NEW ISSUE-FULL BOOK-ENTRY

RATINGS:
Standard and Poor's "AAA"—XLCA Insured
(See "RATINGS" herein)

In the opinion of Hargrove & Costanzo, a Professional Corporation, Fresno, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and compliance with certain covenants and requirements discussed herein, interest (and original issue discount) on the 2005 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2005 Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a 2005 Bond (the first price at which a substantial amount of the 2005 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2005 Bond constitutes original issue discount. See "TAX MATTERS" herein with respect to other tax consequences with respect to the 2005 Bonds.

$5,890,000
CHOWCHILLA PUBLIC FINANCING AUTHORITY
2005 REFUNDING LEASE REVENUE BONDS, SERIES A
(CIVIC CENTER PROJECT)

Dated: Date of Delivery **Due: As shown below**

The 2005 Refunding Lease Revenue Bonds, Series A (the "2005 Bonds") are issuable as fully registered bonds in denominations of $5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2005 Bonds, and individual purchases of the 2005 Bonds will be made in book-entry form only, all as described herein. Interest on the 2005 Bonds is payable on January 1, 2006 and semiannually thereafter on July 1 and January 1 of each year. Payments of principal, premium, if any, and interest on the 2005 Bonds will be paid by U.S. Bank National Association, as trustee ("Trustee"), to DTC which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the Beneficial Owners of the 2005 Bonds.

The 2005 Bonds are being issued to provide funds to (i) refund the 2002 $1,900,000 Civic Center Project Private Placement Financing (the "Prior Financing"), (ii) to finance certain public improvements, (iii) to fund a deposit to the reserve fund for the 2005 Bonds, (iv) to fund capitalized interest on a portion of the 2005 Bonds through January 1, 2007 and (iv) to pay costs of issuance of the 2005 Bonds.

The 2005 Bonds are being issued by the Chowchilla Public Financing Authority (the "Authority") pursuant to an Indenture of Trust dated as of July 1, 2005 (the "Indenture"), by and between the Authority and the Trustee. The 2005 Bonds are limited obligations of the Authority payable solely from Revenues of the Authority, consisting primarily of Lease Payments to be received by the Authority from the City under a Lease Agreement dated as of July 1, 2005 (the "Lease Agreement"), by and between the Authority and the City of Chowchilla, California (the "City").

The Lease Payments to be made by the City to the Authority pursuant to the Lease Agreement will be in amounts calculated to be sufficient to pay principal of and interest on the 2005 Bonds when due. The Lease Payments are payable by the City from its General Fund for the lease by the City of the Civic Center Project.

The scheduled payments of principal of and interest on the 2005 Bonds when due will be insured by a municipal bond insurance policy to be issued concurrently with the delivery of the 2005 Bonds by XL Capital Assurance, Inc. ("XLCA" or the "Insurer"), a New York stock insurance company.

XL CAPITAL ASSURANCE

The 2005 Bonds are subject to optional redemption prior to maturity as described herein. In addition, the 2005 Bonds are subject to special mandatory redemption prior to maturity as described herein.

Upon compliance with the conditions precedent thereto in the Indenture, the Authority may issue additional Bonds secured by Revenues on parity with the 2005 Bonds.

The 2005 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. Neither the full faith and credit of the Authority, the City or any Member of the Authority is pledged for the payment of the interest on or principal of the 2005 Bonds nor for the payment of Lease Payments. Neither the payment of the principal of or interest on the 2005 Bonds nor the obligation to make Lease Payments constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority 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.

For a discussion of certain risk factors, which should be evaluated prior to purchase of the 2005 Bonds in addition to the other matters set forth herein, see "RISK FACTORS" herein.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

MATURITY SCHEDULE

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIPS* 170471	Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIPS* 170471
2008	$ 120,000	3.000%	3.000%	AA4	2016	$ 160,000	4.000%	4.050%	AJ5
2009	125,000	3.000	3.150	AB2	2017	165,000	4.000	4.150	AK2
2010	130,000	3.200	3.300	AC0	2018	170,000	4.000	4.200	AL0
2011	130,000	3.350	3.500	AD8	2019	180,000	4.000	4.250	AM8
2012	135,000	3.500	3.650	AE6	2020	185,000	4.125	4.350	AN6
2013	140,000	3.625	3.750	AF3	2021	190,000	4.250	4.430	AP1
2014	145,000	3.750	3.850	AG1	2022	200,000	4.250	4.480	AQ9
2015	150,000	4.000	3.950	AH9					

$1,675,000 – 4.375% Term Bonds due July 1, 2029 – Yield 4.600% – CUSIP* 170471 AX 4
$1,890,000 – 4.500% Term Bonds due July 1, 2035 – Yield 4.650% – CUSIP* 170471 BD 7

The 2005 Bonds are offered when, as and if issued, subject to approval of validity by Hargrove & Costanzo, a Professional Corporation, Fresno, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. It is expected that the 2005 Bonds will be available for delivery through the DTC book entry system on or about August 17, 2005.

PIPER JAFFRAY & CO.

Dated: August 3, 2005.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2005 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 2005 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The Underwriter has provided the following sentence for inclusion in this Official Statement.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement, nor any sale hereunder, shall under any circumstances create an implication that there has been no change in the affairs of the City, the Authority or any other matter described herein since the date hereof. The information set forth herein is not guaranteed as to accuracy or completeness by the Trustee and the Trustee makes no representation concerning the issuance or validity of the 2005 Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE INSURER CONTAINED UNDER THE CAPTIONS "BOND INSURANCE FOR 2005 BONDS" HEREIN, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE INSURER AND THE INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (i) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (ii) THE VALIDITY OF THE 2005 BONDS; OR (iii) THE TAX EXEMPT STATUS OF THE INTEREST ON THE 2005 BONDS.

THE 2005 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor the City plans to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

CHOWCHILLA PUBLIC FINANCING AUTHORITY AND CITY OF CHOWCHILLA

CITY COUNCIL AND GOVERNING BOARD OF THE AUTHORITY

Albert Lucchessi, Chair/Mayor
Ron Harris, Vice-Chair/Mayor Pro Tem
Jerry Belton, Authority Member/Council Member
Al Ginsburg, Authority Member/Council Member
Ray Warner, Authority Member/Council Member

CITY OFFICIALS

Nancy Red, Executive Director/City Administrator
Richard H. Hargrove, City Attorney
Connie Wright, Finance Director/City Treasurer
Gayle Welsh, Deputy Director of Administrative Services/Chief City Clerk

SPECIAL SERVICES

Bond Counsel
Hargrove & Costanzo
A Professional Law Corporation
Fresno, California

Disclosure Counsel
Central California Public Finance Advocates
Fresno, California

Trustee
U.S. Bank National Association
San Francisco, California

Underwriter
Piper Jaffray and Co.
San Francisco, California

CHOWCHILLA FINANCING AUTHORITY
2005 Refunding Lease Revenue Bonds, Series A
(Civic Center Project)

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OFFICIAL STATEMENT

$5,890,000
CHOWCHILLA PUBLIC FINANCING AUTHORITY
2005 REFUNDING LEASE REVENUE BONDS, SERIES A
(CIVIC CENTER PROJECT)

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2005 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein shall have the respective meanings assigned to them in APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS." This Official Statement speaks only as of its date, and the information contained herein is subject to change.

General

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide certain information concerning the issuance, sale and delivery by the Chowchilla Public Financing Authority (the "Authority") of its 2005 Refunding Lease Revenue Bonds, Series A (the "2005 Bonds" and, together with any Additional Bonds issued under the Indenture, the "Bonds") in the aggregate principal amount of $5,890,000. The 2005 Bonds are being issued to provide funds (i) to refund the 2002 $1,900,000 Civic Center Project Private Placement Financing, (ii) to finance certain public improvements, (iii) to fund a deposit to the reserve account for the 2005 Bonds, (iv) to fund capitalized interest on a portion of the 2005 Bonds through January 1, 2007 and (v) to pay costs of issuance of the 2005 Bonds. See "DESCRIPTION OF THE CIVIC CENTER PROJECT," "DESCRIPTION OF THE PROPERTY," "SOURCES AND USES OF FUNDS" and "SECURITY FOR THE BONDS—Reserve Account" herein.

The Authority

The Authority is a joint exercise of powers agency organized under the laws of the State of California (the "State") and composed of the City of Chowchilla (the "City") and the Redevelopment Agency of the City of Chowchilla (the "Agency"). The Authority was formed to assist in the financing and refinancing of public capital improvements. The Agency and the City are each sometimes referred to herein as a "Member" of the Authority. See "THE AUTHORITY" herein.

The City

The City of Chowchilla is located in Madera County. The City is approximately 31 miles north of Fresno, 16 miles north of Madera, 140 miles south of Sacramento, and 153 miles southeast of San Francisco. It lies near the center of California in the San Joaquin Valley.

The City is approximately 4 square miles in size, with approximately 480 acres of the land being used for light and heavy industry, while the remaining 2080 acres is used for commercial and residential purposes. Chowchilla has a population of approximately 16,065. This includes the population of two state prisons located within the City.

See "THE CITY" herein and APPENDIX B—"GENERAL INFORMATION CONCERNING THE CITY AND REGION" attached hereto.

The audited financial statements of the City for the year ended June 30, 2003 and the unaudited financial statements of the City for the year ended June 30, 2004 are attached hereto as APPENDIX C. These financial statements, including the auditor's report and the notes thereto, should be read in their entirety. See "FINANCIAL STATEMENTS" herein for a discussion regarding the June 30, 2004 financial statement.

Authority for Issuance of the 2005 Bonds

The 2005 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 (the "Bond Law"), and an Indenture of Trust, dated as of July 1, 2005 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The City has entered into a Lease Agreement (as described below) pursuant to and in accordance with applicable laws of the State and a resolution of the City Council adopted July 11, 2005.

Security for the Bonds

The 2005 Bonds are limited obligations of the Authority, payable solely from Revenues of the Authority, consisting primarily of Lease Payments to be received by the Authority from the City under a Lease Agreement, dated as of July 1, 2005 (the "Lease Agreement"), by and between the Authority and the City. The Lease Payments are payable by the City from its General Fund for lease by the City of certain real property and public facilities located in the City and constituting the Civic Center Project (collectively, the "Property" or the "Property"). See "DESCRIPTION OF THE PROPERTY" herein. See "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

The 2005 Bonds are subject to optional redemption, and are subject to redemption in whole or in part from certain proceeds of insurance or condemnation. See "THE 2005 BONDS—Redemption of the 2005 Bonds" herein. Under certain circumstances, the Indenture permits the issuance of Additional Bonds secured by Revenues on parity with the 2005 Bonds. See 'SECURITY FOR THE BONDS—Additional Bonds" and APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—The Indenture of Trust" attached hereto.

Upon issuance of the 2005 Bonds, the Trustee shall deposit in the Reserve Account established pursuant to the Indenture S369,737.50, representing the initial Reserve Requirement. All amounts in the Reserve Account are required to be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS—Reserve Account" and "SECURITY FOR THE BONDS—Lease Agreement" herein.

Bond Insurance

Concurrently with the execution and delivery of the 2005 Bonds, the Authority has arranged for XL Capital Assurance, Inc., a New York stock insurance company, to deliver to the Trustee a municipal bond insurance policy (the "Policy"). The Policy will guarantee the scheduled payments when due of the principal of and interest on the 2005 Bonds. See "BOND INSURANCE FOR 2005 BONDS" herein.

2005 Bonds Constitute Limited Obligations

The 2005 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. **Neither the full faith and credit of the Authority, the City nor any Member of the Authority is pledged for the payment of the interest on or principal of the 2005 Bonds nor for the payment of Lease Payments. Neither the payment of the principal of or interest on the 2005 Bonds nor the obligation to make Lease Payments constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority 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.

General Bond Provisions

Interest on the Bonds is payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2006 (each an "Interest Payment Date"). See "THE 2005 BONDS—General Provisions" herein. The 2005 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2005 Bonds. Individual purchases of the 2005 Bonds will be made in book-entry form only. Purchasers of the 2005 Bonds will not receive certificates representing their ownership interests in the 2005 Bonds purchased. The 2005 Bonds will be issued in the principal amount of $5,000 and integral multiples thereof. Principal, premium, if any, and interest payments due on the 2005 Bonds are payable directly to DTC by the Trustee. Upon receipt of payment of principal, premium, if any, and interest, DTC will in turn distribute such payments to the beneficial owners of the 2005 Bonds. See "THE 2005 BONDS—General Provisions" and APPENDIX A—"BOOK-ENTRY SYSTEM."

Bond Owners' Risks

Certain events could affect the ability of the City to make the Lease Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2005 Bonds.

Tax Matters

In the opinion of Hargrove & Costanzo, a Professional Law Corporation, Fresno, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount, if any) on the 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, the interest (and original issue discount) on the 2005 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

Professionals Involved in the Offering

U.S. Bank National Association, San Francisco, California, will act as Trustee with respect to the 2005 Bonds and as Escrow Agent for the Prior Financing. The 2005 Bonds will be delivered subject to the approval as to their legality by Hargrove & Costanzo, a Professional Law Corporation, Fresno, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney. The City's financial statements for the fiscal year ended June 30, 2003 included as APPENDIX C hereto have been audited by Cassabon, McIlhatton & Associates LLP, Merced, California. See "FINANCIAL STATEMENTS" and APPENDIX C—"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2003 AND UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004" herein.

Continuing Disclosure

The Authority will execute a Continuing Disclosure Certificate under which it will covenant for the benefit of 2005 Bondholders to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain financial information and operating data relating to the City by no later than 270 days following the end of its Fiscal Year, commencing with Fiscal Year 2005-2006 and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with the Rule. See "CONTINUING DISCLOSURE" herein and APPENDIX G—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure certificate pursuant to which such reports are to be made.

Summaries Not Definitive

Brief descriptions of the 2005 Bonds, the Authority, the City and the Property are included in this Official Statement, together with summaries of the Lease Agreement and the Indenture. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2005 Bonds, the Lease Agreement and the Indenture are qualified in their entirety by reference to the actual documents, copies of all of which are available for inspection at the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111.

Additional Information

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any 2005 Bond Owner may obtain a copy of any such report, as available, from the City. The City may charge a fee for copying, handling and postage in connection with such requests. Additional information regarding this Official Statement may be obtained by contacting the City at the following address: City of Chowchilla, 145 West Robertson Blvd., Chowchilla, California 93610.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds	
Proceeds of 2005 Bonds	$5,890,000.00
Original Issue Discount	($130,065.85)
Total Sources	**$5,759,934.15**
Uses of Funds	
Deposit to 2002 Private Placement Financing Escrow Account	$1,839,700.26
Deposit to Civic Center Project Fund	2,940,000.00
Underwriter's Discount	79,515.00
Deposit to Reserve Account[(1)]	369,737.50
Deposit to Interest Account[(2)]	278,327.76
Deposit to Costs of Issuance Account[(3)]	252,653.63
Total Uses	**$5,759,934.15**

(1) Represents the deposit necessary to cause the amount in the Reserve Account to be equal to the Reserve Requirement upon the delivery of the 2005 Bonds. See "SECURITY FOR THE BONDS—Reserve Account" herein.

(2) Interest on a portion of the 2005 Bonds is capitalized through January 1, 2007.

(3) Includes legal fees, financial advisory fees, trustee fees, bond insurance premium, printing costs, rating agency fees and other miscellaneous expenses.

DEBT SERVICE REQUIREMENTS ON THE BONDS

The following table shows the debt service with respect to the 2005 Bonds.

Date	*Principal*	*Coupon*	*Interest*	*Total Debt Service*
07/01/2006	-	-	$215,124.89	$215,124.89
07/01/2007	-	-	246,640.00	246,640.00
07/01/2008	$120,000.00	3.000%	246,640.00	366,640.00
07/01/2009	125,000.00	3.000%	243,040.00	368,040.00
07/01/2010	130,000.00	3.200%	239,290.00	369,290.00
07/01/2011	130,000.00	3.350%	235,130.00	365,130.00
07/01/2012	135,000.00	3.500%	230,775.00	365,775.00
07/01/2013	140,000.00	3.625%	226,050.00	366,050.00
07/01/2014	145,000.00	3.750%	220,975.00	365,975.00
07/01/2015	150,000.00	4.000%	215,537.50	365,537.50
07/01/2016	160,000.00	4.000%	209,537.50	369,537.50
07/01/2017	165,000.00	4.000%	203,137.50	368,137.50
07/01/2018	170,000.00	4.000%	196,537.50	366,537.50
07/01/2019	180,000.00	4.000%	189,737.50	369,737.50
07/01/2020	185,000.00	4.125%	182,537.50	367,537.50
07/01/2021	190,000.00	4.250%	174,906.26	364,906.26
07/01/2022	200,000.00	4.250%	166,831.26	366,831.26
07/01/2023	210,000.00	4.375%	158,331.26	368,331.26
07/01/2024	220,000.00	4.375%	149,143.76	369,143.76
07/01/2025	230,000.00	4.375%	139,518.76	369,518.76
07/01/2026	235,000.00	4.375%	129,456.26	364,456.26
07/01/2027	250,000.00	4.375%	119,175.00	369,175.00
07/01/2028	260,000.00	4.375%	108,237.50	368,237.50
07/01/2029	270,000.00	4.375%	96,862.50	366,862.50
07/01/2030	280,000.00	4.500%	85,050.00	365,050.00
07/01/2031	295,000.00	4.500%	72,450.00	367,450.00
07/01/2032	310,000.00	4.500%	59,175.00	369,175.00
07/01/2033	320,000.00	4.500%	45,225.00	365,225.00
07/01/2034	335,000.00	4.500%	30,825.00	365,825.00
07/01/2035	350,000.00	4.500%	15,750.00	365,750.00
Total	$5,890,000.00	-	$4,851,627.45	$10,741,627.45

(1) Interest on a portion of the 2005 Bonds is capitalized through January 1, 2007.

DESCRIPTION OF THE CIVIC CENTER PROJECT

A portion of the proceeds of the 2005 Bonds will be used to pay costs associated with the issuance of the 2005 Bonds, to fund the Reserve Requirement in the Reserve Account for the 2005 Bonds, and fund the Escrow Fund for the Prior Financing. The remaining proceeds will be used to finance the acquisition, construction and furnishing of public improvements to the new City Hall (the "Civic Center Project").

In February 2001, the City purchased the property at 130 Second St., formerly known as the "Perry's" building for eventual conversion to City use. In March 2001 the City hired Architecture Plus for programming, preliminary design and design development of the City Hall building and associated Civic Center Plaza. The building is currently under contract for major remodeling for City use as well as for tenant space for outside government and non-profit corporations. Plans call for approximately 16,214 square feet to be used by the City with 4,064 square feet to be leased to outside government agencies and non-profit corporations.

In addition to the conversion of the "Perry's" building to City use, the current City Hall is undergoing a seismic retrofit and remodeling. The current building consists of approximately 4,622 square feet. The building is to receive a new roof, new air conditioning system and ducting and a new façade.

In November 2002, the City entered into a Sublease/Option Agreement with Municipal Finance Corporation as part of its $1,900,000 Civic Center Project Private Placement Financing. The Private Placement Financing, which is being refunded with the 2005 Bonds, allowed the City to make improvements to the new City Hall site and to make needed renovations to its Police Department.

The Civic Center Project is divided into three phases. Phase I is remodeling of the existing building at the project site. Phase II is construction of the parking lots, a new street and a fountain area as part of the "plaza" area of the Civic Center Project. Phase III consists of the purchase of additional property for a public parking lot and sidewalk construction and relocation of bleachers to allow for diagonal parking for city hall.

In January 2005, the City hired Zumwalt Construction, Inc., Fresno, California to serve as construction manager/general contractor for the Phase I improvements for the Civic Center Project.

The Civic Center Project Budget is as follows:

CHOWCHILLA CITY HALL
Project Budget as of August 2005

Budget Item	***Budgeted Amount***
Civic Center Project Development	$ 40,000
Architect and Engineering	200,000
Property Contribution	1,000,000
Building Plaza and Parking Construction	4,790,000
Interiors and Equipment	210,000
Total	**$6,240,000**

Source: The City

THE 2005 BONDS

General Provisions

The 2005 Bonds will be dated as of their date of delivery and shall bear interest from such date, payable on January 1, 2006, and semiannually thereafter on July 1 and January 1 of each year. Interest on the 2005 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2005 Bonds will be issued in denominations of $5,000 or any integral multiple thereof. The 2005 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2005 Bonds. Payments of principal, premium, if any, and interest on the 2005 Bonds will be paid by the Trustee to DTC which is obligated in turn to remit such principal, premium, if any, and interest on the 2005 Bonds to its DTC Participants for subsequent disbursement to the Beneficial Owners of the 2005 Bonds. See APPENDIX A—"BOOK-ENTRY SYSTEM" attached hereto.

Redemption of the 2005 Bonds

Optional Redemption.

The Serial Bonds maturing on or before July 1, 2015, are not subject to optional redemption prior to maturity. The Serial Bonds maturing on and after July 1, 2015, are subject to redemption, at the option of the Authority on any date on or after July 1, 2015, as a whole or in part, by such maturities as shall be determined by the Authority, and by lot within a maturity, from any available source of funds, at the following redemption prices: the principal amount of the Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption.

The Authority shall be required to give the Trustee written notice of its intention to redeem Bonds with a designation of the principal amount and maturities to be redeemed at least sixty (60) days, prior to the date fixed for such redemption, and shall transfer to the Trustee for deposit in the Debt Service Fund all amounts required for such redemption at least five (5) Business Days prior to the date fixed for such redemption.

Mandatory Sinking Fund Redemption

The Term Bonds maturing July 1, 2029, shall also be subject to mandatory redemption in part by lot on July 1, 2023, and on July 1 in each year thereafter to and including July 1, 2029, from Sinking Account payments made by the Authority at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased in whole or in part pursuant to the provisions hereafter set forth, in the aggregate respective principal amounts and on the respective dates as set forth in the following table; provided that if some but not all of the Bonds have been redeemed pursuant to the above, the total amount of all future Sinking Account payments shall be reduced by the aggregate principal amount of Bonds so redeemed, to be allocated among the Sinking Account payments as are thereafter payable on a pro rata basis in integral multiples of $5,000 as determined by the Authority (notice of which determination shall be given by the Authority to the Trustee).

TERM BOND DUE JULY 1, 2029

Sinking Account Redemption Date (July 1)	***Principal Amount to be Redeemed or Purchased***
2023	$210,000
2024	220,000
2025	230,000
2026	235,000
2027	250,000
2028	260,000
2029	270,000

The Term Bonds maturing July 1, 2035, shall also be subject to mandatory redemption in part by lot on July 1, 2030, and on July 1 in each year thereafter to and including July 1, 2035, from Sinking Account payments made by the Authority at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased in whole or in part pursuant to the provisions hereafter set forth, in the aggregate respective principal amounts and on the respective dates as set forth in the following table; provided that if some but not all of the Bonds have been redeemed pursuant to the above, the total amount of all future Sinking Account payments shall be reduced by the aggregate principal amount of Bonds so redeemed, to be allocated among the

Sinking Account payments as are thereafter payable on a pro rata basis in integral multiples of $5,000 as determined by the Authority (notice of which determination shall be given by the Authority to the Trustee).

TERM BOND DUE JULY 1, 2035

Sinking Account Redemption Date (July 1)	***Principal Amount to be Redeemed or Purchased***
2030	$280,000
2031	295,000
2032	310,000
2033	320,000
2034	335,000
2035	350,000

In lieu of redemption of Term Bonds pursuant to the Indenture, amounts on deposit as Sinking Account payments may also be used and withdrawn by the Trustee, at the written direction of the Authority, at any time for the purchase of Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of the Term Bonds so purchased by the Authority and surrendered to the Trustee for cancellation in any twelve-month period ending on May 1 in any year shall be credited towards and shall reduce the par amount of the Term Bonds otherwise required to be redeemed on the following July 1 pursuant to the above.

Special Mandatory Redemption from Insurance or Condemnation Proceeds.

The 2005 Bonds will be subject to redemption as a whole or in part on any date, to the extent of hazard or title insurance proceeds not used to repair or replace any portion of the Property damaged or destroyed, or condemnation proceeds received with respect to any portion of the Property and elected by the City to be used for such purpose, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of 2005 Bonds for Redemption.

Whenever less than all of the 2005 Bonds are to be redeemed, the Trustee will select the 2005 Bonds to be redeemed from all 2005 Bonds or such given portion thereof not previously called for redemption pro rata among maturities (as nearly as practicable) and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate; provided, however, that the 2005 Bonds may be redeemed from any maturity or maturities selected by the City to correspond with Lease Payments prepaid by the City, and by lot within a maturity. For purposes of such selection, the Trustee will treat each 2005 Bond as consisting of separate $5,000 portions and each portion shall be subject to redemption as if such portion were a separate 2005 Bond.

