NEW ISSUE – BOOK-ENTRY ONLY

RATINGS:
S&P: "A+" (Uninsured Bonds / Underlying)
S&P: "AA" (Insured Bonds)
(See "RATINGS" herein)

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$5,405,000
CITY OF FORTUNA
SERIES 2017 WATER REVENUE REFUNDING BONDS
(WATER ENTERPRISE PROJECT)

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

The above-captioned $5,405,000 aggregate principal amount of Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the "Bonds") are being issued by the City of Fortuna (the "City") pursuant to (i) provisions of an Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"), and (ii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570. Capitalized terms used on this cover page and not otherwise defined will have the meanings ascribed to them elsewhere in this Official Statement. See in particular "APPENDIX A – Summary of Indenture – Definitions" herein.

The Bonds are being issued in fully registered form and 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 Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof for each maturity. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. See "APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" herein.

Payments of interest on the Bonds will be made by the Trustee to DTC, which will in turn remit such interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. Interest on the Bonds is paid semiannually on April 1 and October 1 of each year (each an "Interest Payment Date"), commencing April 1, 2018, until the maturity or the earlier redemption thereof. Principal and any redemption premiums with respect to each Bond will be paid upon surrender of such Bond at the principal corporate office of the Trustee upon maturity or the earlier redemption thereof.

The Bonds are payable from the net revenues (the "Net Revenues"), derived primarily from charges and revenues received by the City from the operation of the Water System, less the costs of the maintenance and operation of the Water System. The Net Revenues are pledged, as a first and prior lien thereon, to pay the principal of and interest on the Bonds on parity, as to payment and security, with certain outstanding State Loans (as defined herein) and any parity debt issued or incurred by the City in accordance with the Indenture (the "Parity Debt"). The City has covenanted to set rates and charges for the service and facilities of the Water System sufficient to provide Net Revenues in each fiscal year equal to at least 1.25 times the aggregate annual amount of principal of and interest due on the Bonds and all Parity Debt.

The Bonds are subject to optional redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption of Bonds" herein.

The Bonds are being issued (i) to prepay the City's outstanding obligations under a certain 2006 installment sale agreement, (ii) to purchase a municipal bond insurance policy for the Insured Bonds (defined below), (iii) to purchase a debt service reserve policy for deposit in the reserve fund for the Bonds, and (iv) to pay costs of issuance of the Bonds, all as more fully described herein. See "THE REFINANCING PLAN" herein.

The scheduled payment of the principal of and interest on the Bonds maturing on October 1, 2020 through October 1, 2036, inclusive (collectively, the "Insured Bonds"), when due will be guaranteed under a municipal bond insurance policy (the "Policy") to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. (the "Insurer"). See "BOND INSURANCE" herein.

ASSURED GUARANTY MUNICIPAL

This cover page contains certain information for quick reference only. It is not a summary of the security or terms of this issue. Potential investors are advised to read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, to obtain information essential to the making of an informed investment decision with respect to the purchase of the Bonds.

MATURITY SCHEDULE
(See Inside Cover Page)

NONE OF THE CITY, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS WILL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain legal matters will be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain other legal matters will be passed on for the City by the City Attorney of the City, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter's Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about November 30, 2017.

STIFEL

Dated: October 31, 2017

MATURITY SCHEDULE

$5,405,000
CITY OF FORTUNA
SERIES 2017 WATER REVENUE REFUNDING BONDS
(WATER ENTERPRISE PROJECT)

(Base CUSIP† 349595)

