part of the information required to be disclosed by the City pursuant to Section 4 and Section 5 hereof.

Date: September __, 2010

CITY OF SUSANVILLE

By: _____

Accepted and Acknowledged:

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Susanville Public Financing Authority

Name of Bond Issue: Susanville Public Financing Authority, Refunding Revenue Bonds, Senior Series A (the "Series A Bonds") and the Susanville Public Financing Authority, Refunding Revenue Bonds, Subordinate Series B (the "Series B Bonds" and, collectively with the Series A Bonds, the "Bonds")

Date of Issuance: September __, 2010

NOTICE IS HEREBY GIVEN that the City of Susanville (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust authorizing the issuance of the Bonds and the related Installment Sale Agreements. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SUSANVILLE

By _____

APPENDIX D

GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

Disclaimer

The following information, unless otherwise cited, was directly transcribed from material provided by the City (the “City”), the County of Lassen (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City, the County and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision. The Bonds are not a debt of the City, the County or the State of California (the “State”) or any of the State’s Political Subdivisions; and neither the City, the County, the State nor any of the State’s Political Subdivisions are liable therefore.

CITY

General

The City is the county seat of Lassen County, California. The City of Susanville incorporated in 1900. The City is located in the northeast portion of California on the eastern slopes of the Sierra Nevada Mountains at an elevation of approximately 4,200 feet above sea level. The City is approximately 85 miles northwest of Reno, Nevada and approximately 200 miles northeast of Sacramento, California. The City encompasses an area of approximately 6.5 square miles and, as of January 1, 2008, had a population of approximately 17,570 persons (including the inmate population at the California Correctional Center and the High Desert State Prison), according to the State of California Department of Finance estimates. The City is the central shopping and service area serving a population of approximately 30,000 persons.

Location

The City of Susanville is located in Lassen County in Northeastern California, bounded by Modoc County to the North, Shasta County to the West, Plumas County to the South and by the State of Nevada to the East. State routes 44 and 36 connect the City of Susanville to the greater Sacramento Valley and the City of Redding, while Reno (NV) is an easy and scenic 85-mile drive via interstate 395.

Mileage Chart to other Major Cities

Portland, OR 458 miles Northwest
San Francisco, CA 280 miles Southwest
Redding, CA 112 miles West
Reno, NV 86 miles Southeast
Sacramento, CA 223 miles Southwest

Local Economy

The City of Susanville is surrounded by open space with many recreational opportunities. Lake Almanor, Eagle Lake, Antelope Lake, and other lakes are within half an hour drive from the City. The area is well known for hunting, fishing, snowmobiling, motocross races, rodeo, and many other outdoor activities. One of the major employers and consumers in the area is the California Department of Corrections (CDC) with a total population of about 9,000 inmates which equals the amount of the City's population. The local economy has been consistently stable during the past years, and insulated from the nation's economy, but it has also been very dependent on the government, since in Susanville, 74% of the work force is employed by the federal, state and local governments. The two prisons alone employ approximately 54% of the total work force. This economic condition is good and bad for the local economy. Susanville has remained fairly stable during the recent recession and economic downturn, due to the stable local housing market, employment and local sales. Another reason for the insulation from the economic downturn is the city's isolation. The City of Susanville is the only city in the county, and the closest city is Reno (Nevada) that is about 100 miles away.

Labor Market

The labor market is a significant indicator of the economic and social condition of a community. It identifies labor trends in the area, defines the supply and demand for employment, and indicates the strengths of the businesses that are supporting the demand.

The labor force of the City and County has been very stable for the last ten years. Unemployment has suffered a slight increase in the City and a higher increase in the County during the recent recession.

Climate

Susanville has a semiarid climate with wet, cold winters and very warm, mostly dry summers. Average January temperatures are a high of 40.4°F and a low of 20.8°F. Average July temperatures are a high of 88.8°F and a low of 50.8°F. Temperatures reach 90°F (32°C) or higher on an average of 34.9 days annually. Temperatures drop to 32°F (0°C) or lower on an average of 153.8 days annually; freezing temperatures have been recorded in every month of the year and summer nighttime temperatures are usually very cool. The highest recorded temperature in Susanville was 106°F on July 25, 1928, and the lowest recorded temperature was -23°F on February 1, 1956.

Annual precipitation averages 15.26 inches. There are an average of 59 days with measurable precipitation. The wettest year was 1907 with 33.51 inches and the driest year was 1976 with 5.33 inches. The most rainfall in one month was 12.30 inches in March 1907. The most rainfall in 24 hours was 5.04 inches on January 31, 1897. Annual snowfall averages 36.0 inches. The most snowfall in one year was 89.0 inches in 1937 and the most in one month 65.5 inches in January 1895

COUNTY AND CITY

Demographic Summary

A summary of salient demographic characteristics of the City and County are set forth in the following chart.