Notice of Redemption; Rescission.

The Trustee, on behalf and at the expense of the Authority, shall mail (by first-class mail, postage prepaid) notice of any redemption at least thirty (30) but not more than sixty (60) days prior to the redemption date, to (i) to the Insurer and to the Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services designated in a Written Request of the Authority filed with the Trustee; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the redemption date and the redemption price, shall state that such redemption is conditioned upon the timely delivery of the redemption price by the Authority to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the Bonds to be redeemed, shall state the individual number of each Bond to be redeemed or shall state that all Bonds between two stated numbers (both inclusive) or all of the Bonds Outstanding are to be redeemed, and shall require that such Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

The Authority shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission or redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Upon the payment of the redemption price of Bonds being redeemed, each check of other transfer of funds issued for such purposes shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Partial Redemption of Bonds.

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Effect of Redemption.

From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the Bonds so called for redemption shall have been duly deposited with the Trustee, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

DESCRIPTION OF THE PROPERTY

General

The Civic Center Project constitutes the subject matter of the Lease Agreement. Upon issuance of the 2005 Bonds, the Authority agrees that it will sublease the Civic Center Project to the City pursuant to the Lease Agreement, for the Lease Payments set forth in the Lease Agreement. Lease Payments under the Lease Agreement secure the 2005 Bonds. See "SECURITY FOR THE BONDS—Lease Agreement" herein.

The Civic Center Project consists of the improvements to be made as described in "DESCRIPTION OF THE CIVIC CENTER PROJECT" herein.

SECURITY FOR THE BONDS

Pledge and Flow of Funds Under the Indenture

The Indenture provides that all of the amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source) but excluding any Additional Payments, and all interest, capitalized interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture and any other amounts (including proceeds of the sale of the 2005 Bonds) held in any fund or account established pursuant to the Indenture (collectively, the "Revenues") are pledged to secure the payment of the principal of and interest on the Bonds, subject only to the provisions of the Indenture (except that all amounts required under the Lease Agreement to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited therein) permitting the application of Revenues for the purposes and on the terms and conditions set forth therein.

All Revenues will be deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee will hold in trust. Not later than the fifth Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will maintain within the Bond Fund), the following amounts in the following order of priority:

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

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

(iii) The Trustee shall deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds subject to mandatory redemption on such date pursuant to the Indenture. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds, as it shall become due and payable upon redemption or purchase pursuant to the Indenture.

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

(v) All amounts in the Sinking Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Term Bonds.

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2005 Bonds, as it shall become due and payable including accrued interest on any 2005 Bonds purchased or redeemed prior to maturity. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the 2005 Bonds (Serial and/or Term) at their respective maturity dates or upon early redemption from sinking fund payments.

The 2005 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. Neither the full faith and credit of the Authority, the City or any Member of the Authority is pledged for the payment of the interest on or principal of the 2005 Bonds nor for the payment of Lease Payments under the Lease Agreement. Neither the payment of the principal of or interest on the 2005 Bonds nor the obligation to make Lease Payments under the Lease Agreement

constitutes a debt, liability or obligation of the Authority, the City or any Member of the Authority 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.

Lease Agreement

General.

Revenues of the Authority pledged under the Indenture consist primarily of the Lease Payments to be made by the City to the Authority under the Lease Agreement. For the lease of the Civic Center Project, the City covenants under the Lease Agreement to pay Lease Payments and Additional Payments in amounts required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the Civic Center Project as described in the Lease Agreement, including without limitation, the fees, costs and expenses and all administrative costs of the Authority related to the Civic Center Project. The obligation of the City to pay Lease Payments to the Authority when due is a General Fund obligation of the City. THE CITY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE CITY, THE COUNTY OF MADERA, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH LEASE PAYMENTS.

FOR INFORMATION REGARDING THE CITY, INCLUDING FINANCIAL INFORMATION, SEE APPENDICES B, C AND D ATTACHED HERETO. THE CITY'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003 AND THE CITY'S UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004 ATTACHED HERETO AS APPENDIX C SHOULD BE READ IN THEIR ENTIRETY. SEE ALSO "RISK FACTORS," "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" AND "FINANCIAL STATEMENTS" HEREIN.

Covenant to Budget and Appropriate.

Pursuant to the Lease Agreement, the City covenants to take such action as may be necessary to include Lease Payments due in its annual budgets and to make the necessary annual appropriations for all such payments. The Lease Agreement provides that its covenants are deemed to be ministerial duties imposed by law, and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants.

Insurance.

The Property will be insured to the extent set forth in the Lease Agreement. See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—The Lease" attached hereto. The Lease Agreement requires the City to maintain or cause to be maintained insurance against risk of loss or damage by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance, provided in no event is the City required to procure or maintain earthquake insurance on any part of the Property. The extended insurance coverage will, as nearly as practicable, cover loss or damage by explosion, windstorm, hail, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will apply exclusively to the Property and shall be in an amount equal to the greater of (a) 100% of the replacement cost of the structures constituting part of the Property, or (b) the aggregate principal amount of the outstanding Bonds. Such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss. The proceeds of all property insurance must be used to repair, reconstruct or replace the Property or any portion thereof which is destroyed or damaged or to redeem Bonds.

Abatement.

In the event of loss or substantial interference in the use and occupancy by the City of all or any portion of the Civic Center Project caused by material damage, title defect, destruction to or condemnation of the Civic Center Project, Lease Payments will be subject to abatement. In the event that such component of the Civic Center Project, if damaged or destroyed by an insured casualty, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Civic Center Project or prepayment of the 2005 Bonds, there could be insufficient funds to make payments to the Bond Owners in full. See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—The Lease" attached hereto.

Default and Remedies.

Upon an Event of Default described below, the City will be deemed to be in default under the Lease Agreement and the Authority may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. Upon any such default, including a failure to pay Lease Payments, the Authority generally may either (1) exercise any and all rights of entry and re-entry upon the Property, (2) with or without such entry, terminate the Lease Agreement and continue to hold the City liable for the payment of Lease Payments and/or damages for breach of the Lease Agreement, (3) to take any legally necessary action to collect the Lease Payments and to enforce the performance of any obligation agreement or covenant of the City under the Lease Agreement.

Events of Default under the Lease Agreement include (a) failure by the City to pay any Lease Payment required to be paid under the Lease Agreement; (b) failure by the City to make any Additional Payment required under the Lease Agreement and the continuation of such failure for a period of 30 days; (c) failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement, other than as described under (a) or (b) above, for a period of 30 days after written notice specifying such failure; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, an extension of time may be granted with the consent of the Insurer if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; or (d) the filing by the City of a voluntary petition in bankruptcy or under any similar acts.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE LEASE AGREEMENT, INCLUDING A DESCRIPTION OF CERTAIN COVENANTS THEREIN, SEE APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT" ATTACHED HERETO. FOR A DESCRIPTION OF CERTAIN LIMITATIONS TO THE ENFORCEMENT OF REMEDIES UNDER THE LEASE AGREEMENT, SEE "RISK FACTORS—LIMITATIONS OF REMEDIES AND BANKRUPTCY" HEREIN.

Additional Bonds

The City shall not issue or incur any additional bonds or other obligations during the Term of the Lease Agreement having any priority in payment of principal or interest out of the Revenues over the Lease Payments. Nothing herein is intended or shall be construed to limit or affect the ability of the Authority to issue or incur (a) Parity Obligations pursuant to Section 3.6 of the Indenture, or (b) obligations which are either unsecured or which are secured by an interest in the Revenues which are junior and subordinate to the pledge of and lien upon the Revenues established therein.

Reserve Account

Upon issuance of the 2005 Bonds, the Trustee shall deposit in the Reserve Account established pursuant to the Indenture \$369,737.50, which deposit will cause the amount in the Reserve Account to be equal to the Reserve Requirement. "Reserve Requirement" is defined under the Indenture to mean, as of the date of calculation, an amount equal to the lesser of (i) 10% of the initial principal amount of the 2005 Bonds, (ii) maximum annual debt service or (iii) 125% of average annual debt service. If at the time of calculation of the Reserve Requirement there shall be two or more reserve accounts established with respect to the 2005 Bonds and any Additional Bonds, then the amounts then deposited in such reserve accounts shall be aggregated for purposes of calculating compliance with the Reserve Requirement. All amounts in the Reserve Account are required to be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. So long as no Event of Default has occurred or is continuing under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement on the Business Day preceding each Interest Payment Date will be withdrawn from the Reserve Account by the Trustee and deposited in 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 that were issued as tax-exempt Bonds to become includable in gross income for purposes of federal income taxation.

"Qualified Reserve Account Credit Instrument" is defined under the Indenture as an irrevocable standby or direct pay letter of credit or surety bond issued by a commercial bank or insurance company and approved as to form and substance by the Insurer and deposited with the Trustee, provided that all of the following requirements are met by the Authority at the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is Aa or better from Moody's Investors Service, Inc. and AA or better from Standard & Poor's Rating Services; (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 or the Principal Account or in any other amount for the purpose of making payments on the Bonds. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority will be obligated either (i) to 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 or to draw upon the Qualified Reserve Account Credit Instrument prior to its maturity or renewal date an amount of funds such that amounts on deposit in the Reserve Account equal the Reserve Requirement.

The Reserve Account may be maintained in the form of one or more separate sub-accounts, which are established for the purpose of holding the proceeds of separate issues of the Bonds and Additional Bonds in conformity with applicable provisions of the Code.

See APPENDIX E—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—The Indenture of Trust—Reserve Account" attached hereto.

BOND INSURANCE FOR 2005 BONDS

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the Issuer or the Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2004, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $1,173,450,000, $558,655,000, $39,000,000 and $575,795,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" (Outlook Negative) by Moody's, "AA-" by Standard & Poor's and "AA" (Ratings Watch Negative) by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the Bondholders.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited financials of XLCA, as of December 31, 2004, XLCA had total assets, liabilities, and shareholder's equity of $827,815,000, $593,849,000, and $233,966,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2004 filed with the State of New York Insurance Department, XLCA has total admitted assets of $341,937,000, total liabilities of $143,494,000 and total capital and surplus of $198,443,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

RISK FACTORS

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the 2005 Bonds. There can be no assurance made that other risk factors will not become evident at any future time. See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Lease Payments Not City Debt

THE CITY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE CITY, THE COUNTY OF MADERA, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF THE LEASE PAYMENTS OR ANY OTHER PAYMENTS DUE UNDER THE LEASE AGREEMENT. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and the City has covenanted in the Lease Agreement that, for the term of the Lease Agreement, it will make the necessary annual appropriations within its budget for all Lease Payments. The City is currently liable on other obligations payable from general revenues. See "THE CITY—Summary of Outstanding Capital Lease Obligations" herein.

Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments, fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIII C and Article XIII D of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Article XIII C and Article XIII D of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected. Although the City does not currently anticipate that the provisions of Article XIII C and Article XIII D of the State Constitution would adversely affect its ability to pay the Lease Payments related to the 2005 Bonds as and when due and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIII C and Article XIII D of the State Constitution on the City's finances.

Additional Obligations of the City

The City has the capability to enter into other obligations, which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Civic Center Project, taxes and other governmental charges levied against the Civic Center Project) are payable from funds lawfully available to the City. In the event that the amounts, which the City is obligated to pay in a fiscal year, exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues.

Default

In the event of a default the Trustee could, at the direction of the Bond Insurer, initiate a lawsuit to recover money damages based on the Lease Agreement. Any such suit for money damages would be subject to potential limitations on legal remedies against cities in the State of California, including a limitation against funds needed to serve the public welfare and interest. There is no guarantee that any such lawsuit against the City would result in an award of money damages. See APPENDIX E—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Lease Agreement—Remedies on Default."

Abatement

In the event of loss or substantial interference in the use and occupancy by the City of all or any portion of the Leased Property caused by material damage, title defect, destruction to or condemnation of the Leased Property, Base Rental Payments will be subject to abatement. In the event that such component of the Leased Property, if damaged or destroyed by an insured casualty, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Leased Property or prepayment of the Bonds, there could be insufficient funds to make payments to Owners in full.

Risk of Uninsured Loss

The City covenants under the Lease to maintain certain insurance policies on the Leased Property. See "SECURITY FOR THE BONDS-Insurance." These insurance policies do not cover all types of risk. For instance, the City does not covenant to maintain earthquake insurance. The Leased Property could be damaged or destroyed due to earthquake or other casualty for which the Civic Center Project is uninsured. Additionally, the Civic Center Project could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Civic Center Project will be sufficient to repair the Civic Center Project or to redeem the Bonds and any other obligations secured by Lease Payments.

Certain of the City's insurance policies provide for deductibles up to $25,000. Should the City be required to meet such deductible expenses, the availability of General Fund revenues to make Lease Payments may be correspondingly affected.

Earthquakes

The City is not required to obtain earthquake insurance under the Lease Agreement. See "SECURITY FOR THE BONDS—Lease Agreement—Insurance" herein. In the event that any portion of the Civic Center Project is destroyed by an earthquake or other natural disaster, there is no guarantee that the City would have adequate insurance proceeds to reconstruct or repair the Civic Center Project. Any such natural disaster could significantly and adversely affect the operations and finances of the City and/or the value of the Civic Center Project.

Hazardous Substances

The City knows of no existing hazardous substances which require remedial action on or near the Civic Center Project. However, it is possible that such substances do currently or potentially exist and that the City is not aware of them. The City does not currently carry insurance covering the risks of hazardous substances. Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City and/or the value of the Civic Center Project.

Investment of Funds

The Reserve Account and all other funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX E attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or the funds and accounts held by the City could have a material adverse affect on the security for the 2005 Bonds, Additional Bonds, and/or the financial condition of the City. See (i) "THE CITY—Investment Policies and Procedures" herein, (ii) the City's Statement of Investment Policy attached hereto as APPENDIX D and (iii) the audited financial statements of the City for the year ended June 30, 2003 and unaudited financial statements of the City for the year ended June 30, 2004 attached hereto as APPENDIX C for information concerning the City's investment policy and portfolio of investments.

Secondary Market

There can be no assurance that there will be a secondary market for the 2005 Bonds or, if a secondary market exists, that such 2005 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 the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Limitation of Remedies and Bankruptcy

The enforcement of any remedies provided in the Lease Agreement and Indenture could prove both expensive and time consuming.

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

In addition to the limitations on remedies contained in the Lease Agreement and the Indenture, the rights and remedies provided in the Indenture and the Lease Agreement may be limited by and are subject to provisions of 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 2005 Bondholders, the Trustee and the Authority could be prohibited or severely restricted from taking any steps to enforce their rights under the Lease Agreement and from taking any steps to collect amounts due from the City under the Lease Agreement.

All legal opinions rendered upon the delivery of the 2005 Bonds as to the enforceability of the Lease Agreement and the Indenture will be expressly subject to a qualification that enforcement of such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally, by limitations on remedies against cities in California and by applicable principles of equity if equitable remedies are sought.

No Liability of the Authority to the Owners

Except as expressly provided in the Indenture, the Authority shall not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" below, interest on the 2005 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2005 Bonds were issued as a result of future acts or omissions of the Authority or the City in violation of their respective covenants in the Lease Agreement and the Indenture. Should such an event of taxability occur, the 2005 Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2005 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2005 Bonds might be affected as a result of such an audit of the 2005 Bonds (or by an audit of similar bonds).

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value', or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities).

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

Future assessed valuation growth allowed under Article XIIIA (new construction, change of ownership, 2% annual value growth) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The City is unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") in lieu of lost property tax revenues, if any. Article XIIIA effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

Article XIIIB of the California Constitution

At the statewide special election on November 6, 1979, the voters approved an initiative entitled "Limitation on Government Appropriations" which added Article XIIIB to the California Constitution. Under Article XIIIB, state and local government entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues and certain state subventions together called "proceeds of taxes" and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of monies which are excluded from the definition of "appropriations limit" including debt service on indebtedness existing or authorized as of August 1, 1979, or bonded indebtedness subsequently approved by the voters. 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 XIIIB, if those entities' revenues in any year exceed the amounts permitted to be spent, the excess is to be returned by revising tax rates or fee schedules over the subsequent two years.

The City's appropriation limit for the fiscal year ended June 30, 2004 was $2,565,575, for which expenditures subject to the appropriation limitation were $1,582,229.

Proposition 62

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

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, and was held invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

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

Article XIIIC and Article XIIID of the State Constitution

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 XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including municipalities, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIIIA and XIIIB of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The City's franchise fee, which totaled approximately $3.8 million in fiscal year 2001, could be subject to repeal by voter initiative under Article XIIIC.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the City.

The interpretation and application of Articles XIIIC and Article XIIID will be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination. Although the City does not currently anticipate that the provisions of Article XIIIC and XIIID will adversely affect its ability to pay the Lease Payments as and when due, no assurance can be given regarding the ultimate interpretation or effect of Article XIIIC and Article XIIID on the City's finances.

Unitary Property

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formula generally based on the distribution of taxes in the prior year.

Future Initiatives

Article XIIIA, Article XIIIB, XIII C and XIII D were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's current revenues or its ability to raise and expend revenues.

THE AUTHORITY

The Chowchilla Public Financing Authority was formed pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Joint Exercise of Powers Agreement, dated as of August 14, 1989 (the "Joint Powers Agreement"), by and between the City and the Agency. The Agency was activated in 1991 by City Ordinance No. 377-91. The Agency was activated pursuant to the Community Redevelopment Law of the State of California. The Authority was formed to assist the City in the financing and refinancing of public capital improvements. The Authority is governed by a five-member board whose members are the same as the City Council. The Authority has no employees and all staff work is done by City staff or by consultants to the Authority. The Authority has acted as a conduit issuer for the City for a variety of financings.

THE CITY

General

The City of Chowchilla is located in Madera County. The City is approximately 31 miles north of Fresno, 16 miles north of Madera, 140 miles south of Sacramento, and 153 miles southeast of San Francisco. It lies near the center of California in the San Joaquin Valley.

The City is approximately 4 square miles in size, with approximately 480 acres of the land being used for light and heavy industry, while the remaining 2080 acres is used for commercial and residential purposes. Chowchilla has a population of approximately 16,065. This includes the population of two state prisons located within the City.

For further information concerning the City, see below and APPENDIX B—"GENERAL INFORMATION CONCERNING THE CITY AND REGION" attached hereto.

Government

City Council and Staff.

The City operates under a Council/Administrator form of government. The City Council is composed of five members elected at large. The Mayor is the presiding officer of the Council and is selected by the members of the City Council. The City Council appoints a City Administrator, City Clerk, City Attorney, City Treasurer and all advisory boards and commissions. The City Administrator serves as the chief administrative officer of the City.

The names of the members of the City Council and the dates their terms expire are as follows:

Albert Lucchessi	December 2006
Ronald Harris	December 2008
Jerry Belton	December 2008
Al Ginsburg	December 2008
Ray Warner	December 2006

Albert Lucchessi, who currently serves as Mayor, is the former Chief of Police for the City. He is in his seventh year as a City Council Member. Ronald Harris is a farmer and is in his ninth year as a City Council Member. Jerry Belton owns and operates a hardware store in the City and is in his fifth year as a City Council Member. Al Ginsburg is a former member of the Madera County Board of Supervisors and is in his fifth year as a City Council Member. Ray Warner is the General Manager of Brake Parts, Inc. and has been serving as a City Council Member since January 2005.

Nancy Red was appointed City Administrator of the City in 1995. Prior to this appointment, Ms. Red served as Interim City Administrator and Parks & Community Services Director for the City. She has been employed by the City since 1977.

Richard H. Hargrove is the duly appointed City Attorney. Mr. Hargrove's firm, Hargrove & Costanzo, serves as contract city attorney for several cities in Central California. Mr. Hargrove has practiced municipal law since 1964.

Connie Wright was hired as Director of Finance/Treasurer in 1998. Prior to this position, Ms. Wright was a finance consultant to the City. She served in that position from 1980 until she accepted the position of Director of Finance/Treasurer.

Gayle Welsh is the appointed Deputy Director of Administrative Services/Chief City Clerk. Prior to assuming this position, she was employed by the City of Madera for twenty-one (21) years and served as the Planning Secretary, Administrative Assistant and Executive Assistant to the City Administrator.

Administration.

The major municipal departments and agencies of the City administration are: Administrative Services, Community Development, Finance, Fire Services, Parks & Recreation, Police and Public Services. The City operates divisions within these major departments for Human Resources, Redevelopment, and Building, Safety and Planning. The City's Police Department is responsible for the protection of life, property and traffic enforcement within the City. Salaries for exempt employees are set by the City Council.

Budgetary Process and Administration

The City prepares and adopts a budget for each fiscal year. Prior to June 30, the City Administrator submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Prior to June 30, public hearings are conducted to obtain public comments and the budget is legally enacted through the passage of a resolution.

The City Administrator is authorized to transfer budgeted amounts between line items within a department or activity provided the total appropriation does not exceed the budgeted amount. Any other budget amendments require authorization by the City Council. The City Administrator and affected department heads are mutually responsible for controlling expenditures within budgeted appropriations.

Revenue and Expenditure Trends

The General Fund City Budget includes programs and services which are provided on a largely citywide basis. The programs and services are financed primarily by the City's share of property taxes, sales tax, local taxes, revenues from the State and charges for services provided.

The table below compares the City's General Fund Budget adopted for fiscal year 2003-04 with the City's actual revenue and expenditures for fiscal year 2003-04.

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TABLE 1
CITY OF CHOWCHILLA
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual General Fund For the Fiscal Year Ended June 30, 2004, Unaudited

	General Fund		
	Budget	***Actual***	***Variance Favorable Unfavorable***
Revenues:			
Taxes[1]	$ 1,491,500	$ 1,584,694	$ 93,194
Licenses and Permits	219,000	392,419	173,419
Fines/Penalties	74,000	74,968	968
Use of $/Property	52,800	55,164	2,364
Intergovernmental[2]	745,000	590,139	(154,861)
Current S/C	102,500	94,287	(8,213)
Miscellaneous	16,200	116,444	100,244
Total Revenues	$ 2,701,000	$ 2,908,115	$ 207,115
Expenditures:			
Current:			
General Government	$ 706,250	$ 793,283	$ (87,033)
Public Safety	1,504,110	1,496,968	7,142
Highways/Streets	391,880	425,870	(33,990)
Cultural & Recreation	494,350	537,056	(42,706)
Capital Outlay	43,800	35,008	8,792
Debt Service: Principal	51,910	51,768	142
Debt Service: Interest	70,600	70,621	(21)
Total Expenditures	$ 3,262,900	$ 3,410,574	$ (147,674)
Excess (Deficiency) of Revenues Over Expenditures	$ (561,900)	$ (502,459)	$ 59,441
Other Financing Sources (Uses):			
Operating Transfers In	$ 275,000	$ 290,491	$ (15,491)
Operating Transfers Out	0	0	0
Total Other Financing Sources (Uses)	$ 275,000	$ 290,491	$ (15,491)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ (286,900)	$ 211,968	$ 43,950
Fund Balances at July 1	$ --	$ 986,589	$ --
Residual Equity Transfers	--	--	--
Fund Balances at June 30	$ --	$ 774,621	$ --

(1) Includes Property Taxes.
(2) Includes Motor Vehicle License In-Lieu Payments.

Source: The City.

The following table shows general fund revenues and general fund expenditures from the fiscal year 2004-05 City budget:

TABLE 2
GENERAL FUND BUDGET SUMMARY
REVENUES AND EXPENDITURES
FOR FISCAL YEAR 2004-05, UNAUDITED

		2004-05
OPERATING REVENUES:		
Property Taxes	$	389,000
Other Taxes, License & Permits		1,514,000
Fines, Penalties & Rents		111,500
Intergovernmental Revenues		867,000
Charges for Services		134,500
Miscellaneous		40,000
Total Revenues:	**$**	**3,056,000**
OPERATING EXPENSES:		
Salaries and Benefits	$	2,314,500
Services and Supplies		573,730
Allocated Operational Costs		412,970
Total Operating Expenses		**$3,301,200**
NON-OPERATING REVENUES (EXPENSES)		
Investment Earnings	$	20,000
Capital Outlay		(28,050)
Bond Principal Payments		(52,150)
Bond Interest Payments		(70,600)
Total Non-operating	**$**	**(130,800)**
Income (Loss) Before Transfers	$	(376,000)
OTHER FINANCING SOURCES		
Transfers (In)	$	56,000
Transfers (Out)		0
NET CHANGE IN ASSETS	$	(320,000)
Actual Reserves, 7/01/04	$	774,621
Anticipated Reserves, 6/30/05	**$**	**504,621**

Source: The City.

The following table provides historical information on tax revenues by source.