Maturity (October 1)	Principal Amount	Interest Rate	Pricing Yield	Price	CUSIP†
2018	$225,000	2.000%	0.980%	100.846%	AA6
2019	195,000	2.000	1.110	101.612	AB4
2020*	200,000	4.000	1.160	107.899	AC2
2021*	210,000	4.000	1.270	110.188	AD0
2022*	220,000	4.000	1.420	112.015	AE8
2023*	225,000	5.000	1.580	118.993	AF5
2024*	240,000	5.000	1.750	120.851	AG3
2025*	250,000	5.000	1.890	122.550	AH1
2026*	265,000	5.000	2.010	124.093	AJ7
2027*	275,000	5.000	2.160	125.042	AK4
2028*	290,000	5.000	2.310	123.544(c)	AL2
2029*	305,000	4.000	2.590	112.171(c)	AM0
2030*	320,000	4.000	2.710	111.069(c)	AN8
2031*	335,000	4.000	2.800	110.252(c)	AP3
2032*	345,000	4.000	2.900	109.351(c)	AQ1
2033*	360,000	3.000	3.140	98.261	AR9
2034*	370,000	3.125	3.240	98.513	AS7
2035*	380,000	3.125	3.270	98.049	AT5
2036*	395,000	3.250	3.360	98.470	AU2

____
* Indicates Insured Bonds.
(c) Priced to the first optional redemption date of October 1, 2027; at par.
† CUSIP© A registered trademark of the American Bankers Association. Copyright © 1999-2017 American Bankers Association. All rights reserved. CUSIP© data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP© numbers are provided for convenience of reference only. Neither the City nor the Underwriter take any responsibility for the accuracy of such numbers.

CITY OF FORTUNA

County of Humboldt, California

CITY COUNCIL

Sue Long, Mayor
Tami Trent, Vice-Mayor
Doug Strehl, Councilmember
Tiara Brown, Councilmember
Dean Glaser, Councilmember

CITY STAFF

Mark Wheetley, City Manager
Aaron Felmlee, Finance Director
Merritt Perry, Public Works Director
Siana Emmons, City Clerk
David Tranberg, Esq., City Attorney

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

The Weist Law Firm
Los Gatos, California

Municipal Advisor

PFM Financial Advisors LLC
San Francisco, California

Trustee and Escrow Agent

U.S. Bank National Association
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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

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

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

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

Assured Guaranty Municipal Corp. (the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "Bond Insurance" and "Appendix G – Specimen Municipal Bond Insurance Policy" herein.

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

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

TABLE OF CONTENTS

Page

TABLE OF CONTENTS

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

$5,405,000
CITY OF FORTUNA
SERIES 2017 WATER REVENUE REFUNDING BONDS
(WATER ENTERPRISE PROJECT)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the $5,405,000 aggregate principal amount of City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the "Bonds"), and a brief overview of the contents of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement including the Appendices hereto. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in the body of the Official Statement shall have the meanings given to them in the Indenture. No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions.

In General

The Bonds are limited obligations of the City payable from the Net Revenues (defined herein) pledged under an Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"), derived from the City's ownership and operation of a Water System (as defined more completely herein), and amounts on deposit in certain funds and accounts established by the Indenture.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to (i) the Indenture, (ii) a Resolution adopted by the City Council on August 30, 2017 (the "Resolution"), and (iii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570.

Purpose of the Bonds

The Bonds are being issued to provide funds, together with certain other moneys: (i) to defease and refund on an current basis all presently outstanding Fortuna Public Financing Authority, Water Revenue Bonds, Series 2006 issued on October 11, 2006 in the original principal amount of $8,085,000 (such amount being refinanced constituting the "2006 Bonds") and a related installment payment obligation of the City, (ii) to purchase a municipal bond insurance policy for the Insured Bonds, (iii) to purchase of a debt service reserve policy for deposit in the Reserve Fund (defined herein) for the Bonds, and (iv) to pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See "THE REFINANCING PLAN" herein.

The City

The City is located in Humboldt County (the "County"), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City is a full-service city operating under a council-manager form of government. The City Council consists of 5 members, elected at-large to four-year terms. The City Council selects the Mayor from one of the City Council members. The City Manager and City Attorney are appointed by the City Council. The City provides water service to residential and nonresidential customers in the City. For other selected information concerning the City, see "THE CITY" and "APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA" herein.

The City's general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds.