<u>Demographic Characteristics</u>			
Subject	<u>Lassen County</u>	<u>City of Susanville</u>	<u>Lassen County Total</u>
Total Population	16,245	9,430	25,675
Male	8,356	4,757	13,113
Female	7,889	4,673	12,562
Under 5 Years	934	745	1,679
18 Years and Over	11,691	6,601	18,292
65 Years and Over	2,000	1,012	3,012
One Race	15,735	9,034	24,769
White	14,456	7,787	22,243
Black or African American	232	155	387
American Indian and Alaska Native	473	496	969
Asian	69	110	179
Native Hawaiian or Other Pacific Islander	24	97	121
Some Other Race	481	389	870
Two or More Races	510	396	906
Hispanic or Latino (of any race)	1,434	963	2,397
Household Population	15,878	9,040	24,918
Group Quarters Population	757	8,153	8,910
Average Household Size	2.55	2.51	2.59
Average Family Size	3.10	3.12	3.08
Total Housing Units	8,016	3,984	12,000
Occupied Housing Units	6,020	3,605	9,625
Owner-Occupied Housing Units	4,591	1,984	6,575
Renter-Occupied Housing Units	1,429	1,621	3,050
Vacant Housing Units	1,996	379	2,375

Social characteristics

A summary of salient social characteristics of the City and County are set forth in the following chart.

<u>Social Characteristics</u>			
Subject	Lassen County	City of Susanville	Lassen County Total
Population 25 Years and Over	10,476	5,641	16,117
High School Graduate or Higher	8,751	4,768	13,519
Bachelor's Degree or Higher	1,307	891	2,198
Civilian Veterans (civilian population 18 years and over)	2,432	1,152	3,584
Disability Status (population 5 years and over)	3,222	1,403	4,625
Foreign Born	560	208	768
Male, Now Married, Except Separated (population 15 years and over)	3,858	1,828	5,686
Female, Now Married, Except Separated (population 15 years and over)	3,902	1,858	5,760
Speak a Language other than English at Home (population 5 years and over)	1,138	548	1,686

Economic characteristics

A summary of salient economic characteristics of the City and County are set forth in the following chart.

<u>Economic Characteristics</u>			
Subject	Lassen County	City of Susanville	Lassen County Total
In Labor Force (population 16 years and over)	6,978	4,259	11,237
Mean Travel Time to Work in Minutes (workers 16 years and over)	16.5	13.6	19.4
Median Household Income in 1999 (dollars)	35,719	35,128	36,310
Median Family Income in 1999 (dollars)	43,714	44,030	43,398
Per Capita Income in 1999 (dollars)	15,489	16,228	14,749
Families Below Poverty Level	474	278	752
Individuals Below Poverty Level	2,079	1,405	3,484

Housing characteristics

A summary of salient housing characteristics of the City and County are set forth in the following chart.

<u>Housing Characteristics</u>			
<u>Subject</u>	<u>Lassen County</u>	<u>City of Susanville</u>	<u>Lassen County Total</u>
Single-Family Owner-Occupied Homes	2,507	1,683	4,190
Median Value (dollars)	105,050	103,400	106,700
Median of Selected Monthly Owner Costs			
With a Mortgage (dollars)	966	970	962
Not Mortgaged (dollars)	256	251	260

<u>Total Population and Housing Units – 2010</u>			
<u>Population Type</u>	<u>Lassen County</u>	<u>City of Susanville</u>	<u>Lassen County Total</u>
Total Population with Group Quarters	18,458	17,431	35,889
Group Quarters	1,541	8,525	10,066
Total Population without Group Quarters	16,917	8,906	25,823
<u>House Type</u>	<u>Lassen County</u>	<u>City of Susanville</u>	<u>Lassen County Total</u>
Total	8,954	4,222	13,176
Detached	6,012	3,030	9,042
Attached	221	131	352
2 to 4	132	379	511
5 Plus	59	472	531
Mobile Homes	2,530	210	2,740
Occupied	6,813	3,825	10,638
% Vacant	23.91	9.40	19.26
Persons Per Household	2.483	2.328	2.427

Employment Data

A summary of salient employment data of County is set forth in the following chart.

Employment Data				
	<u>Apr 2010</u>	<u>May 2010</u>	<u>June 2010</u>	<u>June 2009</u>
Civilian Labor Force	13,450	13,430	13,360	13,620
Civilian Employment	11,390	11,540	11,430	12,000
Civilian Unemployment	2,070	1,890	1,930	1,620
Civilian Unemployment Rate	15.4%	14.1%	14.4%	11.9%
--CA Unemployment Rate	12.2%	11.9%	12.2%	11.6%
--U.S. Unemployment Rate	9.5%	9.3%	9.6%	9.7%
Total, All Industries (2)	10,020	10,190	10,100	10,740
Total Farm	300	310	320	330
Total Nonfarm	9,720	9,880	9,780	10,410
Total Private	3,230	3,340	3,340	3,560
Goods Producing	160	220	220	250
Mining & Logging	40	80	80	90
Construction	110	130	130	150
Manufacturing	20	20	20	20
Service Providing	9,560	9,660	9,560	10,150
Private Service Producing	3,070	3,120	3,120	3,310
Trade, Transport & Utilities	970	1,000	1,000	1,100
Wholesale Trade	60	60	60	70
Retail Trade	790	810	810	910
Warehouse & Utilities	130	130	130	120
Information	100	100	100	110
Financial Activities	150	160	160	170
Professional & Business Services	190	190	190	190
Educational & Health Services	980	970	980	940
Leisure & Hospitality	500	540	540	600
Other Services	170	170	170	200
Government	6,500	6,540	6,430	6,850
Federal Government	1,500	1,590	1,570	1,620
State & Local Government	4,990	4,950	4,860	5,230
State Government	2,850	2,830	2,830	3,120
Local Government	2,140	2,120	2,030	2,110