TABLE 3
CITY OF CHOWCHILLA
Total General Fund[1] Revenues and Other Funding Sources by Source

Source	*2001-02*	*2002-03*	*2003-04*	*2004-05[1]*
Sales tax	$ 779,759	$ 798,918	$ 867,036	$ 802,000
Property tax	363,746	365,355	388,473	389,000
Franchise tax	145,061	131,566	156,978	161,000
Transient occupancy tax	66,738	69,184	74,480	78,000
Business License tax	40,549	45,936	52,021	51,000
Documentary Stamp Taxes	12,795	21,009	45,706	28,000
Licenses and Permits	119,246	227,266	392,420	394,000
Fines and penalties	64,798	50,598	74,970	62,500
Intergovernmental[2]	680,928	762,990	590,139	660,000
Interest and rents	49,375	77,581	55,163	69,000
Service charges and fees	22,647	50,377	14,145	43,000
Miscellaneous refunds/reimbursements	171,414	284,128	116,444	40,000
Parks/recreation programs	81,264	71,394	80,140	91,500
State gas tax fund	205,589	214,565	211,633	207,000
Other funding sources	11,000	56,000	56,000	56,000
Total Revenues	**$ 2,814,909**	**$ 3,226,867**	**$ 3,175,748**	**$ 3,132,000**

(1) Preliminary budget.
(2) Includes Motor Vehicle License In-Lieu Payments.

Source: The City.

Sales and Use Taxes

Sales tax is collected and distributed by the State Board of Equalization. The City receives an amount equal to one percent (1.00%) of taxable sales within its jurisdiction. Sales tax receipts comprised twenty seven percent (27%) of the City's General Fund revenue for fiscal year 2003-04. The City's major source of sales tax revenue is from retail sales within the City. The largest generators of sales tax are two automobile dealerships located within the City.

The Following table shows budgeted versus actual sales tax receipts for 2002-03 through 2004-05.

TABLE 4
CITY OF CHOWCHILLA
Actual versus Budgeted Sales Tax Receipts

Fiscal Year	*Budgeted Sales Tax*	*Actual Receipts*	*Percent of Budget*
2002/2003	$805,000	$790,362	98.2%
2003/2004	$808,000	$821,235	101.6%
2004/2005	$795,000	$683,893	86.0%

Source: City of Chowchilla

Utility Users Tax

The City does not have a Utility Users Tax.

Property Taxes

Property taxes represent the second largest source of budgeted General Fund Revenues. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding March 1 (January 1 beginning for fiscal year 1999/00). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and March 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Properties on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1½% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1½% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on countywide property values are to be shared with local taxing entities within each county.

In 1992-93 and 1993-94, in response to serious budgetary shortfalls, the Legislature and administration permanently redirected over $3 billion of property taxes from cities, counties, and special districts to schools and community college districts. The Legislature, however, provided some additional funding sources (such as sales taxes) and reduced certain mandates for local services. Local governments sued the State (*Sonoma County, et. al. v. Commission on State Mandates, et. al*) over these transfers. The appeals court denied the plaintiffs' position and the subsequent appeal was not heard by the State Supreme Court.

The term "ERAF" is often used as a shorthand reference for this shift of property taxes. ERAF actually is an acronym for the fund into which redirected property taxes are deposited in each county, the Educational Revenue Augmentation Fund. The City cannot predict the impact on its General Fund resulting from future acts of the Legislature to redirect property taxes or the like.

Teeter Plan

The Board of Supervisors of Madera County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the counties apportion secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including cities, for which the counties act as the tax-levying or tax-collecting agency. The Teeter Plan was effective beginning in fiscal year 1993-94. The City participates in the Teeter Plan. The City's recent history concerning the receipt of property taxes is included herein. See "—Summary Financial Information" herein.

Assessed Valuation Information

Set forth in the table below is a listing of the City's assessed valuations for secured and unsecured property within the City (before redevelopment adjustment) for fiscal years 2000-01 through 2004-05.

TABLE 5
CITY OF CHOWCHILLA
Assessed Value of All Taxable Property

	Total Secured	*Utility*	*Unsecured*	*Total Before Rdv.*
1999-00	$195,591,423	$ 422,836	$13,326,997	$209,341,256
2000-01	209,425,206	414,547	12,116,263	221,956,016
2001-02	219,123,269	683,672	12,678,766	232,485,707
2002-03	230,534,803	679,236	44,693,961	275,908,000
2003-04	255,947,215	694,367	47,476,501	304,118,083
2004-05	283,903,189	1,185,696	45,903,393	330,992,278

Source: California Municipal Statistics, Inc.

Largest Taxpayers

The twenty largest secured property taxpayers in the City, as shown on the 2004-05 secured tax roll, are listed in the table below.

TABLE 6
CITY OF CHOWCHILLA
Principal Taxpayers
For the Fiscal Year Ended June 30, 2005

Property Owner		Land Use	Assessed Valuation	Total [1]
1.	Norman H. and Gladys D. Sanguinetti	Shopping Center	$ 4,467,885	1.57%
2.	California Greenhills Estates LLC	Residential Land	4,407,161	1.55
3.	Pheasant Run LLC	Golf Course	4,042,850	1.42
4.	Myerwood Associates	Multi-family Residential	2,691,942	0.95
5.	H. Ronald and Diane Child	Industrial	2,163,855	0.76
6.	Woodside Prestwick Inc.	Residential Land	2,115,998	0.75
7.	Chowchilla Elderly Associates	Multi-family Residential	1,716,214	0.60
8.	Claude L. and Rose Marie McCombs	Restaurant	1,604,208	0.57
9.	McDonalds Corporation	Restaurant	1,599,999	0.56
10.	Beverly Investment Properties Inc.	Professional Building	1,571,752	0.55
11.	James M. and Jeanne L. Kopshever	Commercial	1,539,656	0.54
12.	Allwire Inc.	Industrial	1,483,635	0.52
13.	Central Valley Investments	Commercial Land	1,410,603	0.50
14.	Edward E. Campbell	Commercial Land	1,399,034	0.49
15.	Chowchilla Land LLC	Commercial Land	1,395,737	0.49
16.	Vincent and Tracy Taylor	Multi-family Residential	1,374,387	0.48
17.	Bill G. and Wilda Jo Beverage	Multi-family Residential	1,354,123	0.48
18.	C&R Holdings Ltd.	Agricultural	1,349,742	0.48
19.	Martin N. and Maureen Boone	Commercial Land	1,285,561	0.45
20.	Tesei Petroleum Inc.	Commercial Land	1,243,897	0.44
			$40,218,239	14.17%

[1] 2004-05 Local Secured Assessed Valuation: $283,903,189.

Source: California Municipal Statistics, Inc.

Other Local Taxes

In addition to *ad valorem* taxes on real property and sales and use taxes, the City receives other local taxes, certain of which are described below. All of the following taxes were enacted prior to January 1, 1995, and none were imposed, increased, or extended on or after January 1, 1995. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Transient Occupancy Taxes. The City levies a 10% transient occupancy tax on hotel and motel bills.

Franchise Fees. The City levies a franchise fee on its cable television, trash collection and utilities franchise.

Business License Fees. The City levies business license fees based on gross annual receipts and type of business enterprise.

Other Taxes. Other taxes consist of property transfer tax (fees collected when property changes ownership).

State of California Motor Vehicle In-Lieu Payments

The State's vehicle license fee ("VLF") is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars, and taxicabs are all subject to the VLF. The VLF revenues are distributed by the State to cities and counties. Approximately three-fourths of the VLF revenues (one-half to cities and one-half to counties) can be used for any lawful purpose, with the remaining funds allocated to counties to pay for "realignment" health and social services programs.

Vehicle license fees, over and above the costs of collection and refunds authorized by law, are constitutionally defined local revenues. Chapter 322, Statutes of 1998 ("Chapter 322"), established a VLF offset program, scheduled to be implemented in successive stages if State General Fund revenues meet certain targets. Pursuant to Chapter 322, vehicle license fees were reduced (offset) by 25 percent beginning January 1, 1999. Later legislation increased the offset to 35 percent for 2000 and the first half of calendar year 2001. Beginning July 1, 2001, the offset was increased to 67.5 percent. These offset levels are expected to reduce VLF revenues by $1.763 billion in fiscal year 2000-01, $3.554 billion in 2001-02, and $3.855 billion in 2002-03. The amount will be adjusted thereafter as vehicle sales activity changes.

In response to revenue growth, the Legislature provided an additional 32.5 percent VLF reduction for the period January 1, 2001, through June 30, 2001. This additional reduction is returned to taxpayers in the form of a rebate. The Legislature appropriated $2.052 billion in 2000-01 to fund taxpayer rebates in 2000-01 and a portion of the 67.5 percent offset in fiscal year 2001-02.

As set forth in Table 7 below, for fiscal year 2003-04, the City received approximately $533,235 in total vehicle license fees.

TABLE 7
CITY OF CHOWCHILLA
State of California Motor Vehicle In-Lieu Payments

Source	***2001-02***	***2002-03***	***2003-04***	***2004-05***[(1)]
Motor Vehicle In-Lieu	$628,194	$718,732	$533,235	$596,500

(1) Preliminary budget.

Source: The City.

Other Revenue Sources

Other Revenues of the City's General Fund are described below.

Licenses and Permits. These revenues consist primarily of business license fees and building construction permits, plan check fees, animal licensing fees, and fire permits.

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

Charges for Services. These revenues include fees for fire and paramedic services, Code enforcement fees, and other service charges.

Use of Money and Property. These revenues consist primarily of investment earnings and rental income received for use of City property.

Miscellaneous. Miscellaneous revenues consist of reimbursements, asset forfeiture proceeds and other miscellaneous income.

Investment Policies and Procedures

Funds held by the City are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the Treasurer as authorized by section 53601 of the Government Code of California. A copy of the City's current Investment Policy is attached as APPENDIX D—"CITY OF CHOWCHILLA STATEMENT OF INVESTMENT POLICY."

The City believes that its funds are prudently invested and that the investments therein are scheduled to mature at the times and in the amounts that are necessary to meet the City's expenditures and other scheduled withdrawals.

For additional information concerning the City investments, see APPENDIX C—"AUDITED FINANCIAL STATEMENT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2003."

As of June 30, 2004 the City's investments were as follows:

CITY OF CHOWCHILLA
Investments as of June 30, 2004

Investments	*Carrying Amount*	*Market Value*
Liberty Intermediate Government Fund A	$ 651,085	$ 588,723
Fidelity Investments	1,590,921	1,590,921
RBC Dain	300,189	300,189
US Bank	802,034	802,034
Local Agency Investment Fund	2,557,961	2,557,961
Total Investments	**$5,902,190**	**$5,839,828**

Summary of Outstanding Capital Lease Obligations

The following are lease capital obligations which do constitute claims against the City's general fund. This list is as of June 30, 2004.

1. $295,000 REDIP Loan Refunding Lease Financing. Principal due in annual installments of $10,000 to $25,000, with interest due semi-annually at 7.25%. This issue is serviced by a sub-lease to the developers of $275,000 with interest at 7.25%, and with City funds as required. The issue matures in 2013. The developers currently are in default on the sub-lease. Foreclosure proceedings have been initiated against the developers. **(NOTE: This obligation was paid in full as of October 2004 and is no longer outstanding.)**

2. $40,375 CIT Leasing. This is a financing for three photocopiers. The monthly payments are $828.24 with interest at 8.50%. This is serviced by the City's general fund and enterprise funds. It matures in 2007.

3. $1,900,000 Civic Center Project Private Placement Financing. Semi-annual payments of $74,736 including interest at 4.85%. This is serviced by the City's general fund and enterprise funds. It matures in 2022 and is being refunded by the 2005 Bonds.

4. $105,000 Municipal Finance Corporation. This is financing for a city telephone system, police patrol vehicles and animal control vehicle. Semi-annual payments of $14,442 including interest at 4.35%. This is serviced by the City's general fund and enterprise funds. It matures in 2006.

Other Liabilities

In addition to the foregoing capital leases, the city has an outstanding loan for the purchase of the Danish Creamery land in an original principal amount of $50,000. The annual payments are $6,437.50 including interest at 4.90%. This loan is serviced by the City's general fund. The loan matures in 2006.

Summary Financial Information

Set forth below are tables summarizing the City's general fund balance sheet for the fiscal years ending June 30, 2000 through June 30, 2004 and the statement of revenues, expenditures and changes in fund balance for the general fund for the fiscal years ending June 30, 2000 through June 30, 2004. These results were compiled by the City based on the City's audited financial statements for fiscal years ending June 30, 2000 through June 30, 2004 (the June 30, 2004 financial statement is unaudited). The City's most recent audited financial statements for the year ended June 30, 2003, together with an unqualified opinion of the Auditor as well as a copy of the City's unaudited 2004 financial statements, are included as APPENDIX C attached hereto and should be read in their entirety.

TABLE 8
CITY OF CHOWCHILLA
GENERAL FUND BALANCE SHEETS
As of June 30

		2001	2002	2003	2004[1]
ASSETS					
	Pooled Cash and Investments	433,652	74,577	(430,442)	(484,601)
	Accounts Receivable:	250,994	525,804	434,059	325,101
	Advances to other funds	200,633	211,092	1,200,000	1,200,000
	Fixed Assets	-	-	-	-
	Long Term Receivables	-	-	-	-
	Total Assets	885,279	811,473	1,203,617	1,040,500
LIABILITIES					
	Accounts Payable	32,153	13,159	115,773	95,713
	Advances from other funds	-	-	-	-
	Other Loans Payable	-	-	-	-
	Compensated absences payable	-	-	101,255	170,166
	Capital Leases Payable	-	-	-	-
	Revenue Bonds Payable	-	-	-	-
	Total Liabilities	32,153	13,159	217,028	265,879
FUND EQUITY					
	Retained Earnings	-	-	-	-
	Fund Balances:				
	Reserved for Debt Service	-	-	-	-
	Unreserved and Undesignated	853,126	798,314	986,589	774,621
	Total retained earnings and fund balances	885,279	811,473	1,203,617	1,040,500

[1] Unaudited

Source: The City and the City's Fiscal Year 2000 through 2004 Financial Statements.

TABLE 9
CITY OF CHOWCHILLA
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30

	2001	*2002*	*2003*	*2004*[1]
Revenues:				
Taxes	$ 1,229,016	$ 1,456,569	$ 1,418,257	$ 1,584,694
Licenses and Permits	99,975	119,569	224,211	392,419
Fines/Penalties	52,129	64,799	50,599	74,968
Intergovernmental	666,978	69,440	705,698	590,139
Use of Money and Property	71,432	683,870	77,300	55,164
Charges for Services	96,421	100,521	50,376	14,145
Miscellaneous	78,374	171,417	355,522	196,586
Total Revenues	$ 2,294,325	$ 2,666,185	$ 2,881,963	$ 2,908,115
Expenditures:				
General Government	$ 483,146	$ 530,068	$ 551,863	$ 793,283
Public Safety	1,173,252	1,239,927	1,331,216	1,496,968
Highways and Streets	251,869	290,485	382,073	425,870
Cultural and Recreation	354,680	402,559	465,532	537,056
Capital Projects	49,642	105,177	155,189	35,008
Debt Service:				
Principal	40,000	13,342	29,952	51,768
Interest and Fiscal Charges	24,347	27,439	65,422	70,621
Total Expenditures	$ 2,376,936	$ 2,608,997	$ 2,981,247	$ 3,410,574
Excess of Revenues Over Expenses	$ (82,611)	$ 57,188	$ (99,284)	$ (502,459)
Other Financing Sources (Uses):				
Operating Transfers In	$ 211,094	$ 213,000	$ 290,890	$ 290,491
Operating Transfers Out	(5,579)	325,000	(3,331)	--
Total Other Financing Sources (Uses)	$ 205,515	$ (112,000)	$ 287,559	$ 290,491
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 122,904	$ (54,812)	$ 188,275	$ (211,968)
Fund Balance at Beginning of Year	730,222	853,126	798,314	986,589
Fund Balance at End of Year	$ 853,126	$ 798,314	$ 986,589	$ 774,621

[1] Unaudited

Source: The City and the City's Fiscal Year 2001 through 2004 Financial Statements.

Overlapping Debt Statement

Set forth below is an estimated direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of April 15, 2005. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

TABLE 10
CITY OF CHOWCHILLA
Overlapping Debt Statement

2004-05 Assessed Valuation:	$7,451,775,432
Redevelopment Incremental Valuation:	896,104,511
Adjusted Assessed Valuation:	$6,555,670,921

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/15/05	
Metropolitan Water District	0.493%	$ 2,061,677	
Eastern Municipal Water District, I.D. No. U-3	99.367	288,164	
Eastern Municipal Water District, I.D. No. U-13	100.000	480,000	(1)
Madera City Community College District	15.311	9,952,150	
Chowchilla Unified School District	94.343	47,171,449	
San Jacinto Unified School District	0.676	29,070	
Chowchilla Unified School District Community Facilities District No. 88-1	100.000	18,525,000	
Chowchilla Unified School District Community Facilities District No. 2002-1	100.000	8,850,000	
Chowchilla Unified School District Community Facilities District No. 2003-1	100.000	3,715,000	
Val Verde Unified School District Community Facilities District No. 98-1	100.000	33,505,000	
Val Verde Unified School District Community Facilities District No. 2003-1	100.000	2,975,000	
Eastern Municipal Water District Community Facilities District No. 2003-16	100.000	4,230,000	
City of Chowchilla 1915 Act Bonds	100.000	1,965,000	
City of Chowchilla Community Facilities District No. 3	100.000	6,320,000	
City of Chowchilla Community Facilities District No. 87-1 and I.A. No. 1	100.000	18,810,000	
Madera County Flood Control District 1915 Act Bonds	100.000	665,000	
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$159,542,510	
Less: Chowchilla Community Facilities District No. 87-1 (100% self-supporting from tax increment revenues)		14,645,000	
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$144,897,510	
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
Madera County General Fund Obligations	6.316%	$ 39,777,553	
Madera County Board of Education Certificates of Participation	6.316	771,499	
Mt. San Jacinto Community College District General Fund Obligations	0.021	1,641	
Chowchilla Unified School District Certificates of Participation	94.343	27,015,118	
Val Verde Unified School District Certificates of Participation	43.759	28,524,304	
Other School Districts Certificates of Participation	Various	134,997	
City of Chowchilla General Fund Obligations	100.000	17,025,000	(2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$113,250,112	
Less: Madera County self-supporting obligations		1,324,977	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$111,925,135	
GROSS COMBINED TOTAL DEBT		$272,792,622	(3)
NET COMBINED TOTAL DEBT		$256,822,645	

Ratios to 2004-05 Assessed Valuation:
Total Gross Overlapping Tax and Assessment Debt.................2.14%
Total Net Overlapping Tax and Assessment Debt....................1.94%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($17,025,000)......................................0.26%
Gross Combined Total Debt 4.16%
Net Combined Total Debt...3.92%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: $0

(1) Excludes general obligation bonds to be issued and sold by the Eastern Municipal Water District.
(2) Excludes lease revenue bonds to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Pension Benefits

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 part of the Public Agency portion of the 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 within 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. 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, California 95814.

Funding Policy.

Active plan members in PERS are required to contribute 7.000% of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2003-2004 was 2.787%. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost.

For fiscal year 2003-04, the City's annual pension cost was $222,018. The City also contributed $67,581 on behalf of the employees for the employee contribution. The required contribution for the fiscal year 2003-04 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases for employees that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members, and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.50%. The actuarial value of PERS assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two- to five-year period depending on the size of investment gains and/or losses. The PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 27 years.

Set forth in Table 11 below is the annual pension cost of the City for fiscal years 2002 through 2004.

TABLE 11
CITY OF CHOWCHILLA
Annual Pension Cost
Fiscal Years 2002 through 2004

Fiscal Years Ended June 30,	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
2001	$ 129,615	100%	$ 0
2002	134,872	100	0
2003	162,492	100	0
2004	222,018	100	0

Source: The City.

Set forth in Table 12 below is the unfunded accrued actuarial liability ("UAAL") of the City's pension obligations for fiscal years 2000 through 2002. At the time of printing, calculations for fiscal years 2003 and 2004 were not available.

TABLE 12
CITY OF CHOWCHILLA
REQUIRED SUPPLEMENTARY INFORMATION
FUNDED STATUS OF PLAN

Valuation Date	*Normal Accrued Liability*	*Actuarial Value of Assets*	*Unfunded (Overfunded) UAAL*	*Funded Ratio*	*Annual Covered Payroll*	*UAAL as a Percentage of Payroll*
June 30, 2000	$6,389,376	$6,389,376	$(1,709,964)	126.80%	$ 1,671,856	(102.30)%
June 30, 2001	8,369,127	6,926,587	(1,442,540)	120.80	1,733,397	(83.22)
June 30, 2002	7,878,286	7,539,477	(338,809)	104.10	2,068,944	(14.65)

Source: The City.

Liability Insurance and Workman's Compensation Insurance

Risk exposures to the assets of the City are managed through a combination of self-insured retention and insurance coverage. The City believes they have current assets adequate to cover the actuarially determined liability for general liability and worker's compensation claims, including estimated claims incurred but not reported.

The City is a member of the Central San Joaquin Valley Risk Management Authority for the purpose of pooling its general liability losses and claims with the approximately 52 other member agencies. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. Each member agency retains the first $25,000 of each claim. Claims above $25,000 are shared by all the member agencies up to a maximum of $1,000,000 per occurrence.

The City participates in the excess workman's compensation and employer's liability programs of the Authority as set forth in Table 13 below:

TABLE 13
CITY OF CHOWCHILLA - INSURANCE LEVELS
(Central San Joaquin Valley Risk Management Authority)

WORKMAN'S COMPENSATION

Insurance Provider	*Limits*
City – Self Insurance	$100,000
CSJVRMA Primary Pool	$100,000 - $200,000
Pre-funded Mid-Layer Pool	$200,000 - $350,000
LACX Pooled Layer	$350,000 - $2,000,000
California Public Entity Insurance Authority (CPEIA) Pooled Layer	$2,000,000 - $ 5,000,000
American Reinsurance Group Purchased Through LAWCX	$5,000,000 - $45,000,000

LIABILITY COVERAGE (Includes general and automobile liability, and errors and omissions.) The CSJVRMA retains the first $1 million of coverage above each city's retained limit.

Insurance Provider	***Limits***
City – Self Insurance	$25,000
CSJVRMA Primary Pool	$25,000 - $500,000
Pre-funded Mid-Layer Pool	$500,000 - $1,000,000
LACX Pooled Layer	$1,000,000 - $3,000,000
California Public Entity Insurance Authority (CPEIA) Pooled Layer	$3,000,000 - $6,000,000
American Reinsurance Group Purchased through LAWCX	$6,000,000 - $10,000,000

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There has been no significant reduction in pooled or insured liability coverage from coverage in the prior year.

Pending Litigation

There are several lawsuits pending against the City. The outcome and eventual liability of the City, if any, in these cases is not known at this time. Management estimates that the potential claims against the City, not covered by insurance or self-insurance reserves, resulting from such litigation would not materially affect the financial statements of the City.

Economic Conditions in California

The following information concerning the State's budgets has been obtained from publicly available information, which the City believes to be reliable; however, the City does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the 2005 Bonds is payable from the General Fund of the State.

Economic Conditions in California.

Since early 2001, the State has faced severe financial challenges, which may continue for several years. The State experienced an economic recession in 2001 and is currently in a sluggish recovery. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, the effects of the events of September 11, rising unemployment levels and large stock market declines. The downturn has resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall is attributable to declining personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment.

The 2005-06 State Budget Overview.

The 2005-06 State Budget was passed by the Legislature on July 7, 2005 and signed into law by the Governor on July 11, 2005. The 2005-06 State Budget authorizes total spending of $113 billion. The 2005-06 State Budget reflects an improving State fiscal picture brought about by better-than-expected growth in General Fund revenues. The new spending plan funds the Proposition 42 transfer to transportation, and includes significant increases in both K-12 and higher education. The new Budget does not use any of the remaining $3.7 billion in deficit-financing bonds authorized by Proposition 57 in March 2004, and it prepays a $1.2 billion loan due to local governments in 2006-07.