The Water System

The City provides water service to approximately 5,594 service connections. Water is conveyed through a supply and distribution system that includes 5 wells and approximately 65 miles of water mains, seven (7) pump stations and four (4) water storage reservoirs at various locations that provide 7.28 million gallons of treated water storage (collectively, the "Water System"). See "THE WATER SYSTEM" herein.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on April 1 and October 1 of each year (each, an "Interest Payment Date"), commencing April 1, 2018, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a "Record Date"); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of $1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See "APPENDIX F – DTC'S BOOK-ENTRY ONLY SYSTEM" herein.

Redemption. The Bonds are subject to optional redemption prior to their stated maturity dates, as provided herein. See "THE BONDS – Optional Redemption of Bonds" herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of $5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See "THE BONDS – General." When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York

("DTC"), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See "APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" herein.

Sources of Payment for the Bonds

In General. The Bonds are special limited obligations of the City, payable solely from and secured by a first pledge of the Net Revenues, which are defined in the Indenture as, for any period of computation, an amount equal to all "Gross Revenues" received during such period less the amount required to pay all "Maintenance and Operation Costs" becoming payable during such period. The Net Revenues, along with investment earnings, are calculated to be sufficient to permit the City to pay the principal of, and interest on, the Bonds when due. See "SECURITY FOR THE BONDS – Pledge of Net Revenues" herein.

Reserve Fund. A Reserve Fund (the "Reserve Fund") is established with the Trustee pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). The City will purchase a Municipal Bond Debt Service Reserve Insurance Policy (the "Reserve Policy") from Assured Guaranty Municipal Corp. (the "Reserve Policy Provider") and deposit the Reserve Policy with the Trustee. Proceeds of the Reserve Policy will be available to be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Debt Service Fund are insufficient therefor. See "SECURITY FOR THE BONDS – Application of Reserve Fund" herein.

Rate Covenant. Under the Indenture, the City has covenanted that, to the extent provided by law, it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by the Water System, which will at least be sufficient to yield respective Net Revenues equal to one hundred twenty-five percent (125%) of Debt Service coming due and payable during such Fiscal Year. See "SECURITY FOR THE BONDS – Rate Covenant" herein.

Rate Stabilization Fund. Under the Indenture, the City may at its discretion establish and maintain a rate stabilization fund for the Water System. To the extent established and funded, the City may withdraw amounts from time to time held in such Rate Stabilization Fund. Amounts so withdrawn and transferred to the Water Revenue Fund will be included in Gross Revenues of the Water System, and may be applied for any purposes for which such Gross Revenues are generally available. See "SECURITY FOR THE BONDS – Rate Stabilization Fund" herein.

Bond Insurance. The scheduled payment of principal of and interest on the Bonds maturing on October 1 of the years 2020 through 2036, inclusive (the "Insured Bonds"), when due will be guaranteed under a Municipal Bond Insurance Policy (the "Policy") to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (the "Insurer"). See "BOND INSURANCE" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein. The Policy does not insure the scheduled payment of principal of and interest on the Bonds maturing on October 1 of the years 2018 and 2019 (the "Uninsured Bonds").

Parity Debt

No Existing Parity Debt. The City's has no presently Outstanding Parity Debt.

Additional Parity Debt. The City may incur additional obligations payable from and secured by the Net Revenues on parity with the Bonds. See "SECURITY FOR THE BONDS – Additional Parity Debt" herein.

Subordinate Debt. Subject to certain conditions set forth in the Indenture, the City may at any time incur revenue bonds, notes or other evidences of indebtedness of the City payable from Net Revenues subordinate to the payment of Debt Service on the Bonds.

Risk Factors

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see "RISK FACTORS" herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Limited Obligations

The Bonds represent a special, limited obligation of the City payable solely from and secured by a pledge of Net Revenues derived by the City from the operations of the Water System and certain funds and accounts held under the Indenture.