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Directors
Susanville Public Financing Authority
Susanville CA, 95066

 \$[Par Amount]
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SENIOR SERIES A
(Utility Enterprises Project)
(Final Opinion)

 \$[Par Amount]
SUSANVILLE PUBLIC FINANCING AUTHORITY
2010 REFUNDING REVENUE BONDS
SUBORDINATE SERIES B
(Utility Enterprises Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Susanville Public Facilities Financing Authority (the “Authority”) in connection with the issuance by the Authority of its \$_____ aggregate principal amount of 2010 Refunding Revenue Bonds, Senior Series A (the “Series A Bonds”) and \$_____ aggregate principal amount 2010 Refunding Revenue Bonds, Subordinate Series B (the “Series B Bonds” and, collectively with the Series A Bonds, the “Bonds”), pursuant to Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, a Resolution adopted by the Board of Directors of the Authority (the “Authority Resolution”) on August 12, 2010, a Resolution adopted by the City Council of the City (the “City Resolution,” and together with the Authority Resolution, the “Resolution”) on August 12, 2010, and the Indenture, dated as of September 1, 2010, (the “Indenture”), by and between the Authority and Deutsche Bank National Trust Company, as trustee(the “Trustee”).

The Bonds are special limited obligations of the Authority. The Series A Bonds are payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under (i) an Installment Sale Agreement related to the City’s Water Enterprise (the “Water Enterprise”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Water Installment Sale Agreement”), and (ii) an Installment Sale Agreement related to the City’s Gas Enterprise (the “Gas Enterprise” and collectively with the Water Enterprise, the “Utility Enterprises”), dated as of September 1, 2010, by and between the City, as purchaser, and the Authority, as seller (the “Gas Installment Sale Agreement” and, collectively with the Water Installment Sale Agreement, the “Installment Sale Agreements”), and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues”). The Series B Bonds are also payable from and secured by Revenues of the Authority pledged under the Indenture, but on a subordinate basis to the pledge of Revenues for payment of the Series A Bonds.

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture and in the Installment Sale Agreements.

In such connection, we have reviewed the Indenture, the Water Installment Sale Agreement, Gas Installment Sale Agreement, the Tax Certificate of the City and the Authority, dated the date hereof (the "Tax Certificate"), opinions of the City Attorney, certifications of the City, the Authority, the Agency, and others, and such other documents, opinions, and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations of the City and the Authority contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

The opinions expressed herein are expressed only on and as of the date hereof and are based on an analysis of existing laws, regulations, rulings, and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Changes to existing law may occur hereafter and could have retroactive effect. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, all parties thereto. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted, or certified in the documents, and of the legal conclusions contained in the opinions referred to in the paragraph directly above.

Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Indenture, the Water Installment Sale Agreement, Gas Installment Sale Agreement, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions, or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Indenture, the Water Installment Sale Agreement, Gas Installment Sale Agreement, and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities, joint powers authorities, and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability, or waiver provisions contained in the documents mentioned in the previous sentence.

We undertake no responsibility for the accuracy, completeness, or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto. We express no opinion regarding the perfection or priority of the lien on the Installment Payments or the Net Revenues.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Water Installment Sale Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Water Installment Payments constitutes a valid and binding limited obligation of the City. The Indenture creates a valid pledge, to secure apportion of the payment of the principal of and interest on the Bonds, of the Gas Installment Payments. The Bonds constitute the valid and

binding limited obligations of the Authority.

2. The Gas Installment Sale Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Gas Installment Payments constitutes a valid and binding limited obligation of the City. The Indenture creates a valid pledge, to secure apportion of the payment of the principal of and interest on the Bonds, of the Gas Installment Payments. The Bonds constitute the valid and binding limited obligations of the Authority.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income.

Except as stated in paragraph 3 above, we express no opinion as to federal or State of California tax consequences of the ownership of the Bonds. We also express no opinion regarding any other tax consequences with respect to the acquisition, ownership, or disposition of, or the accrual or receipt of interest on, the Bonds.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution, the Indenture, the Water Installment Sale Agreement, Gas Installment Sale Agreement, and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the Bonds.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100