At the same time, the spending plan includes roughly $6 billion in savings and related Budget solutions in order to maintain budgetary balance. About one-half of the solutions is from holding 2004-05

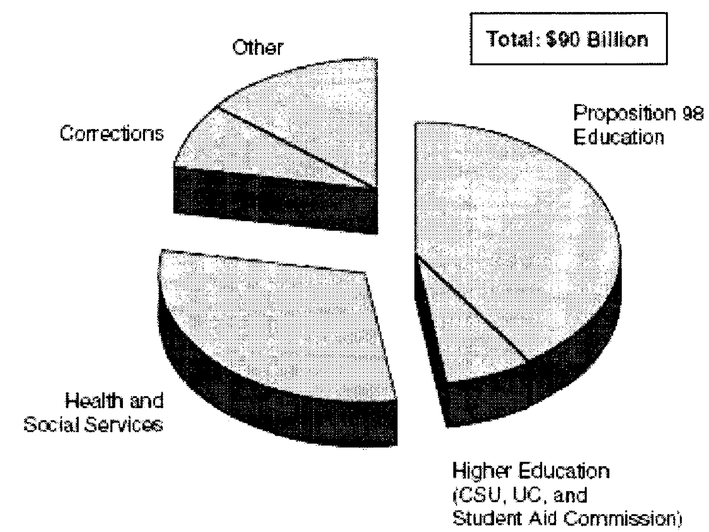
Proposition 98 funding at the level anticipated in the 2004-05 Budget package. Another $450 million is from reductions in social services programs, mostly from the suspension of cost-of-living adjustments for California Work Opportunity and Responsibility to Kids and Supplemental Security Income/State Supplementary Program grants. The Budget also includes $525 million in one-time revenues from the refinancing of a previous tobacco-settlement backed bond. It counts on a $428 million loan from Merrill Lynch to fund the *Paterno* lawsuit settlement (relating to flood-related damage that occurred in 1986). Finally, it retains $380 million in transportation-related sales tax proceeds (Public Transportation Account "spillover" funds) in the General Fund.

Figure 1 summarizes the 2005-06 General Fund Spending by Major Program Area:

Figure 1

General Fund Spending by Major Program Area

2005-06



General Fund Condition

Table 14 shows that 2004-05 began with a large prior-year balance of $7.3 billion, and that revenues are estimated to total $79.9 billion in 2004-05 and $84.5 billion in 2005-06. The prior-year balance and the revenue totals for 2004-05 and 2005-06 are being affected by amnesty-related payments. These impacts raised the prior-year balance by nearly $4 billion, but are estimated to reduce collections by over $1 billion in both 2004-05 and 2005-06.

Table 14 also shows that expenditures are projected to grow from $81.7 billion in 2004-05 to $90 billion in 2005-06, an increase of over 10 percent. The large increase partly reflects (1) the Proposition 42 transfers, which were deferred in 2004-05 but fully funded in 2005-06; and (2) the prepayment of the local government loan in 2005-06.

Because expenditures are expected to exceed revenues in both 2004-05 and 2005-06, the General Fund's reserve shrinks to just over $1.3 billion by the conclusion of the budget year.

The savings included in the 2005-06 Budget will address part of the State's ongoing structural budget shortfalls. However, even if all of the savings in the plan are fully achieved, it is believed that current-law expenditures will exceed projected revenues by around $6.1 billion in 2006-07. (This does not include an $880 million transfer to the Budget Stabilization Account required by Proposition 58.) Taking into account the

$1.3 billion reserve available at the end of 2005-06, the remaining year-end shortfall in 2006-07 would be roughly $4.8 billion, absent corrective actions.

TABLE 14

THE 2005-06 BUDGET
GENERAL FUND CONDITION

(In Millions)

	2004-05	***2005-06***
Prior-year fund balance	$7,279	$7,498
Revenues and transfers	79,935	84,471
Deficit Financing Bond	2,012	—
Total resources available	$89,226	$91,969
Expenditures	81,728	90,026
Ending fund balance	$7,498	$1,943
Encumbrances	641	641
Reserve	$6,857	$1,302

Other Major Provisions; Local Government

Vehicle License Fee (VLF) Backfill Loan Repayment. During 2003-04, local governments did not receive a portion of the VLF backfill from the General Fund to compensate them for rate reductions in the VLF. This local government shortfall of about $1.2 billion was considered a loan from local governments to the General Fund, with repayment by the State due in 2006-07. Under the budget agreement, the State will repay the entire amount of the loan to local governments in 2005-06—one year earlier than required.

Non-Education Mandates. The Budget includes $239.4 million (General Fund) and $1.7 million (special funds) to reimburse local agencies for their costs to carry out non-Proposition 98 State mandates in 2004-05 and (partial year costs) in 2005-06. About half of these funds ($120 million) reimburse counties for two requirements to provide services for special education pupils (the so called "AB 3632" and the Seriously Emotionally Disturbed Students SEDS mandates). These funds are included under the Budget item for the Department of Mental Health. The remaining funds ($119.4 million General Fund and $1.6 million special funds) reimburse local agencies for 36 other mandates, including those relating to absentee ballots, animal adoption, and sexually violent predators. These funds are included under the budget item for the Commission on State Mandates (CSM). The Budget suspends local agency obligations to carry out 31 unfunded mandates for the budget year. Funding for the Peace Officer's Procedural Bill of Rights (POBOR) mandate is deferred to an unspecified future date, and the CSM is directed to reconsider its determination that POBOR constitutes a State-reimbursable mandate. The budget package also repeals or greatly modifies four mandates, including the Open Meeting Act mandate, and lengthens from 5 years to 15 years the period over which the State must pay previously deferred mandate reimbursements.

Property Tax Administration Grant Program. The Budget suspends the Property Tax Administration Grant Program for a two-year period. Under this program, counties receive grants totaling $60 million annually for staff, technology, and other resources to support the administration of the property tax system.

The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in State assistance may have an adverse impact on the City's ability to pay Lease Payments.

Information about State budgets and State spending is regularly available at various State-maintained websites. Text of the Budget may be found at the website of the Department of Finance, www.dof.ca.gove under the heading "California Budget." An impartial analysis of the Budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov.

FINANCIAL STATEMENTS

The most recent audited financial statements (the "Financial Statements") of the City, for the year ended June 30, 2003, included in APPENDIX C to this Official Statement, have been examined by Cassabon, McIlhatton & Associates, LLP, Merced, California, independent certified public accountants (the "Auditors"), to the extent and for the periods indicated in its report (the "Report"), which also appears in APPENDIX C hereto. The financial statements and the Report should be read in their entirety.

The financial statements and Report for the year ended June 30, 2003 and the audited financial statements of the City for prior years are on file for public inspection with the City Clerk. The Auditor has not reviewed or expressed any opinion regarding any portion of this Official Statement other than the Financial Statements as stated in the Report.

The City has not completed audited financial statements for the year ended June 30, 2004 because the City's contracted auditor encountered internal business problems and did not complete the audit on time. The City has since contracted with a new auditing firm to complete the 2003-04 audit. The new auditing firm is Macias Gini & Co. LLP of Sacramento, California. A copy of the unaudited Financial Statements for the year ended June 30, 2004 is attached as APPENDIX C.

CONTINUING DISCLOSURE

In the Continuing Disclosure Certificate, the Authority covenants for itself and on behalf of the City for the benefit of holders and beneficial owners of the 2005 Bonds to provide certain financial information and operating data relating to the City by not later than 270 days following the end of its Fiscal Year, commencing with Fiscal Year 2004-2005 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed with each Nationally Recognized Municipal Securities Information Repository and with any then existing State Repository (collectively, the "Repositories"). Currently, there is no State Repository. The notices of material events will be filed with the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events is described in APPENDIX G—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants will be made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities and Exchange Act of 1934, as amended. The City 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. For a detailed description of the City's responsibilities under the Continuing Disclosure Certificate see APPENDIX G—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

TAX MATTERS

In the opinion of Hargrove & Costanzo, a Professional Corporation, Fresno, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2005 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2005 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a 2005 Bond (the first price at which a substantial amount of the 2005 Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2005 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the 2005 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2005 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2005 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2005 Bonds to assure that interest (and original issue discount) on the 2005 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2005 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. The Authority and the City have covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable 2005 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2005 Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2005 Bond premium reduces the Bond Owner's basis in the applicable 2005 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2005 Bond premium may result in a Bond Owner realizing a taxable gain when a 2005 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2005 Bond to the Owner. Purchasers of the 2005 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2005 Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2005 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the 2005 Bonds for federal income tax purposes with respect to any 2005 Bond if any such action is taken or omitted based upon the advice of counsel other than Hargrove & Costanzo.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2005 Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2005 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2005 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2005 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2005 Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F.

LEGAL MATTERS

The validity of the 2005 Bonds and certain other legal matters are subject to the approving opinion of Hargrove & Costanzo, a Professional Corporation, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F hereto. Payment of the fees of Bond Counsel is contingent upon sale and delivery of the 2005 Bonds. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. Bond Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials related to the 2005 Bonds and expresses no opinion relating thereto.

LITIGATION

No litigation is pending or threatened concerning the validity of the 2005 Bonds, the Lease Agreement or the Indenture, and an opinion of the City Attorney to that effect will be rendered at the time of the original delivery of the 2005 Bonds. The Authority is not aware of any litigation pending or threatened questioning the political existence of the Authority or the City or contesting the City's ability to appropriate or make Lease Payments. There are a number of lawsuits and claims pending against the City. In the opinion of the City Attorney, the aggregate amount of liability that the City might incur as a result of adverse decisions in such cases would be covered either by existing reserves which are regularly established and reviewed through the budget process, or through the City's participation in the Central San Joaquin Valley Risk Management Authority.

RATINGS

Standard & Poor's Rating Services has assigned the 2005 Bonds the rating of "AAA." (That rating is based on the issuance of Bond Insurance for 2005 Bonds by XL Capital Assurance, Inc. See "BOND INSURANCE FOR 2005 BONDS" herein.) Such rating expresses only the views of such rating agency and are not recommendations to buy, sell or hold the 2005 Bonds. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Corporation, 55 Water Street, New York, New York 10041. Generally, a rating agency bases it's rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by such rating agency, if in its judgment, circumstances so warrant. The Authority, the City and the Trustee undertake no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal may have an adverse effect on the market price of the 2005 Bonds.

UNDERWRITING

The 2005 Bonds are being purchased for reoffering by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the 2005 Bonds at a purchase price of $5,890,000.00 (less an Underwriter's discount of $79,515.00 and less an Original Issuance Discount of $130,065.85, without accrued interest. The Underwriter will purchase all of the 2005 Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase relating to the 2005 Bonds. After the initial public offering, the public offering prices of the 2005 Bonds may be changed from time to time by the Underwriter.

EXECUTION AND DELIVERY

The preparation, execution and distribution of this Official Statement have been authorized by the Authority and the City.

CHOWCHILLA PUBLIC FINANCING AUTHORITY

By: /s/ Albert Lucchessi
Chair

CITY OF CHOWCHILLA

By: /s/ Albert Lucchessi
Mayor

APPENDIX A

BOOK-ENTRY SYSTEM

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BOOK ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dttc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (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 each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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.

Purchases of 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 maturity 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, 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 Paying Agent, 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2005 Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the 2005 Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new 2005 Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new 2005 Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the 2005 Bonds are registered will become the registered owners of the 2005 Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) 2005 Bonds may be exchanged for a like aggregate principal amount of such 2005 Bonds of the same maturity of other authorized denominations; (b) the transfer of any 2005 Bond may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of 2005 Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any 2005 Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such 2005 Bond selected for redemption or during the period established by the Trustee for selection of 2005 Bonds for redemption; (e) all interest payments on the 2005 Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the applicable Record Date next preceding such interest payment date; provided, that upon request of a 2005 Bondowner of $1,000,000 or more in aggregate principal amount of the 2005 Bonds received by the Trustee prior to the first day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds to an account in the United States; and (f) all payments of principal, and any premium on the 2005 Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

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APPENDIX B

GENERAL INFORMATION CONCERNING THE CITY AND REGION

The following information is presented as general background data. The 2005 Bonds and Lease Payments are payable solely from legally available funds of the City of Chowchilla as described in this Official Statement. The taxing power of the City, the Redevelopment Agency of the City of Chowchilla, the Authority, the State of California or any political subdivision thereof is not pledged to the payment of the Lease Payments of the Bonds.

General

The City was incorporated in 1923. Located in Southwestern Madera County near the southern border Merced County, the City is approximately 31 miles north of Madera, 151 miles south of Sacramento, 250 miles north of Los Angeles and 153 miles southeast of San Francisco. California State Highway 99 runs on the western edge of the City in a north-south direction and links the City to other cities in the expansive San Joaquin Valley.

The City enjoys a warm, arid climate. Median temperatures range from 33.5 degrees in the winter to 99.6 degrees in the summer. Average rainfall is about 10.03 inches per year. Elevation is approximately 237 feet above sea level.

Population

The City is the second largest city in Madera County with an estimated current population of 16,065. Table B-1 sets forth total population for the City, the County of Madera (the "County") and the State of California (the "State").

Table B-1
CITY OF CHOWCHILLA
County of Madera and State of California
Population

	2001	*2002*	*2003*	*2004*	*2005*
Chowchilla[(1)]	14,421	13,951	14,415	15,551	16,065
Madera County	125,825	128,416	132,166	136,923	141,007
California	34,441,561	35,088,671	35,691,442	36,271,091	36,810,358

(1) Includes population of California Women's Prison located within City

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001–2005, with 2000 DRU Benchmark, Sacramento, California, May 2005.

Employment

Table B-2 summarizes the labor force, employment and unemployment figures over the period 2000 through 2004 for the County, the State and United States.

Table B-2
County of Madera, State of California and United States
Labor Force, Employment an Unemployment Yearly Average

Year and Area	*Labor Force*	*Employment*[1]	*Unemployment*[2]	*Unemployment Rate (%)*[3]
2000				
Madera County	54,300	49,500	4,800	8.8
California	16,892,000	16,056,500	835,500	4.9
United States[4]	142,583,000	136,891,000	5,692,000	4.0
2001				
Madera County	53,400	48,200	5,200	9.7
California	17,150,100	16,217,500	932,600	5.4
United States	143,734,000	136,933,000	6,801,000	4.7
2002				
Madera County	55,100	49,200	5,900	10.8
California	17,326,900	16,165,100	1,161,800	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
Madera County	58,600	52,500	6,100	10.4
California	17,414,000	16,223,500	1,190,500	6.8
United States[4]	146,510,000	137,736,000	8,774,000	6.0
2004				
Madera County	62,200	56,600	5,600	9.0
California	17,552,300	16,459,900	1,092,400	6.2
United States[4]	147,401,000	139,252,000	8,149,000	5.0

(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.
(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2003 benchmark and March 2004 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics

Table B-3 summarizes employment by Industry in Madera County from 2000 to 2004. Manufacturing, Retail Trade, Services and Government are the largest employment sectors in the Madera-San Bernardino-Ontario MSA.

Table B-3
Madera County
Annual Average Industry Employment 2001-2004

	2001	2002	2003	2004
Civilian Labor Force	53,400	55,100	58,600	62,200
Civilian Employment	48,200	49,200	52,500	56,600
Civilian Unemployment	5,200	5,900	6,100	5,600
Civilian Unemployment Rate	9.7%	10.8%	10.4%	9.0%
Total All Industries	37,300	37,600	40,500	43,700
Total Farm	9,400	8,700	9,000	10,300
Mining & Construction	1,700	1,800	2,300	2,600
Manufacturing	3,000	3,100	3,400	3,300
Trade, Transportation & Utilities	4,500	4,600	4,800	5,000
Information	600	600	600	600
Financial Activities	700	700	800	800
Professional and Business Services	2,300	2,200	2,300	2,800
Educational and Health Services	4,500	4,900	5,400	5,500
Leisure and Hospitality	2,500	2,400	2,400	2,400
Government	7,500	8,000	8,800	9,500

NOTE: Numbers do not add precisely due to rounding.

Source: State of California, Employment Development Department, Labor Market Information Division.

Major Employers

Table B-4 sets forth the largest employers in the City.

Table B-4
CITY OF CHOWCHILLA
Largest Employers, Fiscal Year Ended June 30, 2004

Private Employers	*Type of Business*	*# of Employees*
CertainTeed Corporation	Insulation manufacturer	250
Brake Parts, Inc.	Motor vehicle brake systems and parts	180
Hinds Color	Wholesale nursery	160
Allwire, Inc.	Wires, submersible pump cables, telecommunications products	60
Vlot Brothers	Livestock dealers	55
Minturn Cooperative Gin Inc.	Cotton processing	50
Snyder California Container	Plastic tanks, custom molded parts	35
Triangle T Ranch Inc.	Livestock dealers	32
Dairyland Hullers	Almond processing	20
Lockwood Seed & Grain	Cereal processing	20
Public Employers		
Chowchilla Women's Prison	State prison	700
City of Chowchilla	City government	70

Source: City of Chowchilla Finance Department.

Commercial Activity

Trade outlet and retail sales activity are summarized in Tables B-5 and B-6 based on reports of the State Board of Equalization.

Table B-5
CITY OF CHOWCHILLA
Total Taxable Transactions and Number of Sales Permits, 2000 through 2004
($000s)

Year	*Retail Permits*	*Retail Taxable Transactions*	*All Outlets No. of Permits*	*All Outlets Taxable Transactions*
2000	91	48,127	183	64,231
2001	84	51,641	174	67,492
2002	87	53,650	172	70,385
2003	95	55,941	177	71,383
2004[1]	95	13,824	174	17,321

[1] First quarter only.

Source: California State Board of Equalization.

Table B-6
County of Madera
1999 through 2003 Taxable Retail Sales
($000s)

Type of Business	*2000*	*2001*	*2002*	*2003*	*2004[1]*
Apparel Stores	$ 7,063	$ 6,982	$ 6,908	$ 7,768	$ 1,837
General Merchandise Stores	86,252	91,617	98,243	101,950	23,218
Food Stores	103,333	97,793	84,954	91,417	20,707
Eating/Drinking Places	61,585	61,970	64,622	68,075	16,621
Home Furnishing	8,685	8,533	8,504	9,985	2,702
Building Materials	54,895	57,877	64,100	83,400	30,736
Auto Dealers	105,223	121,284	127,848	136,531	33,808
Service Stations	64,947	64,979	73,998	89,319	22,041
Other Retail Stores	90,118	75,438	84,533	90,414	22,553
Retail Stores Totals	**$582,101**	**$586,473**	**$613,350**	**$678,859**	**$ 174,223**
All Other Outlets	298,869	277,235	302,753	328,402	65,682
Total All Outlets	**$880,970**	**$863,708**	**$916,103**	**$1,007,261**	**$239,905**

[1]First Quarter only

Source: California State Board of Equalization.

Table B-7 is a summary of the secured property tax levies, collection delinquencies, and total collections for fiscal years since 1999-00.

Table B-7
CITY OF CHOWCHILLA
Secured Tax Levies and Delinquencies
Fiscal Years 1999-00 to 2003-04

Category	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04*
Total tax levy	$20,369,66 0	$19,628,161	$21,302,107	$22,594,477	$26,353,337
Current tax Collections[1]	19,153,769	19,816,928	19,936,925	22,876,331	24,884,530
Percent of current taxes collected	94.0%	101.0%	93.6%	101.2%	94.4%
Delinquent tax collections[1]	1,435	--	11,514	--	11,609
Total tax collections[1]	19,155,204	19,816,928	19,948,439	22,876,331	24,896,139
Ratio of total tax collections to total tax levy	94.0%	101.00	93.6%	101.2%	94.5%
Outstanding delinquent taxes	1,215,891	--	1,365,182	--	1,468,807
Ratio of delinquent taxes to total tax levy	6.0%	0.0%	6.4%	0.0%	5.6%

(1) Total tax collections does not include property taxes collected for the Redevelopment Agency.

Source: California Municipal Statistics.

Building Activity

Table B-8 summarizes building activity in the City of Chowchilla since 2000.

Table B-8
CITY OF CHOWCHILLA
Building Permit Valuations
2000-2004

	2000	*2001*	*2002*	*2003*	*2004*
Residential					
Single Family	$6,080,324	$ 6,991,579	$8,640,326	$19,570,277	$47,132,004
Multi-Family	3,733,978	95,200	95,200	572,362	3,119,060
Alteration/Additions	26,000	37,400	296,544	458,421	698,931
Total	$9,840,602	$ 7,124,179	$9,032,070	$20,601,060	$50,949,996
Non-Residential					
New Commercial	$ 0	$ 544,320	$ 218,394	$ 1,500	$3,137,271
Alteration/Additions	0	0	0	0	77,950
Total	$0	$ 544,320	$ 218,394	$ 1,500	$ 3,215,221
Total	$9,840,602	$7,668,499	$9,250,464	$20,602,560	$54,165,217
Single Family Units	44	42	46	88	213
Multi-Family Units	59	2	4	8	28
Total	103	44	50	96	241

Source: The City

Utilities

The City provides water and sewer service to its residents who pay fees to the City. The City is also serviced by the following utilities: Pacific Gas and Electric Company, SBC.

Transportation

- Rail: Santa Fe and Union Pacific Railroads.
- Truck: 27 common carriers and 9 general haulers.
- Air: Fresno Yosemite International Airport 34 miles to the south.
- Bus: Greyhound Lines.
- Water: Port of Stockton 99 miles to the North.
- Highway: State Freeway 99, State Route 152, State Route 233, Interstate Freeway 5 is 25 miles west via State Route 152.

Education

The City is home to four elementary schools and one high school. The following colleges and universities serve the City:

- Merced Community College located 16 miles to the North
- State Center Community College located 16 miles to the South
- California State University Fresno located 45 miles to the South
- University of California at Merced located 20 miles to the North.

Recreation and Culture

The City features following recreational and cultural activities:

- One 18-hole golf course with an additional 18-hole expansion planned for future construction.
- Berenda Reservoir and Recreational Area
- A community swimming pool.
- Sheltered picnic and barbeque facilities
- Community sports center/gym and rental facilities
- Madera County Library branch
- Three playgrounds
- One senior center
- One newspaper
- Three parks

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2003 AND UNAUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2004

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CITY OF CHOWCHILLA

GENERAL PURPOSE FINANCIAL REPORT

June 30, 2003

CITY OF CHOWCHILLA

TABLE OF CONTENTS

Cassabon, McIlhatton & Associates, LLP
certified public accountants

October 31, 2003

To the City Council
City of Chowchilla, California

"Independent Auditors' Report"

We have audited the accompanying general purpose financial statements of the City of Chowchilla, California, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Chowchilla, California's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the City does not maintain or include in the financial statements a general fixed assets group of accounts, nor has it maintained historical cost records of its enterprise funds, fixed assets and the related depreciation thereon, as required by generally accepted accounting principles. The amounts that should be recorded in these financial statements are not known.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Chowchilla, California, as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003, on our consideration of City of Chowchilla, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Chowchilla, California.

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Cassabon, McIlhatton & Associates, LLP
certified public accountants

October 31, 2003

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Governing Board of the
City of Chowchilla
Chowchilla, California

We have audited the general purpose financial statements of the City of Chowchilla, California as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003, which was qualified because fixed assets are not disclosed except as discussed in the Independent Auditor's Report. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Chowchilla California's general purpose financial statements 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by City staff in the normal course of perform their assigned functions. We noted two matters identified below involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Finding 1

A note receivable in the face amount of $723,156 has not been recorded in the financial accounting records of the City. The City should consider implementation of a contra account for valuation purposes for this note receivable. This contra account would be used to reflect the estimated value of the note receivable based on current revenue streams and accordingly, be adjusted annually for financial statement purposes.

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Finding 2

The City is not monitoring the recipient of the loan proceeds for financial and compliance issues related to the operation and use of the Home Investment Partnership Program funds.