None of the properties of the City or the Water System are subject to any mortgage or other lien for the benefit of the Owners of the Bonds, and neither the full faith and credit nor the taxing power of the City, the County, the State, or any other political subdivision or agency of the State is pledged to the payment of the principal of or interest on the Bonds.

The issuance of the Bonds does not directly or indirectly obligate the City, the County, the State, or any other political subdivision or agency of the State to levy or pledge any form of taxation whatsoever or to make any appropriation for payment of the Bonds. No person executing the Bonds is subject to any personal liability or accountability by reason of their issuance. For certain financial information with respect to the City and the Water System, see "THE CITY" and "THE WATER SYSTEM" herein.

Continuing Disclosure

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City's Water System by not later than the March 31 following the end of the City's fiscal year (which is currently June 30), commencing with the report for the fiscal year ended June 30, 2017 (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events. Such reports are required to be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system ("EMMA").

The specific nature of the information to be contained in the Annual Information or the notices of enumerated events is described in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached to this Official Statement. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2 12(b)(5) (the "Rule"). See "CONTINUING DISCLOSURE" herein.

Tax Matters

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, as amended (the "Tax Code"), in the opinion of Bond Counsel, interest with respect to the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of California (the "State") personal income taxes. See "TAX MATTERS" herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "intend," "expect," "propose," "estimate," "project," "budget," "anticipate," or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements.

READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

Other Matters

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

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 presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX A – SUMMARY OF INDENTURE" herein.

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

THE REFINANCING PLAN

Refunding of the 2006 Bonds

A portion of the Bond proceeds will be used to prepay the City's obligations under an Installment Sale Agreement dated as of October 1 , 2006 (the "2006 Installment Sale Agreement"), between the City and the Fortuna Public Financing Authority (the "Authority"), under which the City is obligated to pay certain installment payments (the "2006 Installment Payments") which are evidenced and represented by the 2006 Bonds, originally executed and delivered in the original principal amount of $8,085,000 (of which $6,530,000 is currently outstanding) under an Indenture of Trust dated as of October 1, 2006 (the "2006 Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "2006 Trustee"). The 2006 Installment Sale Agreement is secured by a lien on Net Revenues and currently has an outstanding principal balance of $6,530,000.

On the date of issuance of the Bonds, a portion of the proceeds from the sale of the Bonds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee (collectively, the "Escrow Proceeds"), will be delivered to the 2006 Trustee, acting as escrow agent (the "Escrow Agent") under that certain Escrow Deposit and Trust Agreement dated as of November 1, 2017 (the "Escrow Agreement"), by and between the Authority and the Escrow Agent.

The Escrow Agent will deposit the Escrow Proceeds in accordance with the Escrow Agreement in an irrevocable escrow account (the "Escrow Account") for the benefit of the owners of the 2006 Bonds, to be invested in any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged (the "Refunding Securities"), plus an amount held in cash, if any.

The cash and Refunding Securities, together with earnings thereon, deposited in the Escrow Account will be used to pay and prepay the 2006 Installment Sale Agreement and the 2006 Bonds in full through the prepayment date, at a prepayment price equal to 100% of the principal amount thereof together with interest accrued thereon to the scheduled prepayment date.

Causey Demgen & Moore P.C., Denver, Colorado, (the "Verification Agent") will verify that the Refunding Securities, together with the earnings thereon and any uninvested cash held by the Escrow Agent in the Escrow Account, will be sufficient to pay all of the principal, interest, and redemption premium, if any, coming due with respect to the 2006 Bonds on the Prepayment Date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Upon such irrevocable deposit with the Escrow Agent and the receipt by the Escrow Agent of irrevocable escrow instructions from the City under the Escrow Agreement, all liability of the City with respect to the 2006 Installment Sale Agreement and the 2006 Bonds will be discharged as of the date of issuance of the Bonds and the owners of the 2006 Bonds will no longer be entitled to the benefits of the legal documents under which they were executed and delivered. Amounts on deposit in the Escrow Account are to be pledged solely to the prepayment of the 2006 Installment Sale Agreement and the 2006 Bonds, and will not be available to pay Debt Service on the Bonds.