This report is intended solely for the information and use of the Governing Board and management of the City of Chowchilla and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Cassabon, McIlhatton & Associates, LLP

CITY OF CHOWCHILLA
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				Proprietary Fund Type	Fiduciary Fund Type	Account Group	Totals (Memorandum only) June 30, 2003
	General Fund	Special Revenue	Capital Projects	Debt Service	Enterprise Fund	Agency Fund	General Long Term Debt	
ASSETS								
Pooled cash and investments	$ (430,442)	$ 763,200	$ 6,679,634	$ -	$ 1,196,441	$ 945,660	$ -	$ 9,154,493
Accounts receivable	434,059	204,551	3,028	-	353,533	45,432	-	1,040,603
Notes receivable	-	61,166	57,263	-	-	-	-	118,429
Notes receivable - Home	-	304,394	-	-	-	-	-	304,394
Notes receivable - CDBG	-	1,843,133	-	-	-	-	-	1,843,133
Sublease receivable - developers	-	-	-	-	-	-	265,000	265,000
Due from other funds	1,200,000	-	-	-	-	-	-	1,200,000
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	6,730,560	6,730,560
Total assets	$ 1,203,617	$ 3,176,444	$ 6,739,925	$ -	$ 1,549,974	$ 991,092	$ 6,995,560	$ 20,656,612
LIABILITIES								
Accounts payable	$ 115,773	$ 23,629	$ 34,850	$ 10,363	$ 227,046	$ -	$ -	$ 411,661
Other loans payable	-	-	-	-	-	-	22,946	22,946
Due to other funds	-	-	1,200,000	-	-	-	-	1,200,000
Compensated absences payable	101,255	24,225	-	-	56,103	-	-	181,583
Capital leases payable	-	-	-	-	-	-	2,860,519	2,860,519
Revenue bonds payable	-	-	-	-	-	-	4,112,095	4,112,095
Trust liabilities	-	-	-	-	-	991,092	-	991,092
Total liabilities	$ 217,028	$ 47,854	$ 1,234,850	$ 10,363	$ 283,149	$ 991,092	$ 6,995,560	$ 9,779,896
FUND EQUITY								
Retained earnings	$ -	$ -	$ -	$ -	$ 1,266,825	$ -	$ -	$ 1,266,825
Fund balances:								
Reserved for debt service	-	-	-	(10,363)	-	-	-	(10,363)
Unreserved and undesignated	986,589	3,128,590	5,505,075	-	-	-	-	9,620,254
Total retained earnings and fund balances	986,589	3,128,590	5,505,075	(10,363)	1,266,825	-	-	10,876,716
TOTAL LIABILITIES AND FUND EQUITY	$ 1,203,617	$ 3,176,444	$ 6,739,925	$ -	$ 1,549,974	$ 991,092	$ 6,995,560	$ 20,656,612

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				
	General Fund	Special Revenue	Capital Projects	Debt Service	Totals (Memorandum Only) June 30, 2003
REVENUES					
Taxes	$1,418,257	$ 17,241	$ 1,269,256	$ -	$ 2,704,754
Licenses/permits	224,211	-	-	-	224,211
Fines/penalties	50,599	-	-	-	50,599
Intergovernmental	705,698	1,491,304	360,000	-	2,557,002
Use of money/property	77,300	3,518	129,350	-	210,168
Charges for services	50,376	46,538	246,022	-	342,936
Miscellaneous	355,522	30,000	16,400	-	401,922
Total revenues	2,881,963	1,588,601	2,021,028	-	6,491,592
EXPENDITURES					
General government	551,863	533,722	332,429	-	1,418,014
Public safety	1,331,216	126,595	-	-	1,457,811
Highways & streets	382,073	234,170	59,127	-	675,370
Cultural & recreation	465,532	-	20,000	-	485,532
Capital projects	155,189	74,404	2,338,779	-	2,568,372
Debt Service:					
Principal	29,952	2,644	102,837	-	135,433
Interest and fiscal charges	65,422	180	680,333	-	745,935
Total expenditures	2,981,247	971,715	3,533,505	-	7,486,467
Excess (deficiency) of Revenues over expenditures	(99,284)	616,886	(1,512,477)	-	(994,875)
Other financing sources (uses)					
Lease proceeds	-	-	1,853,792	-	1,853,792
Contribution of property owners	-	-	-	-	-
Transfers in	290,890	-	188,331	-	479,221
Transfers out	(3,331)	(444,290)	(120,000)	-	(567,621)
Total other sources (uses)	287,559	(444,290)	1,922,123	-	1,765,392
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	188,275	172,596	409,646	-	770,517
Fund balance at beginning of year	798,314	1,165,437	5,095,429	(10,363)	7,048,817
Prior period adjustment	-	2,095,391	-	-	2,095,391
Restated fund balance at beginning of year	798,314	3,260,828	5,095,429	(10,363)	9,144,208
Change in valuation allowance	-	(304,834)	-	-	(304,834)
Fund balance at end of year	$ 986,589	$ 3,128,590	$ 5,505,075	$ (10,363)	$ 9,609,891

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL AND SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2003

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavor-able)	Budget	Actual	Variance Favorable (Unfavor-able)
REVENUES						
Taxes	$1,449,000	$ 1,431,969	$ (17,031)	$ 18,000	$ 17,241	$ (759)
Licenses/permits	128,600	227,265	98,665	-	-	-
Fines/penalties	68,200	50,599	(17,601)	-	-	-
Intergovernmental	698,500	762,990	64,490	2,188,700	1,526,599	(662,101)
Use of money/property	56,000	77,581	21,581	3,300	3,518	218
Charges for services	24,500	50,376	25,876	38,300	46,538	8,238
Miscellaneous	254,200	355,522	101,322	8,000	30,000	22,000
Total revenues	2,679,000	2,956,302	277,302	2,256,300	1,623,896	(632,404)
EXPENDITURES						
General government	686,680	645,195	41,485	397,100	488,398	(91,298)
Public safety	1,471,780	1,371,010	100,770	120,000	126,595	(6,595)
Highways & streets	388,400	382,073	6,327	191,800	234,170	(42,370)
Cultural & recreation	497,100	465,532	31,568	-	-	-
Capital projects	148,300	155,189	(6,889)	1,561,867	166,349	1,395,518
Debt service:						
Principal	17,780	29,952	(12,172)	2,050	2,644	(594)
Interest	20,960	65,422	(44,462)	850	180	670
Total expenditures	3,231,000	3,114,373	116,627	2,273,667	1,018,336	1,255,331
Excess (deficiency) of Revenues over expenditures	(552,000)	(158,071)	393,929	(17,367)	605,560	622,927
OTHER FINANCING SOURCES (USES)						
Transfers in	293,515	290,890	(2,625)	-	-	-
Transfers out	-	(3,331)	(3,331)	(832,115)	(444,290)	387,825
Total other sources(uses)	293,515	287,559	(5,956)	(832,115)	(444,290)	387,825
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	$ (258,485)	129,488	$ 387,973	$(849,482)	161,270	$ 1,010,752
Fund balance at beginning of year		495,697			1,192,288	
Prior period adjustment		-			2,095,391	
Fund balance at end of year		625,185			3,448,949	
Reconciliation to accounting basis (Note 8)		361,404			(320,359)	
Fund balance at end of year		$ 986,589			$3,128,590	

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003

	Enterprise Fund
OPERATING REVENUES	
Charges for services	$ 2,469,630
Total operating revenues	2,469,630
OPERATING EXPENSES	
Interest on bond retirement	147,704
Personnel services	1,052,239
Materials, supplies and services	1,535,672
Total operating expenses	2,735,615
Operating income (loss)	(265,985)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	27,304
Capital outlay	(20,576)
Bond retirement	(122,717)
Total non-operating revenues (expenses)	(115,989)
Net income (loss)	(381,974)
Transfers in (out)	88,400
Retained earnings at beginning of year	1,560,399
Retained earnings at end of year	$ 1,266,825

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 2,559,389
Cash paid for goods and services	(1,652,930)
Cash paid to employees	(806,762)
Net cash provided (used) by operating activities	99,697
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(20,576)
Principal payment on bonds	(122,717)
Interest payment on bonds	(147,704)
Transfers in (out)	88,400
Net cash provided (used) by capital related financing activities	(202,597)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	27,304
Net cash provided (used) by investing activities	27,304
Net decrease in cash	(75,596)
CASH - July 1, 2002	1,272,037
CASH - June 30, 2003	$ 1,196,441
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	$ (118,281)
Adjustment to reconcile operating income (loss) to net cash provided by Operating activities	
Decrease in accounts receivable	83,795
Increase in accounts payable	78,080
Increase in compensated absences payable	56,103
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 99,697

See accompanying notes to financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. Reporting Entity

The City of Chowchilla is a municipal corporation governed by a five-member city council with the mayor elected by the council itself. The City was incorporated in 1923 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. As required by accounting principles generally accepted in the United states of America, these financial statements present the City of Chowchilla and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the City Chowchilla. Each blended component unit has a June 30 year-end.

Blended Component Units.

The Redevelopment Agency of the City of Chowchilla was established in 1977 by the City of Chowchilla. The primary purpose of the Agency is to undertake a program for the redevelopment, replanning and redesign of blighted areas with stagnant, improperly utilized and unproductive land. The Redevelopment Agency is presented as a governmental fund type.

The Public Financing Authority is a separate public entity whose purpose is to provide for the financing of all or a prescribed cost and expense of acquisition, construction and installation of authorized public capital improvements through legally available financing procedures. City Council members act as the governing board, and all accounting and administrative functions are performed by the City.

Separate financial statements are prepared for the Redevelopment Agency of the City of Chowchilla and may be obtained at the City of Chowchilla Finance Department, 145 West Robertson Blvd., Chowchilla, CA 93610.

B. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the City, the accounts are maintained in accordance with the principles of fund accounting. Funds can be divided into three broad categories and further into fund types as follows:

Governmental Funds.

The General Fund includes resources used for current operations that are not required to be accounted for in other funds.

Special Revenue Funds include revenue sources restricted to expenditures for specified purposes.

Capital Projects Funds include resources to be used for the construction or acquisition of major capital improvements other than those financed by proprietary funds.

Debt Service Fund includes resources accumulated for, and the payment of, general long-term debt principal, interest and related costs.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Proprietary Funds. Enterprise Funds include resources derived primarily through user charges. The City does not record enterprise fixed assets or depreciation within these funds. The City does not record bond liability within these funds although debt is being serviced by the sewer and storm drain funds.

Fiduciary Funds. Agency Funds are used to account for resources held by the City as an agent for other organizations and/or funds. Agency funds do not measure operations.

Account Groups. Account Groups are used to account for long-term liabilities of governmental and similar fiduciary funds.

C. Basis of Accounting

The modified accrual basis of accounting is followed for the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Expenditures are generally recognized when the related fund liability is incurred. All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Budget Basis of Accounting

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual financial statements are reported on these bases.

E. Measurement Focus

The accounting and reporting treatment accorded assets, liabilities and fund equity associated with a fund are determined by its measurement focus.

Governmental funds are accounted for on a spending or "financial flow" measurement; only current assets and current liabilities are included on their balance sheets, and reported fund balance (net current assets) indicates available spendable resources. Operating statements present increases (revenues, other financial resources) and decreases (expenditures, other financial uses) in net current assets. General long-term liabilities are disclosed in the general long-term debt group of accounts.

Proprietary funds use the economic resources measurement focus. The accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities, except for fixed assets as disclosed in Note 1.G., and Long-Term Debt as disclosed in Note 1.B., associated with a proprietary fund's activities are included on its balance sheet.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

F. Pooled Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Combined Balance Sheet as "Pooled Cash and Investments". Effectively, these investments are recorded at cost. Earnings from these investments are allocated quarterly to each fund based on the fund's contribution to the cash pool. The City invests in certificates of deposit and the Local Agency Investment Pool, which are stated at cost which approximates market.

G. Fixed Assets

The City has not maintained records of fixed assets in its general ledger, nor has it maintained a general fixed asset account group to record capital expenditures of the non-enterprise funds. The City also has not maintained historical costs of the capital assets for the enterprise funds in its general ledger. Therefore, the capital assets are not reflected on the Combined Balance Sheet. Since records of historical cost of fixed assets have not been maintained, no depreciation has been taken in the past, and none has been taken in the current year.

H. Long-term Debt

General obligation bonds and other forms of long-term debt supported by general revenues and special assessments are obligations of the City as a whole, and not its individual constituent funds. Accordingly, such unmatured obligations of the City are accounted for in the General Long-term Debt Account Group.

I. Compensated Absences

Permanent employees earn from 12 to 22 vacation days a year and 12 sick days a year depending on their length of employment. Employees can carry forward two years vacation days and 120 sick days. Upon termination or retirement, employees are compensated for accrued vacation time.

J. Pension Plan

All full-time City employees are members of the State of California Public Employees Retirement System. The City's policy is to fund ongoing costs and unfunded actuarial liabilities as determined annually by the actuary. Pension costs are accounted for in individual funds with related payroll costs not in separate trust funds. Investment earnings and benefit payments are not recognized on the City's books.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

L. Bond Issuance Costs and Original Issue Discounts and Premiums

Costs and underwriters' discounts related to bond issuance are deducted from bond proceeds in Governmental Fund Types. In Proprietary Fund Types, bond issuance costs are included in the accompanying combined balance sheet as deferred issuance costs and are amortized over the bond redemption period. Discounts and premiums related to the issuance of bonds by proprietary funds are deferred and amortized over the life of the bonds.

M. Interfund Receivables/Payables and Interfund Loans

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These current receivables and payables are classified as "due from other funds" or "due to other funds" in the accompanying combined balance sheet.

N. Other

Columns on the accompanying financial statements captioned "Totals (Memorandum Only)" do not present consolidated financial information. They are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data.

NOTE 2. POOLED CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Pooled Cash and Investments".

At year-end, the City's deposits were $9,154,493 of which $100,000 was guaranteed by the Federal Depository Insurance Corporation (FDIC).

Statutes require the financial institutions to pledge collateral when deposits exceed depository insurance. Statutes specify the type of collateral that is required and that the market value of the collateral be greater than the amount of the uninsured deposits. Because pledging collateral to each public depositor may reduce the interest paid on deposits, statutes provide that the institution can pledge a pool of collateral against all the public deposits it holds. This type of collateral pool provides the same level of protection as if each uninsured deposit were separately collateralized but allows the financial institution to provide collateral at a lower cost because of reduced monitoring and record keeping.

The City deposits are categorized to give an indication of the level of risk assumed by the City. At June 30, 2003, all deposits were classified as Category 1, which includes deposits that are guaranteed by (FDIC) as well as collateralized.

Investments. Statutes and local investment policies authorized the City to invest in U.S. Treasury Obligations, U.S. Government Agency Securities, U.S. Government-Sponsored Corporation (Instrumentalists), Bankers' Acceptance, and the State Treasurer's Investment Pool. The City does not invest in Repurchase Agreements or Reverse Repurchase Agreements.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based

NOTE 2. POOLED CASH AND INVESTMENTS (continued)

on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The City's investments are categorized to give an indication of the level of risk assumed at year end. Category 1 includes securities that are held in the City's name.

The City's investments at June 30, 2003, were as follows:

Investments	Carrying Amount	Market Value
Liberty Intermediate Government Fund A	$ 651,085	$ 616,678
Fidelity Investments	1,577,364	1,577,364
US Bank	991,091	991,091
Local Agency Investment Fund	5,442,801	5,442,801
	$ 8,662,341	$ 8,627,934

NOTE 3. NOTES RECEIVABLE

The following loans were made through the Chowchilla Loan and Grant Program:

Chowchilla Associates, 1995, $723,156 loan bearing interest at 3% per annum for 40 years. Annual payments 50% of operating income of the apartments, first to interest and then to principal. Balance outstanding at end of loan is forgiven. As of June 30, 2003, a valuation allowance of $661,990 has been made to reflect the estimated net realizable value.	$	61,166
Full Gospel Defender Church Rehabilitation Loan 2000, $7,000 loan bearing interest at 7% per annum for 60 months. Monthly principal and interest payments of $138.61.		6,174
Rose Rehabilitation Loan 2000, $10,000 loan bearing interest at 5% per annum for 84 months. Monthly principal and interest payments of $141.34.		6,533
Grisson Rehabilitation Loan 2002, $9,300 loan bearing interest at 5% per annum for 72 months. Monthly principal and interest payments of $149.78.		7,477
Zimmer Rehabilitation Loan 2003, $50,000 loan bearing interest at 3% per annum for 84 months. Monthly principal and interest payments of $300.		37,079
Total Redevelopment Rehabilitation Loans Receivable	$	118,429

NOTE 3. NOTES RECEIVABLE(continued)

In 1995 financing was provided for a multi-family residential project that resulted in a Note receivable for amounts previously expensed by the City and advanced to the developer. The annual loan payments are based on operating income of the project each year and any balance outstanding at the end of the 40 year term is forgiven. Under the terms of the note agreement, payments are applied first to accrued interest and the remainder on principal. As of June 30, 2003, the amount due from the developer including accrued interest is $888,738. A valuation adjustment based on the current level of operating income from the project has been made to adjust the asset to estimated net realizable value.

Redevelopment Agency - The City administers the Deferred Payment Loan Program using Home Investment Partnership Program Grants and Community Development Block grants. Under these Programs, individuals with incomes below a certain level are eligible to receive low interest loans, secured by second deeds of trust, to help purchase their home or rehabitate it. Upon approval of loans, the City disburses the funds, arranges for and collects repayments. As of June 30, 2003, the City had $2,147,527 in loans outstanding to eligible individuals.

NOTE 4. LONG-TERM DEBT

A. Revenue Bonds

$3,106,000 Series 2000, issued by Chowchilla Public Financing Authority. Principal due in annual installments of $97,634.14 to $234,850.88 with interest due semi-annually at 6.150%. This issue is being serviced by the various funds of the City of Chowchilla. The City has entered into capital leases with the Authority in exchange for capital improvements made by the Authority. The total issue was funded by Municipal Finance Corp. with City National Bank as Trustee. Matures 2023.	$	2,782,095
$268,325 USDA Sewer Bonds. Principal due in annual installments of $3,325 to $20,000, with interest due semi-annually at 4.375%. This issue is being serviced by the Sewer Fund of the City of Chowchilla. The City has entered into a capital project involving the sewer system with USDA. Matures 2021.		255,000
$1,114,558 USDA Project Loan. Full payment of principal and interest due August 31, 2001 at which time the USDA issues bonds. This issue is being serviced by the Water Fund of the City of Chowchilla. The City has entered into a capital project involving the water system with the USDA. Matures 2021.		1,075,000
Total Revenue Bonds	$	4,112,095

NOTE 4. LONG-TERM DEBT(continued)

B. Capital Leases

$295,000 REDIP Loan Refunding Lease Financing. Principal due in annual installments of $10,000 to $25,000, with interest due semi-annually at 7.25%. This issue is being serviced by a sub-lease to the developers of $275,000 with interest at 7.25%, and with City funds as required. Matures 2013. Developers are in default, no payments made, foreclosure proceedings started.	$ 265,000
$790,000 Lease Financing - Westside Storm Drain Pond Project. Principal due in annual installments of $25,000 to $75,000 with interest due semi-annually at 5.950%. This issue is being serviced by the City's Storm Drain Fund. Matures 2013.	588,500
$39,645 MAIS Software Lease, Concord Consultants. Software licenses. Annual payments of $8,285.81 to $9,713.00 include interest at 4.50%. Serviced by General Fund and Enterprise Fund. Matures 2004.	5,775
$40,375 CIT Leasing. Three (3) copiers. Monthly payments of $828.24 include interest at 8.5%. Serviced by General Fund and Enterprise Fund. Matures 2007.	37,063
$1,900,000 Municipal Finance Corporation - Civic Center Improvement Project. Semi-annual payments of $74,735.96 include interest at 4.85%. Serviced by General Fund and Enterprise Fund. Matures 2022.	1,871,339
$105,000 Municipal Finance Corporation. Telephone system, two (2) patrol vehicles and one (1) animal control vehicle. Semi-annual payments of $14,441.84 include interest at 4.35%. Serviced by General Public Safety and Enterprise Funds. Matures 2006.	92,842
Total Capital Leases	$ 2,860,519

C. Other Liabilities

Danish Creamery - Land. Original loan value of $50,000. Annual payments of $6,437.50 include interest at 4.50%. Serviced by General Fund. Matures 2006.	22,946
Total other liabilities	22,946
Total Debt	$ 6,995,560

NOTE 4. LONG-TERM DEBT(continued)

Change in debt principal for the year ended June 30, 2003, is as follows:

	Balance 6/30/02	Additions	Reductions	Balance 6/30/03
2000 Refunding PFA				
Revenue Bonds	$ 2,880,520	$ -	$ 98,425	$2,782,095
USDA Sewer Bonds	265,000	-	10,000	255,000
USDA Project Loan	1,114,558	-	39,558	1,075,000
Capital Lease REDIP/RDA				
Refunding	265,000	-	-	265,000
Capital Lease - Storm Drain	626,000	-	37,500	588,500
Capital Lease - Software	15,858	-	10,083	5,775
Capital Lease - Copiers	-	40,375	3,312	37,063
Capital Lease - Copiers	13,172	-	13,172	-
Capital Lease - Phone System	-	105,000	12,158	92,842
Capital Lease - Civic Center Improvements	-	1,900,000	28,661	1,871,339
Other liabilities				
Danish Creamery Land	28,011	-	5,065	22,946
Compensated absences	176,976	-	176,976	-
	$ 5,385,095	$2,045,375	$ 434,910	$6,995,560

Principal and interest debt service requirements to maturity are as follows:

	PFA 2000 Revenue Bonds	USDA Sewer Bonds	USDA Project Loan	Danish Creamery	Total
2003-04	$ 281,779	$ 20,938	$ 90,809	$ 6,437	$ 399,963
2004-05	280,172	20,500	88,840	6,437	395,949
2005-06	278,209	20,063	86,871	6,437	391,580
2006-07	280,685	19,625	84,902	6,437	391,649
2007-08	277,545	19,188	88,281	-	385,014
Thereafter	2,963,469	269,639	1,087,142	-	4,320,250
	$ 4,361,859	$ 369,953	$ 1,526,845	$ 25,748	$ 6,284,405

NOTE 4. LONG-TERM DEBT(continued)

Minimum future payments on capital leases are as follows:

CAPITAL LEASES

	REDIP/ RDA	Storm Drain	Soft-ware	Copiers	Phone System	Civic Center	Total
2003-04	$ 29,319	$ 73,341	$ 6,132	$ 9,939	$ 28,884	$ 149,472	$ 297,087
2004-05	28,231	72,931	-	9,939	28,884	149,472	289,457
2005-06	27,144	73,372	-	9,939	28,884	149,472	288,811
2006-07	26,056	72,665	-	9,939	14,442	149,472	272,574
2007-08	24,968	72,809	-	4,978	-	149,472	252,227
Thereafter	284,951	436,257	-	-	-	2,167,342	2,888,550
Total payments	420,669	801,375	6,132	44,734	101,094	2,914,702	4,288,706
Principal portion of payments	265,000	588,500	5,775	37,063	92,842	1,871,339	2,860,519
Amount representing interest	$ 155,669	$ 212,875	$ 357	$ 7,671	$ 8,252	$1,043,363	$1,428,187

Special Assessment District Bonds

The City issued $6,750,000 Assessment District No. 2002-1 (Pheasant Run) Limited Obligation Improvement Bonds pursuant to the Improvement Bond Act of 1915. The Assessment Bonds are fully secured by privately owned properties benefitted by the improvements for which the bonds were issued. The City is not obligated in any manner for the special assessment debt. The bonds are not secured by the general taxing power of the City, the State of California or any political subdivision of the State. The City acts as agent for the property owners in collecting assessments and forwarding collections to bondholders. The assessment District No. 2002-1 Limited Obligation Bonds outstanding at June 30, 2003 is $6,700,000.

NOTE 5. FUND EQUITY

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings which has been appropriated for expenditure or is legally segregated for a specific use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change; they may never be legally authorized or result in expenditure.

Fund balances are reserved as follows:

Reserve for debt service is the portion of fund balance legally restricted to the payment of principal and interest on long term debt.

NOTE 6. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains Enterprise Funds which provide water, solid waste, sewer and storm drain services. Segment information for the year ended June 30, 2003, is as follows:

	Water	Solid Waste	Sewer	Storm Drain	Total
Operating revenues	$ 811,167	$ 770,567	$ 771,303	$ 116,593	$ 2,469,630
Operating income (loss)	(92,063)	(89,011)	(43,669)	(41,242)	(265,985)
Other revenues	15,772	771	9,749	1,012	27,304
Bond retirement	39,558	-	45,659	37,500	122,717
Capital outlay	8,160	2,821	8,185	1,410	20,576
Net income (loss)	(124,009)	(91,061)	(87,764)	(79,140)	(381,974)
Transfers in (out)	20,000	-	30,000	38,400	88,400
Net working capital	771,671	(59,562)	500,584	54,132	1,266,825
Total assets	771,671	(59,562)	500,584	54,132	1,266,825
Total equity	771,671	(59,562)	500,584	54,132	1,266,825

NOTE 7. EXCESS OF EXPENDITURES OVER BUDGET

The following funds had an excess of expenditures over budget:

	Budget	Expended	Excess
205 Water Fund	880,350	888,414	8,064
210 Solid Waste Fund	800,000	849,897	49,897
220 Storm Drain Fund	179,850	189,801	9,951
310 Maintenance Assessment Dist	14,700	32,491	17,791
410 Public Safety Grants	155,367	197,661	42,294
425 EDBG Grant	-	9,193	9,193
530 Signalization Impact Fees	-	60,306	60,306
560 Park Development Fund	8,000	20,000	12,000
565 Park Bond Act	88,000	159,506	71,506
570 Water System Improvement	-	15,046	15,046
575 Public Building Improvement	-	6,234	6,234
540 Greenhills AD	225,000	289,835	64,835
542 Pheasant Run AD	-	2,619,137	2,619,137
905 Public Safety Expansion	126,500	212,827	86,327
915 Street improvements	152,000	187,607	35,607

City Council was made aware of these differences and approved the project overages.

NOTE 8. RECONCILIATIONS

The following schedule shows the nature and amounts of adjustments to reconcile from the Budget (cash) Basis to the Accounting (modified accrual) Basis:

	General Fund	Special Revenue Funds	Total
Fund Balance Budget Basis	$ 625,185	$ 3,448,949	$ 4,074,134
Accounts receivable	253,111	32,329	285,440
Accounts payable	(216,707)	(47,854)	(264,561)
Perry Building adjustment	325,000	-	325,000
Change in valuation allowance	-	(304,834)	(304,834)
Accounting basis	$ 986,589	$ 3,128,590	$ 4,115,179

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS

Employees separating from the City of Chowchilla may be maintained on the City's health insurance policies through COBRA. The City does not bear any of the cost of retired employees' insurance.

NOTE 10. PENSION PLAN

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

Funding Policy. Participants are required to contribute 7% of their annual covered salary. The City makes part of the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0% for non-safety employees and 0% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost. For 2002-03 fiscal year, the City's annual pension cost of $162,492 for CALPERS was equal to the City's required and actual contributions. The June 30, 2002, actuarial valuation was used. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CALPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period.

	THREE-YEAR TREND INFORMATION FOR PERS		
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	116,339	100%	0
6/30/01	129,615	100%	0
6/30/02	134,872	100%	0

Annual Pension Cost

REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Entry Age Actuarial Accrued Liability	(C) Unfunded Actuarial Accrued Liability (Excess Assets) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) Unfunded Actuarial Liability as Percentage of Covered Payroll {[(B)-(A)]/(E)}
6/30/99	7,154,010	5,357,513	(1,796,497)	133.5%	1,515,260	(115.5%)
6/30/00	8,099,340	6,389,376	(1,709,964)	126.8%	1,671,856	(102.3%)
6/30/01	8,369,127	6,926,587	(1,442,540)	120.8%	1,733,397	(83.22%)
6/30/02	7,878,286	7,539,477	(338,809)	104.1%	2,068,944	(14.65%)

NOTE 11. RELATED PARTY TRANSACTIONS

The City provides various administrative and internal service functions to the Chowchilla Public Financing Authority. No charges have been included for these services.

In conjunction with Public Financing Authority's issue of revenue bonds for City Hall purchase and improvements, street improvements, and waste water improvements, the City executed three lease agreements in favor of the Authority. The capitalized leases are not recorded in these financial statements because the Authority is a component unit of the City and is fully included in the financial statements. Presentation of the leases could cause these statements to be misleading with the debt being duplicated in the Long-Term Debt Group of Accounts.

NOTE 12. RISK MANAGEMENT

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first $1,000,000 of each general liability claim and $350,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under $1,000,000 and workers' compensation losses under $350,000. The CSJVRMA participates in an excess pool which provides general liability coverage from $1,000,000 to $14,000,000. The CSJVRMA participates in an excess insurance above $1,000,000 to the statutory limit.

The CSJVRMA is a consortium of fifty-four (54) cities in the San Joaquin Valley of California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial position and results of operations for the CSJVRMA, as of June 30, 2003, are presented below:

Total assets	$	53,348,814
Total liabilities	$	41,029,996
Total retained earnings		12,318,818
Total liabilities and retained earnings	$	53,348,814
Total revenues for year	$	17,997,296
Total expenses for year		19,903,124
Net loss for year	$	(1,905,828)

At the termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the cities in accordance with its governing documents.

NOTE 13. REDIP/RDA LOAN

The principal and interest payments due during the 2002-03 fiscal year in respect of the REDIP/RDA Loan Refunding Lease Financing issued by the City to the Central California Public Financing Authority was not paid on the due date. The City also has a receivable from the developer, in connection with this loan, which is also in default. Foreclosure proceedings against the subject property have started.

NOTE 14. NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending June 30, 2004. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

NOTE 15. - COMMITMENTS AND CONTINGENCIES

Litigation. The City is a defendant in various lawsuits filed seeking to impose liability for purportedly wrongful conduct allegedly committed by various City officers or employees, or arising out of claimed defects in City property. There are adequate reserves and/or insurance held by the City to cover any potential liability of the City arising from this action.

The City is also a defendant in a lawsuit filed by Carr Business Enterprises, Inc., dba Clovis Concrete that is seeking an award of damages in excess of $1.5 million dollars for the breach of two contracts relating to street and airport improvements constructed by Carr Enterprises in 1996 and 1997. The case was tried before a court referee, who awarded Carr damages of $613,427, together with an award of attorney's fees and costs to be fixed by the court. The City filed a motion for a new trial and to vacate the judgment, which was ultimately granted. Carr and its surety, Insurance Company of the West, each filed appeals from the order granting the motion for a new trial and vacating the judgment. That matter is now pending in the Court of Appeal, Fifth Appellate District and is anticipated not to be resolved until January 2005. The City believes the order granting the City's motion for a new trial and vacating the judgment is very likely to be affirmed on appeal.

In accordance with Statement of Financial Accounting standards No. 5, the amount of loss for the aforementioned cases, if any, that may be ultimately realized, has not been reflected in the accompanying financial statements as of June 30, 2003.

CITY OF CHOWCHILLA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE - ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003

	WATER	SOLID WASTE	SEWER	STORM DRAIN	TOTAL
OPERATING REVENUES					
Charges for services	$ 811,167	$ 770,567	$ 771,303	$ 116,593	$2,469,630
Total operating revenues	811,167	770,567	771,303	116,593	2,469,630
OPERATING EXPENSES					
Personnel services	311,862	100,319	378,484	84,322	874,987
Materials, supplies & services	591,368	759,259	436,488	73,513	1,860,628
Total operating expenses	903,230	859,578	814,972	157,835	2,735,615
Operating income(loss)	(92,063)	(89,011)	(43,669)	(41,242)	(265,985)
NON-OPERATING REVENUES (EXPENSE)					
Interest income	15,772	771	9,749	1,012	27,304
Capital outlay	(8,160)	(2,821)	(8,185)	(1,410)	(20,576)
Bond retirement	(39,558)	-	(45,659)	(37,500)	(122,717)
Total non-operating revenues	(31,946)	(2,050)	(44,095)	(37,898)	(115,989)
Net income (loss)	(124,009)	(91,061)	(87,764)	(79,140)	(381,974)
Transfers in (out)	20,000	-	30,000	38,400	88,400
Retained earnings at beginning of year	875,680	31,499	558,348	94,872	1,560,399
Retained earnings at year end	$ 771,671	$ (59,562)	$ 500,584	$ 54,132	$1,266,825

See accompanying notes to financial statements.

CITY OF CHOWCHILLA

CORRECTIVE ACTION PLAN

June 30, 2003
(Same as June 20, 2002)

FINDING # 1: "A note receivable in the face amount of $723,156 has not been recorded in the financial accounting records of the City."

ACTION: The note in question was entered into in 1995 between the Chowchilla Redevelopment Agency and Chowchilla Associates. The City of Chowchilla received approval of a grant from the State HOME Program through the Department of Housing and Community Development of the State of California in early 1995. The City of Chowchilla funded the HOME Garden Program through the Redevelopment Agency of the City by way of a Development and Disposition Agreement between the Redevelopment Agency and the Garden Apartment owners. The City then loaned the money to the Redevelopment Agency for the purpose of funding the project. However, the grant money was paid by the State Department of Housing and Community Development directly to the Chowchilla Associates, bypassing the City accounting system. This oversight was not discovered until the City began receiving interest payments in 2002. At this time, the note has been recorded in the books of the Chowchilla Redevelopment Agency as well as the City of Chowchilla.

FINDING # 2: "The City is not monitoring the recipient of the loan proceeds for financial and compliance issues related to the operation and use of the Home Investment Partnership Program funds."

ACTION: This duty at one time was to have been performed by the Madera County Housing Authority, but the City Finance office will now be monitoring the loan proceeds for financial and compliance issues related to the operation and use of the HOME Investment Partnership Program funds on behalf of the Redevelopment Agency.

Connie Wright
Finance Director
City of Chowchilla

June 4, 2004

CITY OF CHOWCHILLA
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
YEAR ENDED JUNE 30, 2004

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	GOVERNMENTAL FUND TYPES				Proprietary Fund Type	Fiduciary Fund Type	Account Group	Totals (Memorandum only)
	General Fund	Special Revenue	Capital Projects	Debt Service	Enterprise Fund	Agency Fund	General Long Term Debt	June 30, 2004
ASSETS								
Pooled Cash & Investments	$ (484,601)	$ 216,126	$ 5,718,483	$ -	$ 992,954	$ -	$ -	$ 6,442,962
Accounts Receivable	325,101	224,187	-	-	358,251	47,054	-	$ 954,593
Notes Receivable	-	-	58,346	-	-	-	-	$ 58,346
Notes Receivable-HOME	-	304,394	-	-	-	-	-	$ 304,394
Notes Receivable-CDBG	-	1,843,133	-	-	-	-	-	$ 1,843,133
Sublease Receivable-Developers	-	-	-	-	-	-	265,000	$ 265,000
Due from Other Funds	1,200,000	-	-	-	-	-	-	$ 1,200,000
Fixed Assets	-	-	425,000	-	-	-	-	$ 425,000
Amount to be Provided for Retirement of General Long-term Debt	-		-	-	-	-	6,429,954	$ 6,429,954
Total Assets	$ 1,040,500	$ 2,587,840	$ 6,201,829	$ -	$ 1,351,205	$ 47,054	$ 6,694,954	$ 17,923,382
LIABILITIES								
Accounts Payable	$ 95,713	$ 8,748	$ 130,391	$ 10,363	$ 201,408			$ 446,623
Other loans Payable							17,632	$ 17,632
Due to Other Funds			1,200,000					$ 1,200,000
Compensated Absences Payable (&Acc PR)	170,166	27,846			81,290			$ 279,302
Capital Leases Payable							2,771,407	$ 2,771,407
Revenue Bonds Payable							3,905,915	$ 3,905,915
Trust Liabilities						47,054		$ 47,054
Total Liabilities	$ 265,879	$ 36,594	$ 1,330,391	$ 10,363	$ 282,698	$ 47,054	$ 6,694,954	$ 8,667,933
FUND EQUITY								
Retained Earnings					1,068,507			$ 1,068,507
Fund Balances:								
Reserved for Debt Service	350,000			(10,363)				$ 339,637
Unreserved and Undesignated	424,621	2,551,246	4,871,438					$ 7,847,305
Total Retained Earnings and Fund Balances	$ 774,621	$ 2,551,246	$ 4,871,438	$ (10,363)	$ 1,068,507	$ -	$ -	$ 9,255,449
TOTAL LIABILITIES AND FUND EQUITY	$ 1,040,500	$ 2,587,840	$ 6,201,829	$ -	$ 1,351,205	$ 47,054	$ 6,694,954	$ 17,923,382

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2004

DRAFT

	GOVERNMENTAL FUND TYPES				Totals (Memorandum only)
	General Fund	Special Revenue	Capital Projects	Debt Service	June 30, 2004
REVENUES					
Taxes	$ 1,584,694	$ 3,165	$ 1,353,113	$ -	$ 2,940,972
Licenses/Permits	392,419	-	-	-	$ 392,419
Fines/Penalties	74,968	-	-	-	$ 74,968
Intergovernmental	590,139	2,118,001	60,816	-	$ 2,768,956
Use of money/property	55,164	5,068	74,627	-	$ 134,859
Charges for Services	14,145	71,150	789,939	-	$ 875,234
Miscellaneous	196,586	214,347	7,476,608	-	$ 7,887,541
Total Revenues	$ 2,908,115	$ 2,411,731	$ 9,755,103	$ -	$ 15,074,949
EXPENDITURES					
General Government	$793,283	$429,298	$ 864,840	$ -	$ 2,087,421
Public Safety	$1,496,968	$159,857	25,334	-	$ 1,682,159
Highways & Streets	$425,870	$239,305	33,929	-	$ 699,104
Cultural & Recreation	$537,056	-	-	-	$ 537,056
Capital Projects	$35,008	$1,633,795	2,318,025	-	$ 3,986,828
Debt Service:					
Principal	$51,768	-	7,442,385	-	$ 7,494,153
Interest	$70,621	-	1,181,111	-	$ 1,251,732
Total Expenditures	$ 3,410,574	$ 2,462,255	$ 11,865,624	$ -	$ 17,738,453
Excess (Deficiency) of Revenues over Expenditures	$ (502,459)	$ (50,524)	$ (2,110,521)	$ -	$ (2,663,504)
Other Financing Sources (Uses)					
Lease Proceeds	$ -	$ -	$ -	$ -	$ -
Contribution of property owners	-	-	-	-	$ -
Transfers In	290,491	-	185,000	-	$ 475,491
Transfers Out	-	(443,891)	(120,000)	-	$ (563,891)
Total Other Sources (Uses)	$ 290,491	$ (443,891)	$ 65,000	$ -	$ (88,400)
Excess (Deficiency of Revenues and other Financing Sources over Expenditures and Other Uses	$ (211,968)	$ (494,415)	$ (2,045,521)	$ -	$ (2,751,904)
Fund Balance at Beginning of Year - per Audit	$ 986,589	$ 3,128,590	$ 5,505,075	$ (10,363)	$ 9,609,891
Fund Balance at End of Year	$ 774,621	$ 2,634,175	$ 3,459,554	$ (10,363)	$ 6,857,987

See accompanying notes to financial statements.

CITY OF CHOWCHILLA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2004

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	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes	$1,491,500	$1,584,694	$93,194	$17,250	$65,337	$48,087
Licenses/Permits	$219,000	$392,419	$173,419	$0	$0	$0
Fines/Penalties	$74,000	$74,968	$968	$0	$0	$0
Use Of $/Property	$52,800	$55,164	$2,364	$3,250	$5,068	$1,818
Intergovernmental	$745,000	$590,139	($154,861)	$2,707,000	$2,118,000	($589,000)
Current S/C	$102,500	$94,287	($8,213)	$187,000	$223,326	$36,326
Miscellaneous	$16,200	$116,444	$100,244	$0	$0	$0
	$2,701,000	$2,908,115	$207,115	$2,914,500	$2,411,731	($502,769)
EXPENDITURES:						
General Government	$706,250	$793,283	($87,033)	$404,075	$429,298	($25,223)
Public Safety	$1,504,110	$1,496,968	$7,142	$129,250	$159,857	($30,607)
Highways/Streets	$391,880	$425,870	($33,990)	$337,100	$239,305	$97,795
Cultural & Recreation	$494,350	$537,056	($42,706)	$0	-	$0
Capital Outlay	$43,800	$35,008	$8,792	$1,524,325	$1,633,795	($109,470)
Debt Service: Principal	$51,910	$51,768	$142	$0	$0	$0
Debt Service: Interest	$70,600	$70,621	($21)	$0	$0	$0
	$3,262,900	$3,410,574	($147,674)	$2,394,750	$2,462,255	($67,505)
Excess (Deficiency) of Revenues Over Expenditures	($561,900)	($502,459)	$59,441	$519,750	($50,524)	($570,274)
OTHER FUNDING SOURCES:						
Transfers In	$275,000	$290,491	($15,491)		$0	$0
Transfers Out	$0	$0	$0		$443,891	($443,891)
TOTAL OTHER SOURCES	$275,000	$290,491	($15,491)	$0	($443,891)	$443,891
Excess (Deficiency) of Revenues and Other Sources Over Expenses and Other Uses	($286,900)	($211,968)	$43,950	$519,750	($494,415)	($126,383)
FUND BALANCE AT JULY 1		$986,589			$3,128,590	
FUND BALANCE AT JUNE 30		$774,621			$2,634,175	

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2004

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	Enterprise Funds
OPERATING REVENUES	
Charges for Services	$ 2,555,713
Total Operating Revenues	2,555,713
OPERATING EXPENSES	
Interest on Bond Retirement	134,492
Personnel Services	902,887
Materials, Supplies and Services	1,658,527
Total Operating Expenses	2,695,906
Operating Income (Loss)	(140,193)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	28,260
Capital Outlay	(46,316)
Bond Retirement	(128,468)
Total Non-Operating Revenues (Expenses)	(146,524)
Net Income (Loss)	(286,717)
Transfers In (Out)	88,400
Retained Earnings at Beginning of Year	1,266,824
Retained Earnings at End of Year	$ 1,068,507

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2004

	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 2,584,286
Cash Paid for Goods and Services	(1,705,336)
Cash Paid to Employees	(889,822)
Net Cash Provided (Used) by Operating Activities	(10,872)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(46,316)
Principal Payments on Bonds	(128,468)
Interest Payments on Bonds	(134,492)
Transfers In (Out)	88,400
Net Cash Provided (Used) by Capital Related Financing Activities	(220,876)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	28,260
Net Cash Provided (Used) by Investing Activities	28,260
Net Decrease in Cash	(203,488)
CASH - July 1, 2003	1,196,441
CASH - June 30, 2004	992,953
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	(5,701)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Increase in Accounts Receivable	$ (5,181)
Decrease in Accounts Payable	(46,809)
Increase in Compensated Absences Payable	13,065
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (44,626)

See accompanying notes to financial statements.

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NOTE 2. POOLED CASH & INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's type's portion of this pool is displayed on the combined balance sheet as "Pooled Cash and Investments."

At year-end, the City's deposits were $6,442,962 of which $100,000 was guaranteed by the Federal Depository Insurance Corporation (FDIC).

Statutes require the financial institutions to pledge collateral when deposits exceed depository insurance. Statues specify the type of collateral that is required and that the market value of the collateral be greater than the amount of the uninsured deposits. Because pledging collateral to each public depositor may reduce the interest paid on deposits, statues provide that the institution can pledge a pool of collateral against all the public deposits it holds. This type of collateral pool provides the same level of protection as if each uninsured deposit were separately collateralized but allows the financial institution to provide collateral at a lower cost because of reduced monitoring and record keeping.

The City deposits are categorized to give an indicating of the level of risk assumed by the City. At June 30, 2004, all deposits were classified as Category 1, which includes deposits that are guaranteed by FDIC as well as collateralized.

Investments. Statues and local investment policies authorized the City to invest in U.S. Treasury Obligations, U.S. Government Agency Securities, U.S. Government-Sponsored Corporation (Instrumentalists), Bankers' Acceptance, and the State Treasurer's Investment Pool. The City does not invest in Repurchase Agreements or Reserve Repurchase Agreements.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The City's investments are categorized to give an indication of the level of risk assumed at year end. Category 1 includes securities that are held in the City's name.

The City's investments at June 30, 2004, were as follows:

Investments	Carrying Amount	Market Value
Liberty Intermediate Government Fund A	$ 651,085	$ 588,723
Fidelity Investments	1,590,921	1,590,921
RBC Dain	300,189	300,189
US Bank	802,034	802,034
Local Agency Investment Fund	2,557,961	2,557,961
	$ 5,902,190	$ 5,839,828

See accompanying notes to financial statements.

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NOTE 3. NOTES RECEIVABLE

The following loans were made thought the Chowchilla Loan and Grant Program:

Chowchilla Associates, 1995, $723,156 loan bearing interest at 3% per annum for 40 years. Annual payments 50% of operating income of the apartments, first to interest, then to principal. Balance outstanding at end of loan is forgiven. As of June 30, 2004, a valuation allowance of $____ has been made to reflect the estimated net realizable value.	$	61,166	Same as last yr
Full Gospel Defender Church Rehabilitation Loan 2000, $7,000 loan bearing interest at 7% per annum for 60 months. Monthly principal and interest payments of $138.61. Loan is in default, and foreclosure proceedings have been initiated.	$	6,201	
Grissom Rehabilitation Loan 2002, $9,300 loan bearing interest at 5% per annum for 72 months. Monthly principal and interest payments of $149.78.	$	4,997	
Zimmer Rehabilitation Loan 2003, $50,000 loan bearing interest at 3% per annum for 84 months. Monthly principal and interest payments of $300.00.	$	47,147	
Total Redevelopment Rehabilitation Loans Receivable	$	119,511	

In 1995 financing was provided for a multi-family residential project that resulted in Note Receivable for amounts previously expensed by the City and advanced to the developer. The annual loan payments are based on operating income of the project each year and any balance outstanding at the end of the 40 year term is forgiven. Under the terms of the note agreement, payments are applied first to accrued interest and the remainder on principal. As of June 30, 2004, the amount due from the developer including accrued interest is $895,228. A valuation adjustment based on the current level of operating income from the project has been made to adjust the asset to estimated net realizable value.

Redevelopment Agency - the City administers the Deferred Payment Loan Program using Home Investment Partnership Program Grants and Community Development Block grants. Under these programs, individuals with incomes below a certain level are eligible to receive low interest loans, secured by second deeds of trust, to help purchase their home or rehabilitate it. Upon approval of loans, the City disburses the funds, arranges for and collects repayments. As of June 30, 2004, the City had $2,147,527 in loans outstanding to eligible individuals.

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NOTE 4. LONG-TERM DEBT

A. Revenue Bonds

$3,106,000 Series 2000, issued by Chowchilla Public Financing Authority. Principal due in annual installments of $97,634 to $234,851 with interest due semi-annually at 6.15%. This issue is serviced by the various funds of the City in exchange for capital improvements made by the Authority. The total issue was funded by Municipal Finance Corp. with City National Bank as trustee. Matures 2023.	$ 2,667,901	
$268,325 USDA 2001 Sewer Bonds. Principal due in annual installments of $3,325 to $20,000, with interest due semi-annually at 4.375%. This issue is serviced by the Sewer Fund of the City of Chowchilla. The City has entered into a capital project involving the sewer system with USDA. Matures 2021.	$ 245,000	
$1,114,558 USDA 2001 Water Bonds. Principal due in annual installments of $39,558 to $70,000, with interest due semi-annually at 4.375%. This issue is serviced by the Water Fund of the City of Chowchilla. The City has entered into a capital project involving the water system with the USDA. Matures 2021.	$ 1,035,000	
Total Revenue Bonds		$ 3,947,901

B. Capital Leases

$295,000 REDIP Loan Refunding Lease Financing. Principal due in annual installments of $10,000 to $25,000, with interest due semi-annually at 7.25%. This issue is serviced by a sub-lease to the developers of $275,000 with interest at 7.25%, and with City funds as required. Matures 2013. Developers are in default, no payments made, foreclosure proceedings started.	$ 265,000
$790,000 Lease Financing - Westside Storm Drain Pond Project. Principal due in annual installments of $25,000 to $70,500 with interest due semi-annually at 5.95%. This issue is serviced by the City's Storm Drain Fund. Matures 2013.	$ 549,000
$39,645 MAIS Software Lease, Temple Consulting. Software licenses. Annual payments of $8,286 to $9,713 include interest @4.50%. This issue is serviced by the City's General Fund and Enterprise Funds. Matures 2004.	$ 5,775
$40,375 CIT Leasing. Three copiers. Monthly payments of $828.24 include interest at 8.5%. This is serviced by the City's General Fund and Enterprise Funds. Matures 2007.	$ 30,004
$1,900,000 Municipal Finance Corporation - Civic Center Improvement Project. Semi-annual payments of $74,736 include interest at 4.85%. This is serviced by the City's General Fund and Enterprise Funds. Matures 2022.	$ 1,811,915

See accompanying notes to financial statements.

NOTE 4. LONG-TERM DEBT (continued)

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B. Capital Leases (continued)

$105,000 Municipal Finance Corporation - Telephone system, two patrol vehicles and one animal control vehicle. Semi-annual payments of $14,442 include interest at 4.35%. This is serviced by the City's General Fund (Public Safety) and Enterprise Funds. Matures 2006.	$ 67,727	
Total Capital Leases		$ 2,729,421

C. Other Liabilities

Danish Creamery - Land. Original loan value of $50,000. Annual payments of $6,437.50 includes interest at 4.9%. This is serviced by the City's General Fund. Matures 2006.	$ 17,632	
Compensated Absences Payable	$ 279,302	
Total Other Liabilities		$ 296,934
Total Debt		$ 6,974,256

Change in debt principal for the year ended June 30, 2004, is as follows:

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04
Revenue Bonds				
2000 Refunding PFA Revenue Bonds	$ 2,782,095	$ -	$ 114,194	$ 2,667,901
USDA Sewer Bonds	255,000	-	10,000	245,000
USDA Water Bonds	1,075,000	-	40,000	1,035,000
Capital Leases				
REDIP/RDA Refunding	265,000	-	-	265,000
Westside Storm Drain	588,500	-	39,500	549,000
MAIS Software	5,775	-	-	5,775
Copiers	37,063	-	7,059	30,004
Telephone System & Vehicles	92,842	-	25,115	67,727
Civic Center Improvements	1,871,339	-	59,424	1,811,915
Other Liabilities				
Danish Creamery Land	22,946	-	5,314	17,632
Compensated Absences *	181,583	18,378	-	199,961
	$ 7,177,143	$ 18,378	$ 300,606	$ 6,894,915

*not listed on this report on 02/03 audit, but shown on Balance Sheet. Amount does not include accrued payroll ($79,341)

See accompanying notes to financial statements.

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NOTE 4. LONG-TERM DEBT (continued)

Principal and interest debt service requirements to maturity are as follows:

	PFA 2000 Revenue Bonds	USDA Sewer Bonds	USDA Water Bonds	Danish Creamery	Total
2004-2005	$ 280,172	$ 20,500	$ 89,297	$ 6,437	$ 396,406
2005-2006	278,209	20,063	87,328	6,437	392,037
2006-2007	280,685	19,625	85,359	6,518	392,187
2007-2008	277,545	19,188	88,281	-	385,014
2008-2009	276,889	18,750	86,094	-	381,733
Thereafter	2,684,580	250,891	1,040,625	-	3,976,096
	$ 4,078,080	$ 349,017	$ 1,476,984	$ 19,392	$ 5,923,473

Minimum future payments on capital leases are as follows:

	REDIP/ RDA	Storm Drain	Software	Copiers	Phone System	Civic Center	Total
2004-2005	$ 28,231	$ 72,931	$ 6,132	$ 9,939	$ 28,884	$ 149,472	$ 295,589
2005-2006	27,144	73,372	-	9,939	28,884	149,472	288,811
2006-2007	26,056	72,665	-	9,939	14,442	149,472	272,574
2007-2008	24,968	72,809	-	4,978	-	149,472	252,227
2008-2009	28,700	72,775	-	-	-	149,472	250,947
Thereafter	322,568	363,483	-	-	-	2,017,870	2,703,921
Total Payments	$ 457,667	$ 728,035	$ 6,132	$ 34,795	$ 72,210	$ 2,765,230	$ 4,064,069
Principal portion of Payments	265,000	549,000	5,775	30,004	67,727	1,811,915	2,729,421
Amount representing Interest	$ 192,667	$ 179,035	$ 357	$ 4,791	$ 4,483	$ 953,315	$ 1,334,648

Special Assessment District Bonds

The City issued $6,750,000 Assessment District No. 2002-1 (Pheasant Run) Limited Obligation Improvement Bonds pursuant to Improvement Bond Act of 1915. The Assessment Bonds are fully secured by privately owned properties benefited by the improvements for which the bonds were issued. The City is not obligated in any manner for the special assessment debt. The bonds are not secured by the general taxing power of the City, the State California, or any political subdivision of the State. The City acts as agent for the property owners in collecting assessments and forwarding collections to bondholders. The Assessment District 2002-1 Limited Obligation Bonds outstanding at June 30, 2004 is $6,450,000.

The City issued $7,260,000 Reassessment District No. 2003-1 (Greenhills) Limited Obligation Improvement Bonds pursuant to Improvement Bond Act of 1915. This issue refunded the Assessment District No. 1994-1 bond issue. The Assessment Bonds are fully secured by privately owned properties benefited by the improvements for which the bonds were issued. The City is not obligated in any manner for the special assessment debt. The bonds are not secured by the general taxing power of the City, the State California, or any political subdivision of the State. The City acts as agent for the property owners in collecting assessments and forwarding collections to bondholders. The Assessment District 2003-1 Limited Obligation Bonds outstanding at June 30, 2004 is $7,260,000.

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NOTE 6. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains Enterprise Funds which provide water, solid waste, sewer, and storm drain services. Segment information for the ear ended June 30, 2004, is as follows:

	Water	Solid Waste	Sewer	Storm Drain	Total
Operating Revenues	$ 831,386	$ 822,786	$ 771,952	$ 129,589	$ 2,555,713
Operating Income (Loss)	(3,535)	(16,331)	7,765	6,400	$ (5,701)
Other Revenues	17,972	66	9,655	567	$ 28,260
Bond Retirement	40,000	-	48,968	39,500	$ 128,468
Capital Outlay	26,577	2,207	16,369	1,163	$ 46,316
Net Income (Loss)	(98,296)	(18,472)	(102,412)	(67,537)	$ (286,717)
Transfers In (Out)	20,000	-	30,000	38,400	$ 88,400
Net Working Capital	679,412	(69,728)	431,954	26,869	$ 1,068,507
Total Assets	679,412	(69,728)	431,954	26,869	$ 1,068,507
Total Equity	679,412	(69,728)	431,954	26,869	$ 1,068,507

See accompanying notes to financial statements.

NOTE 7. EXCESS OF EXPENDITURES OVER BUDGET

The following funds had an excess of expenditures over budget:

	Budget	Expended	Excess
General Fund	$ 3,262,900	$ 3,410,574	$ 147,674
Storm Drain Fund	$ 182,695	$ 197,693	$ 14,998
Maintenance Assessment District	$ 23,950	$ 49,471	$ 25,521
Public Safety Grants Fund	$ 151,000	$ 179,888	$ 28,888
CDBG Grants Fund	$ 825,850	$ 889,394	$ 63,544
EDBG Grants Fund	$ 471,000	$ 531,211	$ 60,211
Waste Water Capital Replacement	$ 450,000	$ 453,515	$ 3,515
PFA Public Safety Improvement Fund	$ 116,500	$ 187,358	$ 70,858
PFA Streets Improvement Fund	$ 155,000	$ 188,563	$ 33,563

City Council was made aware of these differences and approved the project overages.

NOTE 10. PENSION PLAN

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	$ 129,615	100%	$ -
6/30/02	$ 134,872	100%	$ -
6/30/03			

DRAFT

REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Entry Age Actuarial Accrued Liability	(C) Unfunded Actuarial Accrued Liability (Excess Assets) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) Unfunded Actuarial Liability as Percentage of Covered Payroll {[(B)-(A)]/(E)}
6/30/00	$ 8,099,340	$ 6,389,376	$ (1,709,964)	126.80%	$ 1,671,856	(102.30%)
6/30/01	$ 8,369,127	$ 6,926,587	$ (1,442,540)	120.80%	$ 1,733,397	(83.22%)
6/30/02	$ 7,878,286	$ 7,539,477	$ (338,809)	104.10%	$ 2,068,944	(14.65%)
6/30/03						

See accompanying notes to financial statements.

CITY OF CHOWCHILLA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2004

DRAFT

	Business-Type Activities				
	Water	Solid Waste	Sewer	Storm Drain	Totals
OPERATING REVENUES					
Charges for Services	$ 831,386	$ 822,786	$ 771,952	$ 129,589	$ 2,555,713
Total Operating Revenues	$ 831,386	$ 822,786	$ 771,952	$ 129,589	$ 2,555,713
OPERATING EXPENSES					
Personnel Services	$ 334,746	$ 99,052	$ 386,069	$ 83,020	$ 902,887
Materials, Supplies & Services	500,175	740,065	378,118	40,169	$ 1,658,527
Total Operating Expenses	$ 834,921	$ 839,117	$ 764,187	$ 123,189	$ 2,561,414
Operating Income (Loss)	$ (3,535)	$ (16,331)	$ 7,765	$ 6,400	$ (5,701)
NON-OPERATING REVENUES (EXPENSES)					
Interest Income	$ 17,972	$ 66	$ 9,655	$ 567	$ 28,260
Capital Outlay	(26,577)	(2,207)	(16,369)	(1,163)	$ (46,316)
Bond Interest Expense	(46,156)	-	(54,495)	(33,841)	$ (134,492)
Bond Retirement	(40,000)	-	(48,968)	(39,500)	$ (128,468)
Total Non-Operating Revenues	$ (94,761)	$ (2,141)	$ (110,177)	$ (73,937)	$ (281,016)
Net Income (Loss)	$ (98,296)	$ (18,472)	$ (102,412)	$ (67,537)	$ (286,717)
Transfers In (Out)	$ 20,000	$ -	$ 30,000	$ 38,400	$ 88,400
Retained Earnings at Beginning of Year	$ 757,708	$ (51,256)	$ 504,366	$ 56,006	$ 1,266,824
Retained Earnings at End of Year	$ 679,412	$ (69,728)	$ 431,954	$ 26,869	$ 1,068,507

See accompanying notes to financial statements.

APPENDIX D

CITY OF CHOWCHILLA STATEMENT OF INVESTMENT POLICY

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City of Chowchilla

Investment Policy
2004/2005

November 8, 2004

City of Chowchilla
Investment Policy
2004/2005

Table of Contents

City of Chowchilla
Investment Policy
2004/2005

1.0 Policy:

It is the policy of the City of Chowchilla ("City") to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. The purpose of this Investment Policy is to outline a process of the investment of City funds in a prudent manner in order to meet City objectives.

2.0 Scope:

This investment policy applies to all financial assets of the City, including bond proceeds under the direct authority of the City. (Assessment District bond proceeds are not considered part of the Funds nor subject to this Investment Policy.) All City funds are accounted for in the City's Comprehensive Annual Financial Report and include:

2.1 Funds:

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Capital Project Funds
- 2.1.4 Enterprise Funds
- 2.1.5 Trust and Agency Funds
- 2.1.6 Retirement/Pension Funds
- 2.1.7 Any new fund created by the City, unless specifically exempted.

3.0 Prudence:

Investments shall be made with judgment and care—under circumstances then prevailing— that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

4.3 Return on Investments: The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Finance Director/Treasurer ("Treasurer") who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer.

5.1 Investment Procedures: The Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

See appendix to the City of Chowchilla's Investment Policy entitled Investment Procedures Manual.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Administrator any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City.

7.0 Authorized Financial Dealers & Institutions:

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions in excess of \$100,000 must supply the Treasurer with the following: audited financial statements, proof of National Association of Security Dealers certification, proof of state registration, and certification of having read City's investment policy and depository contracts ("Certification re: Policy"). For transactions under \$100,000, the bidder will comply with submittals as determined by the Treasurer, but not less than the "Certificate re: Policy." An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. Current audited financial statements are required to be on file for each financial institution and broker/dealer in which the City invests.

8.0 Authorized & Suitable Investments:

The City is empowered by statute to invest in the types of securities listed in Table 1, which is a synopsis of the permitted securities and conditions for using them. Prohibited investments include securities not listed in Figure 1, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages (Collateralized Mortgage Obligations), and any security that could result in zero interest accrual if held to maturity, as specified in State Government Code Section 53601.6.

Table 1:
Allowable Investment Instruments per State Government Code (as of January 1, 2002)

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
US Treasury Bonds	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
US Agencies	5 years	None	None
Bankers' Acceptances	180 days	40 %[1]	None
Commercial Paper-Select Agencies[2]	270 days	40 %[3]	A1/P1 rating
Commercial Paper-Other Agencies[4]	270 days	25 %[5]	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements & Securities Lending Agreements	92 days	20 % combined of base value	None[6]
Medium-Term Notes	5 years	30 %	A rating
Mutual Funds	N/A	20 %[7]	Multiple[8]
Money Market Mutual Funds	N/A	20 %	Multiple[9]
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20 %	AA rating[10]
Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Sources: State Government Code Sections 16429.1, 53635, and 53684.

[1] No more than 30 percent of the surplus money may be in Bankers Acceptances of any one commercial bank.

[2] Recent Legislative changes to Government Code 53635 [AB 609 (Kelley), Chapter 57, Statutes of 2001] specify that "all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies" may invest in commercial paper as specified in Table 1 for select agencies. However, existing language in the same code section still defines local agency as a county or a city and county (thereby, not including other local agencies such as JPAs and cities that would qualify under the new commercial paper investment guidelines). Cleanup language to correct this discrepancy likely will be introduced in 2002, so the changes will not become effective until January 1, 2003.

[3] No more than 10 percent of the local agency's money that may be invested pursuant to Government Code 53635 may be invested in outstanding commercial paper of any single corporate issuer. Also, no more than 10 percent of the outstanding commercial paper of any single corporate issuer may be purchased by the local agency.

[4] Applies to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body.

[5] Local agencies may not hold more than 10 percent of the outstanding commercial paper of any single corporate issue.

[6] Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The issuer may have held the securities used for the agreement for at least 30 days.

[7] No more than 10 percent of the agency's surplus funds may be invested in any one mutual fund.

[8] Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least 5 years experience investing in instruments authorized by the State Government Code Sections 53601 and 53635.

[9] Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), and has not less than 5 years experience managing money market funds with assets under management in excess of $500 million.

[10] Issuer must have an A rating or better for the issuer's debt as provided by a nationally recognized rating agency.

8.1 Master Repurchase Agreement: If repurchase agreements are legal and authorized by policy, a Master Repurchase Agreement must be signed with the bank or dealer (e.g., a Master Repurchase Agreement or equivalent).

9.0 Investment Pools/Mutual Funds:

A thorough investigation of the pool/fund is required prior to investing and the status of the pool/fund should be reviewed periodically. There shall be a questionnaire developed which will answer the following general questions:

— A description of eligible investment securities, and a written statement of investment policy and objectives.

— A description of interest calculations and how it is distributed, and how gains and losses are treated.

— A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

— A description of who may invest in the program, how often, what size deposits and withdrawals are allowable.

— A schedule for receiving statements and portfolio listings.

— Are reserves, retained earnings, etc. utilized by the pool/fund?

— A fee schedule, and when and how is it assessed.

— Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Table 2:
Government Code Requirements for Local Agency Investment
in Money Market and Mutual Funds (as of January 1, 2002)

	Conditions for Allowing Investment	Money Market Funds	Mutual Funds
I	Receive the highest ranking or the highest letter and numerical rating by no less than 2 nationally recognized rating services OR	X	X
	Retain an investment advisor who is registered or exempt from registration with the SEC and has at least 5 years experience investing in specified securities and managing assets in excess of $500 million.[1]	X	X
II	Abide by the same investment restrictions and regulations that apply to public agencies in California [Section 53601 (a-j, m-n)].		X
III	Follow regulations specified by the SEC under the Investment Company Act of 1940 (15 USC Section 80a-1, et seq.).	X	

[1] The requirement for mutual funds is experience investing in securities and obligations authorized in Section 53601 and 53635 of the State Government Code. For money market funds, it is experience in managing the types of investments that can be purchased by money market funds as specified in SEC Regulation 2a-7.

10.0 Collateralization:

Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

11.0 Safekeeping & Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

12.0 Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

13.0 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 10 years to maturity. Reserve funds may be invested in securities exceeding 10 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

14.0 Internal Control:

The Treasurer shall establish an annual process of independent review by an external auditor. This review, along with the City Cash Management Policies and Procedures, will provide sufficient internal control over the safeguarding of investments.

15.0 Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15.1 Market Yield (Benchmark): The City's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the portfolio investment duration, which shall be the Average Federal Funds Rate.

16.0 Reporting:

The Treasurer shall provide the City Council of the City of Chowchilla quarterly investment reports that provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. This report may be in executive summary format. Schedules in the quarterly report should include the following:

— A listing of individual securities held at the end of the reporting period by authorized investment category

— Average life and final maturity of all investments listed

— Coupon, discount or earnings rate

— Par value, Amortized Book Value and Market Value

— Percentage of the Portfolio represented by each investment category

17.0 Investment Policy Adoption:

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council. [Section 53646(a)(2) of the Government Code requires that the treasurer or chief fiscal officer of any other local agency (other than counties) to annually render to his/her legislative body an investment policy which the legislative body shall "consider" at a public meeting.]

18.0 Glossary:

ARBITRAGE: Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities.

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for The City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon national amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., Savings & Loans, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GENERALLY ACCEPTED ACCOUNTING PROCEDURES (GAAP): Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statement of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is the GASB.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS): Standards established by the AIPCA for the conduct and reporting of financial audits. There are 10 basic GAAS, classed into three broad categories: general standards, standards of fieldwork and standards of reporting. The Auditing Standards of the AIPCA publishes SAS (Statements of Auditing Standards) to comment and expand on these basis standards. These SAS, together with the 10 basic standards, constitute GAAS. These GAAS set forth the objectives of the audit and establish measures that can be applied to judge the quality of its performance.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GUARANTEED INVESTMENT CONTRACTS (GICs): Agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUTUAL FUNDS: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

OFFER: The price asked by a seller of securities.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard, also called the Prudent Investor Rule. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution that does not claim exemption from the payment of any sales or compensating use or *ad valorem* taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, or increasing bank reserves.

REVERSE REPURCHASE AGREEMENTS: An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified rate.

SAFEKEEPING and SAFEKEEPING AGENT: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection. A Safekeeping Agent is the bank named to provide safekeeping services.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

UNIFORM NET CAPITAL RULE: SEC requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

(a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

(b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Appendix

Investment Procedures Manual

1. Purpose

The purpose of these guidelines is to help create a Procedures Manual to assist Treasury staff with day-to-day investment operations.

Numerical references and subjects at the beginning of each Section refer to elements in the City's Investment Policy.

2. Cash Review

1.0 Policy
2.0 Scope
5.0 Delegation of Authority

The Finance Director/Treasurer or his/her delegate (hereafter referred to as Treasurer) must review the cash balances and investment portfolio daily, or as needed. Items to be reviewed should include:

a) Balances, by fund if so deposited, at primary bank.
b) Balances, by fund if so deposited, at other banks.
c) Maturing investments (includes REPOs, CDs, Commercial Paper, Bankers' Acceptances and general securities).
d) Bond sales and other large, periodic receipts.
e) Bond and coupon payments (debt service) and other large periodic cash payments.

3. Investment Selection:

3.0 Prudence
4.0 Objective
8.0 Authorized & Suitable Investments
12.0 Diversification
13.0 Maximum Maturities

The Treasurer determines how much of the cash balance is available for investment and selects the area of the yield curve that most closely matches the required maturity date. In determining the maturity date, the Treasurer should consider liquidity and cash flow needs. A review of some of the following sources should be made to determine whether the investments should be placed to match projected expenditures or shorter, or to take advantage of current and expected interest rate environments:

a) Wall Street Journal or similar daily business publication.
b) Input from approved broker/dealers.
c) Input from depository banks.

4. Purchasing an Investment

7.0 Authorized Financial Dealers & Institutions
8.0 Authorized & Suitable Investments
9.0 Investment Pools/Mutual Funds
10.0 Collateralization

11.0 *Safekeeping & Custody*
12.0 *Diversification*
13.0 *Maximum Maturities*

Establish with whom the jurisdiction is going to transact business. This should be accomplished through the use of a questionnaire, which helps provide the following evaluation:

a) Financial condition, strength and capability to fulfill commitments.
b) Overall reputation with other dealers and investors.
c) Regulatory status of the broker/dealer (providers).
d) Background and expertise of the individual representative.

Financial (banking) institutions should be selected through the use of a "Request for Proposal (RFP)." The use of a nationally recognized financial institution rating organization (Lace, Sheshunoff, Thompson Bankwatch, etc.) may assist in the evaluation. Contact an appropriate number of institutions, as specified by policy. The Treasurer should be as specific as possible in requesting the offering. If a particular type of investment or a particular issuing agency is to be excluded due to policy limitations that should be stated to the providers. If collateral is required (i.e. for REPOs or CDs), the collateral limitations (excess margin, types of securities, maximum maturity, etc.) should be specified.

The following must be determined prior to contacting the providers:

a) Settlement — cash, regular (next day), corporate (3 business days) or when issued if a new issue.
b) Amount — either par value or total dollars to be invested.
c) Type of security to be purchased, or type to be excluded.
d) Targeted maturity, or maturity range.
e) Time limit to show offering — 5 minutes, 15 minutes, etc.

If choosing an external pool or fund as the preferred investment vehicle, the following should be available for inspection prior to purchase and at any reasonable time thereafter:

a) A written investment policy, if a government-run investment pool.
b) A prospectus for money-market funds, mutual funds or bank-managed funds.
c) A schedule of the types of reports and the frequency of distribution.
d) A clear description of how interest rates are calculated (30/360, actual/365, etc.)
e) A schedule of when and how income is distributed.
f) Are the pool or fund types of investments restricted to your own legal and policy limits?
g) Are the pooled or fund investments restricted to your own maturity limits?

Before concluding the transaction, the Treasurer should validate the following:

a) The security selected for purchase meets all criteria, including portfolio diversification, collateralization (if appropriate) and maturity. If the security has any imbedded options such as call provisions or coupon adjustments, these should also be reviewed.
b) Yield calculations should be verified.
c) Total purchase cost (including accrued interest) does not exceed funds available for investment.
d) Advise the successful provider that their offering has been selected for purchase.

e) After confirmation of the purchase, as a courtesy, notify the other broker or dealer that you have placed the investment. Best price may be disclosed, if you choose.

After consummation of the transaction, and prior to settlement date, the Treasurer and the provider should exchange and review the following information to ensure prompt, and uninterrupted settlement:

a) Name of third-party safekeeping agent.
b) ABA number of safekeeping agent.
c) Safekeeping account number.
d) Reconfirm amount of transaction.
e) Reconfirm settlement date.
f) Acquire CUSIP number of security, if applicable.

5. Settlement & Follow-through

5.0 Delegation of Authority

The Treasurer should forward to the Safekeeping Agent a report of the investment transaction. The report may be verbal, but a written form should be sent and acknowledged. When applicable, the following should be verified:

a) Provision of receipt or disbursement of funds
b) Internal transfer or wiring of funds
c) Validation of written "safekeeping receipt"
d) Notification of discrepancy prior to acceptance or rejection of the transaction
e) Immediate notification if a fail has occurred: by provider if they are responsible, by Safekeeping Agent if they are responsible.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Lease Agreement, the Indenture of Trust and the Assignment Agreement, as well as definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Copies of said documents are available from the City and from the Trustee.

CERTAIN DEFINITIONS

"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, the City or the Agency;

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

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

"Acquisition and Construction Costs" means the costs of the acquisition, construction, rehabilitation, equipping, improvement or financing of improvements to, or part of, the Project constituting the Improvements.

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

"Additional Bonds" means all bonds ranking on a parity with the Bonds originally issued hereunder, issued in accordance with Sections 3.06 and 3.07.

"Additional Payments" means the payments so designated and required to be paid by the City pursuant to Section 5.07 of the Lease Agreement.

"Agent of the Authority" means the City pursuant to its appointment as the agent of the Authority by the provisions of Section 4.07 of the Lease Agreement.

"Agreement" means that certain Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of Chowchilla creating the Authority, together with all amendments thereof and supplements thereto.

"Assignment Agreement" means the agreement by that name, dated as of July 1, 2005, by and between the City and the Authority and by and between the Authority and the Trustee, together with any amendments or supplements thereto.

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

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

"Board" means the Board of Directors of the Authority.

"Bond Counsel" means an attorney or a firm of 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 Insurer" means XL Capital Assurance, Inc., or any successor thereto or assignee thereof, as issuer of the Insurance Policy.

"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.

"Bond Proceeds Fund" means the fund by that name established pursuant to Section 3.04.

"Bond Year" means each twelve (12) month period extending from July 2 in one calendar year to July 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on July 1, 2006.

"Bonds" means the $5,890,000 aggregate principal amount of Chowchilla Public Financing Authority 2005 Refunding Revenue Bonds, Series A (Civic Center Project), authorized by and at any time Outstanding pursuant to the Bond Law and this Indenture, and to the extent required by any Supplemental Indenture includes any Additional Bonds authorized by an date any time Outstanding pursuant to this Indenture and such Supplemental Indenture.

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

"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. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02 of the Indenture.

"City" means the City of Chowchilla, a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State.

"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 of the Bonds by the Original Purchaser.

"Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Lease Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated under the Code.

"Continuing Disclosure Certificate" shall mean that certain Continuing Disclosure Certificate executed by the City and dated the date of 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, rating agency fees, municipal bond insurance and surety bond premiums, 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.

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

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

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

"Defeasance Obligations" means (a) cash or (b) non-callable Federal Securities.

"Depository" means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.03.

"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 Agreement" means the Escrow Agreement and Irrevocable Refunding Instructions by and between the Chowchilla Public Financing Authority and U.S. Bank National Association, dated August 1, 2005.

"Escrow Bank" means U.S. Bank National Association, as trustee with respect to the Refunded Obligation.

"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 ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"Federal Securities" means any of the following which are noncallable and which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, namely, direct general obligations of (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), or obligations the payment of principal of and interest on which are directly guaranteed by, the United States of America.

"Financial Guaranty Insurance Policy" shall mean the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Obligations as provided therein.

"Fiscal Year" means any twelve (12) 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 (12) month period selected and designated by the Authority, as its official fiscal year period.

"Improvements" means the land, improvements and other property described more fully in Exhibit B attached to the Lease Agreement and by this reference incorporated herein, as such description may be amended by the City from time to time pursuant to and in accordance with Section 9.03 of the Lease Agreement. The precise identification of the Improvements or any component thereof shall be determined by reference to the Plans and Specifications therefore.

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

"Independent Certified Public Accountant" means an 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 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, NJ 07302, Attention: Editor; Mergent/FIS. Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Caroline 28217, Attn: Called Bond Dept.; and Kenny S&P, 55 Water Street, 45 Floor, New York, New York 10041, Attn: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Insurance Policy" means the insurance policy as issued by the Bond Insurer.

"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 July 1 and January 1, commencing January 1, 2006.

"Lease Agreement" means that certain Lease Agreement, dated as of July 1, 2005, 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 this Indenture.

"Lease Payment Date" means not later than five (5) Business Days prior to each January 1 and July 1, commencing not later than five (5) Business Days prior to January 1, 2006.

"Lease Payment Default Event" means any of the events specified in Section 8.1 of the Lease Agreement.

"Lease Payments" means the aggregate amount of all the payments required to be paid by the City pursuant to Section 5.04 of the Lease Agreement, as set forth in Exhibit C to the Lease Agreement.

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

"Moody's" means Moody's Investor's Service, its successors and assigns.

"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 One California Street, Suite 2100, San Francisco, California 94111; provided, however, for transfer, registration, exchange, payment and surrender of Bonds, "Office" means care of the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota; or in either case, 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 (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of Section 1.02of the Indenture, each Opinion of Counsel shall include the statements provided for in Section 1.02 of the Indenture.

"Original Purchaser" means Piper Jaffray & Co., 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 or Additional Bonds, means (subject to the provisions of Section 9.03 of the Indenture) all Bonds or Additional Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except:

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

(b) Bonds or Additional Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02 of the Indenture, including Bonds or Additional Bonds (or portions thereof) described in Section 11.12 of the Indenture; and

(c) Bonds or Additional Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds or Additional Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

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

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

"Permitted Encumbrances" means, as of any particular time:

(a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent or which the City may, pursuant to provisions of Article VI of the Lease Agreement, permit to remain unpaid;

(b) the Lease Agreement;

(c) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law;

(d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which appear as exceptions to the title policy; and

(e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Authority, the Insurer and the City consent in writing.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (provided the Trustee may rely upon any investment direction from the Authority as a certification to it that such investment constitutes a Permitted Investment and the Trustee shall not be responsible to determine the Fair Market Value):

(a) Federal Securities;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new community's debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) Money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAAm," or "AAm," and, if rated by Moody's, rated Aaa, Aa1, or Aa2, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) Certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one (1) year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and the Trustee on behalf of the Bond Owners must have a perfected first security interest in such collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation including BIF and SAIF;

(g) Investment agreements, including guaranteed investment contracts, Forward Purchase Agreements and Reserve Account Put Agreements, which are approved by the Insurer and which are general obligations of an entity whose long-term debt obligations, or claims paying ability, respectively, is rated in one of the two highest rating categories by Mood's or S&P;

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

(i) Bonds or notes issued by any State or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) Federal funds or bankers acceptances with a maximum term of one (1) year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) The Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to deposit and withdraw from such investment directly in its own name; and

(l) Repurchase Agreements for thirty (30) days or less must follow the following criteria. Repurchase Agreements which exceed thirty (30) days must be acceptable to the Insurer (criteria available upon request).

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

"Project" means the refunding of the Sublease/Option Agreement (City Hall) and the public capital improvements financed with the Bonds, all as more particularly described in Exhibit B to the Lease Agreement and, with respect to any Additional Bonds, the Project, facilities or improvements to be financed with the proceeds of such Additional Bonds.

"Project Costs" means the costs of refunding and of acquisition, construction, implementing and equipping the Project or the application of the proceeds of any Additional Bonds to the costs and expenses which are incidental or related to the acquisition 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.

"Property" means, collectively, the Sites and the Facilities described in Exhibits A and B to the Lease Agreement as amended or supplemented from time to time in accordance with the Lease Agreement.

"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 or the Principal Account for the purpose of making payments required pursuant to Section 5.05(a) of the Indenture.

"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 5.06.

"Refunded Obligation" means the Sublease/Option Agreement (City Hall) dated November 25, 2002.

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

"Rental Period" means each twelve (12) month period during the Term of the Lease Agreement commencing on June 1 in any year and ending on May 31 in the next succeeding year, except that the first Rental Period shall commence on the Closing Date and end May 31, 2006.

"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, the lesser of Maximum Annual Debt Service or such amount as is permitted by the Code (specified to the Trustee by the Authority in writing) to be funded by the proceeds of the Bonds and any applicable Additional Bonds. If at the time of calculation of the Reserve Requirement there shall be two (2) or more reserve accounts established with respect to the Bonds and any Additional Bonds, then the amounts then deposited in such reserve accounts shall be aggregated for purposes of calculating compliance with the Reserve Requirement.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments payable pursuant to the Lease Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, and prepayments of Lease payments), but excluding any Additional Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture.

"S&P" means Standard and Poor's Ratings Services, its successors and assigns.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Serial Bonds" means all Bonds other than Term Bonds.

"Sites" means all of those certain real properties described in Exhibit A to the Lease Agreement.

"State" means the State of California.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"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 Bonds" means any Bonds which are subject to mandatory sinking fund redemption prior to their stated maturity dates.

"Term of the Lease Agreement" means the time during which the Lease Agreement is in effect, as provided in Section 5.02 of the Lease Agreement.

"Trustee" means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in Section 8.01 of the Indenture.

"Written Certificate" of the City means a written certificate signed in the name of the City by a City Representative. Any such certificate or request 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. If and to the extent required by Section 1.02 of the Indenture, each such certificate shall include the statements provided for in Section 1.02 of the Indenture.

LEASE AGREEMENT

Deposit of Moneys

On the Closing Date, the Authority shall cause to be deposited with the Trustee, the Bond proceeds. Pursuant to the Indenture, the Trustee shall deposit (a) the amount required for the current refunding of the Sublease/Option Agreement (City Hall) dated November 25, 2002, in the escrow fund held by the Escrow Bank; (b) an amount estimated to be required for the payment of Costs of Issuance shall be deposited in the Costs of Issuance Fund; (c) an amount equal to the Reserve Requirement shall be deposited in the Reserve Account; (d) an amount estimated to be required to be deposited into the Civic Center Project; and (e) an amount to be deposited in the Interest Account..

Title

The City and the Authority agree that title to the Project shall be deemed conveyed to and vested in the City on the Closing Date. The Authority and its officers shall take all actions necessary to vest in the City all of the Authority's rights in and title to the Project.

Term

The Term of the Lease Agreement shall commence on the Closing Date and shall end on July 1, 2035, unless such term is extended or sooner terminated as provided therein. If on July 1, 2035, the Indenture shall not be discharged by its terms, then the Term of the Lease Agreement shall be extended until ten (10) days after the date on which the Indenture shall be discharged by its terms.

Lease Obligation of the City

(a) *Obligation to Pay.* In consideration of the lease of the Property from the Authority hereunder and subject to the provisions of Sections 5.01 and 5.03, the City agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) for the Property in the respective amounts specified in Exhibit C hereto, to be due and payable on the respective Lease Payment Dates specified in Exhibit C hereto. Any amount held in the Bond Fund on any Lease Payment Date (and other than amounts required for payment of past due principal or interest represented by any Bonds not presented for payment), including amounts deposited therein from the proceeds of the Bonds, representing accrued interest or capitalized interest, if any, on the Bonds, shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Bond Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Property payable in any Rental Period shall be for the use of the Property for such Rental Period.

(b) *Rate on Overdue Payments*. In the event the City should fail to make any of the Lease Payments, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate of twelve percent (12%) per annum. Such interest, if received, shall be deposited in the Bond Fund.

(c) *Fair Rental Value*. The Lease Payments for the Property for each Rental Period shall constitute the total rental for the Property for each Rental Period and shall be paid by the City in each Rental Period in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments for the Property do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public.

(d) *Source of Payments; Budget and Appropriation*. The Lease Payments shall be payable from any source of available funds of the City.

The City covenants to take such action as may be necessary to include all Lease Payments due hereunder in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

(e) *General Fund Revenues*. The City covenants to use its best efforts to maintain sufficient General Fund revenues to provide moneys to fund all necessary and appropriate general fund operations, including, without limitation, timely payment of the Lease Payments.

(f) *Assignment*. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees to pay to the Trustee at the corporate trust office of the Trustee in Los Angeles, California, all payments payable by the City.

Limitations On Future Obligations

Superior and Subordinate Obligations. The City shall not issue or incur any additional bonds or other obligations during the Term of the Lease Agreement having any priority in payment of principal or interest out of the Revenues over the Lease Payments. Nothing herein is intended or shall be construed to limit or affect the ability of the Authority to issue or incur (a) Parity Obligations pursuant to Section 3.6 of the Indenture, or (b) obligations which are either unsecured or which are secured by an interest in the Revenues which are junior and subordinate to the pledge of and lien upon the Revenues established therein.

Additional Payments

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

Payments To Reserve Fund

In addition to the Lease Payments, the City shall pay to the Trustee, such amounts as shall be required to replenish the Reserve Fund or to reimburse a draw on a Qualified Reserve Fund Credit Instrument in the event of a draw therefrom or a valuation determines that a deficiency exists therein, all in accordance with the Indenture.

Maintenance, Taxes, Assessments And Modifications

The City, at its own expense, has agreed to maintain the Project in good repair, the Authority has no responsibility for such repair. The City has the power to make modifications and improvements to the Property which do not damage the Property or reduce the value of the Property to a value substantially less than that which existed prior to such modification or improvement. Any such modifications or improvements to the Property (except equipment or other personal property of the City) will automatically become subject to the Lease Agreement. The City must pay or cause to be paid all taxes and assessments with respect to the Property; provided, however, that the City may in good faith contest any such taxes and assessments and may permit such taxes and assessments to remain unpaid during the period of such contest and any appeal therefrom.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained the following insurance against risk of physical damage to Enterprise structures and other risks for the protection of the Bond Owners, the City, and the Trustee:

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Lease 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, their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. 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 Article VI of the Lease 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 the Lease Agreement, casualty insurance against loss or damage to any improvements constituting any part of the Property, 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 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 Article VI of the Lease 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 Property shall be Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Property or otherwise as permitted by the Lease Agreement.

Insurance Premiums; Self-Insurance. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. In the event that any insurance required pursuant to Article VI of the Lease Agreement shall be provided in the form of self-insurance, the City shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from Revenues or from such reserves.

Tax Covenants

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

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

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

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

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

Eminent Domain

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain shall be Revenues and shall be used for the acquisition or construction of improvements and extension of the Property or otherwise as permitted by the Lease Agreement.

Sale Of Property

Except as provided herein, the City covenants that the Property shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole. Neither the Revenues nor any other funds pledged or otherwise made available to secure payment of the Lease Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of the Lease Agreement. The City shall not enter into any agreement which impairs the use of the Property or any part of it necessary or which otherwise would impair the rights of the Bond Owners and the owners of any Parity Obligations with respect to the Revenues. If any substantial part of the Property shall be sold, the payment therefore shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of Improvements constituting part of the Property, or (b) to the extent not so used, be paid to the Trustee to be applied to prepare the Lease Payments or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Events Of Default

The following are "Events of Default" under the Lease Agreement:

(a) Failure by the City to pay any Lease Payment required to be paid hereunder at the time specified herein;

(b) Failure by the City to pay any Additional Payment required hereunder and the continuation of such failure for a period of thirty (30) days;

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, under the Lease Agreement, other than as referred to in paragraph (a) or paragraph (b) of Section 10.01 of the Lease Agreement, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Insurer, the Trustee, or the Owners of not less than five percent (5%) in aggregate principal amount of Bonds then Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, no default shall be deemed to have occurred under this paragraph (c) so long as corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected (provided that in the event such breach is not cured within sixty (60) days, the City shall obtain the prior written consent of the Insurer to pursue the same to completion beyond the grade period provided herein);

(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 compromise 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; and

(e) The occurrence and continuation of any event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations.

INDENTURE OF TRUST

Trustee

The Trustee is appointed pursuant to the Indenture to execute and deliver the Bonds and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds and invest amounts held under the Indenture in accordance with instructions of the City.

Funds

The Indenture creates the Bond Proceeds Fund, Costs of Issuance Fund, the Bond Fund and the Reserve Account to be held by the Trustee.

Bond Proceeds Fund. Moneys in the Bond Proceeds Fund shall be used solely for the payment of the Improvement portion of the Project Costs after the following set aside by the Trustee:

The Trustee shall deposit the amount of $369,737.50 in the Reserve Account being an amount not less than the Reserve Requirement as of the Closing Date;

The Trustee shall deposit the amount of $252,653.63 in the Costs of Issuance Fund. The Insurance Policy premium will be paid on the Closing Date by wire transfer to the Bond Insurer on behalf of the Authority.

The Trustee shall transfer the amount of $1,839,700.26 to the Escrow Bank for application to the repayment of the Refunded Obligation in accordance with the Escrow Agreement dated as of July 1, 2005, by and between the Authority and the Escrow Bank.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the Authority or of Requisitions of the City as agent of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Upon the Request of the City as agent of the Authority, but in no event later than one hundred eighty (180) days after the issuance of the Bonds, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Bond Proceeds Fund.

Bond Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Lease Agreement to be deposited in the Redemption Fund shall be promptly deposited in such Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Reserve Account. 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 when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefore pursuant to Article X, any moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Lease Payments. The Authority shall cause the City to use the proceeds of any such refund in a manner which does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payment on the Bonds.

Investment Of Moneys

Held in Trust. The moneys and investments held by the Trustee under the Indenture are irrevocably held in trust for the benefit of the Owners of the Bonds, and for the purposes therein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Indenture, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of either the Authority, the Trustee or the City or any Owner of Bonds, or any of them until after the Bonds have been paid in full.

Allocation of Earnings. All interest or income received by the Trustee on investment of the Lease Payment Fund shall be retained in the Lease Payment Fund and be applied as a credit against Lease Payments. All interest or income received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund equal or exceed the Reserve Requirement, such excess shall be transferred to the Lease Payment Fund and be applied as a credit against Lease Payments. All interest or income in the Costs of Issuance Fund shall be retained in the Costs of Issuance Fund until the Costs of Issuance Fund is closed. All interest or income in the Bond Proceeds Fund shall be retained in the Bond Proceeds Fund until the Bond Proceeds Fund is closed.

Events Of Default

Upon the occurrence of an event of default by the City under the Lease Agreement, the Trustee may exercise any and all remedies available under the Indenture pursuant to law or granted pursuant to the Lease Agreement.

Amendment

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, (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; provided, however, that if the Bond Insurer is acting in the place of Bond Owners as provided in Section 5.11(a) of the Indenture, the form of such Supplemental Indenture shall be subject to the consent of the Bond Insurer. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to subsection (a) of the Indenture, 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.

Defeasance

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 hereunder 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.

Continuing Disclosure

Pursuant to Section 6.12 of the Lease Agreement, 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 not duties or liabilities with respect to any such Continuing Disclosure Certificate.

Limitations of Liability

The Indenture contains certain provisions limiting the liability of the parties thereto, including the following provisions:

Except for the payment of Lease Payments and prepayments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the City contained in the Lease Agreement and the Indenture, the City shall have no pecuniary obligation or liability to the Authority, the Trustee or the Owners with respect to the Indenture or the terms, execution, delivery or transfer of the Bonds or the distribution of Lease Payments to the Owners by the Trustee except as expressly set forth in the Indenture;

Neither the City nor the Authority shall have any obligation or liability to each other, the Trustee or the Owners with respect to the performance by the Trustee of any duty imposed upon it by the Indenture; and

The Trustee shall have no obligation or liability to the Owners with respect to the failure or refusal of any other party to perform any covenant or agreement under the Indenture or the Lease Agreement.

Assignment Agreement

Under the Assignment Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Bonds, the Trustee, and the Trustee has accepted, the Authority's rights and interest in the Lease Agreement (except certain rights to repayment and indemnification), including, without limitation, the rights to receive and collect Lease Payments from the City under the Lease Agreement, the rights to the pledge of Revenues, the right to receive insurance and condemnation proceeds, and the right to exercise rights and remedies under the Lease Agreement, including enforcement of Lease Payments.

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

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OUR FILE NO. 02937-005

August 17, 2005

Chowchilla Public Financing Authority
145 W. Robertson Boulevard
Chowchilla CA 93610

Re: $5,890,000 Chowchilla Public Financing Authority
2005 Refunding Revenue Bonds, Series A (Civic Center Project)
Opinion of Bond Counsel

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance of the Chowchilla Public Financing Authority 2005 Refunding Revenue Bonds, Series A in the aggregate principal amount of $5,890,000 pursuant to an Indenture of Trust, dated as of July 1, 2005 (the "Indenture"), by and between the Chowchilla Public Financing Authority (the "Authority") and U.S. Bank National Association, San Francisco, California, as trustee. We have examined the law and such certified copies of such legal proceedings and other proofs as we deem necessary to render this opinion. (Capitalized terms not otherwise defined herein have the meanings ascribed to such terms in the Indenture).

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings for the Bonds and other certifications of Authority officials furnished to us, without undertaking to verify the same by independent investigation.

In rendering this opinion, we have assumed without investigation that all signatures of all parties and persons on all documents and other written materials are genuine, that all documents and other written materials submitted to us are complete and accurate in all respects, that no modifications to any thereof exist, the authenticity of all documents and other written materials submitted to us as originals, the conformity to the originals of all documents and other written materials submitted to us as copies, and the authenticity of the originals of such documents and other written materials.

Furthermore, in rendering this opinion, we have made no search, inquiry, investigation or other examination concerning the records or files of any court, public board or body including, without limitation, the Authority, or other public record, and our opinion as expressed herein does not extend to any matter which might be disclosed as a result of any further search, inquiry, investigation or other examination.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The Authority has been duly established and is validly existing as a public financing authority pursuant to California law with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Indenture has been duly approved by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority in accordance with its terms.

3. The Indenture establishes a valid lien on the funds pledged pursuant to the terms of the Indenture for the security of the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special limited obligations of the Authority, payable solely in accordance with their terms and the Indenture.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The Original Issue Discount ("OID"), if any, on the Bonds is treated as interest for federal income tax purposes and is excluded from gross income to the same extent as the interest on the Bonds. In addition, we are of the opinion that the Bonds are not "private activity Bonds" within the meaning of Section 141 (a) of the Code and, therefore, the interest on the Bonds is not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions, except to the extent provided in the following sentence. Interest on the Bonds received by a corporation will be included in adjusted current earnings for purposes of computing the corporation's alternative minimum tax liability. OID, if any, is includable in adjusted current earnings as it accrues each year rather than at the time OID is actually paid to the Owners of the Bonds upon maturity or redemption of the Bonds. OID accrues on an actuarial basis (i.e., on the basis of a geometric progression over the term of such Bonds) rather than ratably, and Bondholder's adjusted basis in such Bonds, used to determine the amount of gain or loss on disposition of such Bonds, will be increased by the amount of such accrued OID. We express no opinion regarding other federal or state tax consequences related to the accrual or receipt of interest on the Bonds.

6. The interest and OID, if any, on the Bonds are exempt from personal income taxes of the State of California under present State law.

In rendering the opinions set forth in paragraph 6 above, we are relying upon representations and covenants of the Authority in the Indenture and the Authority's Tax Certificates concerning the investment and use of Bond proceeds, the rebate to the federal government of certain earnings thereon and the use of the facilities, if any, financed with the proceeds of the Bonds. In addition, we have assumed that all such representations are true and correct and that the Authority will comply with such covenants. We express no opinion with respect to the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code in the event that any such representations are untrue or the Authority fails to comply with such covenants, unless such failure to comply is based on our advice or opinion. Except as stated above, we express no opinion as to any federal tax consequences of the ownership of, receipt of interest on, or disposition of the Bonds.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering materials relating to the Bonds.

The rights of the Owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

This opinion is rendered solely for the benefit of the Authority and may not be relied upon or used, nor its benefit claimed, by any other person or entity, or for any other purpose, without our prior written consent.

We call to your attention the fact that our legal opinions are an expression of professional judgment and are not a guarantee of a result.

We do not undertake to advise you of maters which may come to our attention subsequent to the date hereof which may affect the legal opinions expressed herein.

Very truly yours,

HARGROVE & COSTANZO

Richard H. Hargrove

RHH/tm

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Chowchilla Public Financing Authority (the "Authority"), in connection with the issuance by the Authority of its $5,890,000 Chowchilla Public Financing Authority 2005 Refunding Revenue Bonds, Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of July 1, 2005 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized terms used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean U.S. Bank National Association acting as the Dissemination Agent, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories of a particular date is available on the Internet at www.sec.gov.

"Official Statement" shall mean the Official Statement dated August 3, 2005, 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 the original offering of the Bonds.

"Repository" means each National Repository and each State Repository.

"Rule" means 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.

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Authority's fiscal year (which currently would be March 31 based upon the Authority's current June 30 fiscal year), commencing by March 31, 2006, with the report for the 2005-2006 fiscal year, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agency (if other than the Authority). 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 Authority 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 Authority'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 Authority is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Authority shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determination each year prior to the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and,

(ii) If the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Contents of Annual Reports. The Authority's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the Authority 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 such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for the Annual Reports provided for in Section 3 above, financial information and operating data with respect to the Authority for the preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the Official Statement for the Bonds, as follows:

(i) summary of Enterprise Gross Revenues and Operation and Maintenance Expenses; and

(ii) summary of Net Revenues, the debt service for the Bonds and the debt service coverage ratio for the Bonds for the most recently completed fiscal year,

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) o f this Section, the Authority shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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 Authority or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final Official Statement, it must be available from the Municipal Securities Rulemaking Board. The Authority 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 Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) Principal and interest payment delinquencies;
(2) non-payment related defaults;
(3) unscheduled draws on the debt service reserves reflecting financial difficulties;
(4) unscheduled draws on the credit enhancements reflecting financial difficulties;
(5) substitution of credit or liquidity providers or their failure to perform;
(6) adverse tax opinions or events affecting the tax-exempt status of the security;
(7) modifications to rights of security holders;
(8) contingent or unscheduled Bond calls;
(9) defeasances;
(10) release, substitution or sale of property of the Enterprise whose Net Revenues secure the repayment of the securities; and
(11) rating changes.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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.

Section 6. Termination of Reporting Obligation. The Authority'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 Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The Authority 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.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority 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 related 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 the 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 the holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, 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 net 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 Authority 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 Repositories 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority or the Dissemination Agent 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 such duties as are specifically set forth in this Disclosure Certificate, and the Authority hereby agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities that 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 Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

The Authority shall pay the reasonable fees and expenses of the Dissemination Agent for its duties hereunder. Article VI of the Indenture is hereby made applicable to this Disclosure Certificate as if this Certificate were contained in the Indenture, and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have no responsibility for the preparation, form or content of any Annual Report or any notice of a Listed Event.

Section 12. Counterparts. This Disclosure Certificate may be executed in counterparts, each of which shall constitute an original signature page thereof.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

DATED: August 17, 2005

CHOWCHILLA PUBLIC FINANCING
AUTHORITY

By: /s/ Connie Wright
Finance Director

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Chowchilla Public Financing Authority
Name of Issue:	Chowchilla Public Financing Authority 2005 Refunding Revenue Bonds, Series A (Civic Center Project)
Date of Issuance:	August 17, 2005

NOTICE IS HEREBY GIVEN that Chowchilla Public Financing Authority has not provided an Annual Report with respect to the above referenced Bonds as required by that certain Disclosure Certificate dated August 17, 2005, by the Chowchilla Public Financing Authority.

The Chowchilla Public Financing Authority anticipates that the Annual Report will be filed by ____________________.

DATED: ____________________

______________________________,
as Dissemination Agent

By:______________________________

Title:____________________________

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of the date of the Disclosure Agreement:

Bloomberg Municipal Repository
P.O. Box 840
Princeton, NJ 08542-0840
Internet address: MUNIS@bloomberg.doc
Telephone: (609) 279-3200
Fax: (609) 279-3235/5963
Contact: Dave Campbell

JJ Kenny Information Services
The Repository
65 Broadway, 16th Floor
New York, NY 10006
Telephone: (212) 770-4568
Fax: (212) 797-7994
Contact: Joan Horai, Repository

Disclosure, Inc.
Document Augmentation/Municipal Securities
5161 River Road
Bethesda, MD 20816
Telephone: (301) 951-1450
Fax: (301) 718-2329
Contact: Barry Sugarman (301) 215-6015

Moody's NRMSIR
Public Financing Information Center
99 Church Street
New York, NY 10007-2796
Telephone: (800) 339-6306
Fax: (212) 553-1460
Contact: Claudette Stephenson (212) 553-0345

Donnelly Financial
Municipal Security Disclosure Archive
555 Main Street
Hudson, MA 01749
Internet address: http://www.municipal.com
Telephone: (800) 580-3670
Fax: (508) 562-1969

Thompson NRMSIR
Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Internet address: Disclosure@muller.com
Telephone: (212) 807-3814
Fax: (212) 989-9282
Contact: Thomas Garske

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APPENDIX H

SPECIMEN XL CAPITAL ASSURANCE MUNICIPAL BOND INSURANCE POLICY

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ]

Policy No: [ ]

BONDS: [ ]

Effective Date: [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, 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 XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and 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 XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to 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 California, 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", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "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 XLCA 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.

SPECIMEN

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA 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 XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN	**SPECIMEN**
Name:	Name:
Title:	Title:

A Unique Way of Life

GATEWAY TO PROSPERITY

CITY OF CHOWCHILLA

MADERA COUNTY