Sources and Uses of Funds

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

Table 1
CITY OF FORTUNA
SERIES 2017 WATER REVENUE REFUNDING BONDS

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds:	
Principal Amount of Bonds	$5,405,000.00
Plus Available Funds Relating to the 2006 Bonds	860,345.40
Plus Net Original Issue Premium	532,741.80
Less Underwriter's Discount	(34,620.00)
Total Sources	$6,763,467.20
Uses of Funds:	
Deposit to Escrow Account[1]	$6,580,067.65
Deposit to Costs of Issuance Fund[2]	183,399.55
Total Uses	$6,763,467.20

[1] Moneys in the Escrow Account established for the 2006 Bonds, which Escrow Account will be funded with Bond proceeds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee, will be used to call and redeem all of the outstanding 2006 Bonds. The Escrow Account will be held and administered by the Escrow Agent. See "THE REFINANCING PLAN – Refunding of the 2006 Bonds."

[2] Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the policy premium for the Policy and the Reserve Policy, the fees and expenses of Bond Counsel, Disclosure Counsel, Municipal Advisor, Trustee, Escrow Agent, Verification Agent and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds. The Costs of Issuance Fund will be held and administered by the Trustee.

[Remainder of Page Intentionally Left Blank]

Debt Service Requirements

Table 2 sets forth the annual principal and interest on the Bonds (assuming no redemptions of the Bonds).

Table 2
CITY OF FORTUNA
SERIES 2017 WATER REVENUE REFUNDING BONDS

ANNUAL DEBT SERVICE SCHEDULE

Year Ending October 1	Principal	Interest	Total Debt Service
2018	$225,000.00	$175,687.85	$400,687.85
2019	195,000.00	205,625.00	400,625.00
2020	200,000.00	201,725.00	401,725.00
2021	210,000.00	193,725.00	403,725.00
2022	220,000.00	185,325.00	405,325.00
2023	225,000.00	176,525.00	401,525.00
2024	240,000.00	165,275.00	405,275.00
2025	250,000.00	153,275.00	403,275.00
2026	265,000.00	140,775.00	405,775.00
2027	275,000.00	127,525.00	402,525.00
2028	290,000.00	113,775.00	403,775.00
2029	305,000.00	99,275.00	404,275.00
2030	320,000.00	87,075.00	407,075.00
2031	335,000.00	74,275.00	409,275.00
2032	345,000.00	60,875.00	405,875.00
2033	360,000.00	47,075.00	407,075.00
2034	370,000.00	36,275.00	406,275.00
2035	380,000.00	24,712.50	404,712.50
2036	395,000.00	12,837.50	407,837.50
Totals	$5,405,000.00	$2,281,637.85	$7,686,637.85

Source: The Underwriter.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Bond Law, the Resolution and the Indenture.

General Description

Fully Registered Bonds in Book-Entry Only Form. The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one Bond for each interest rate among such maturity) and, when issued, will be initially issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in book-entry form only, in integral multiples of $5,000.

Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See "APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the City determines that the DTC will no longer so act, then the City will discontinue the book-entry system with DTC. If the City fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

Repayment of the Bonds. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on October 1 in the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually from their dated date at the rates set forth on the inside cover page hereof, on April 1 and October 1 of each year (each, an "Interest Payment Date"), commencing April 1, 2018, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a "Record Date"); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of $1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months. While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" herein.

Transfer or Exchange of the Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds will be surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the City may require payment of the expenses of the City and the Trustee incurred in connection therewith.

Optional Redemption of Bonds

The Bonds maturing on or before October 1, 2027, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after October 1, 2028, are subject to redemption in whole or in part in integral multiples of $5,000, by such maturities as are selected by the City (or, if the City fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds, on any date on or after October 1, 2027, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each Bond as consisting of separate $5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

Partial Redemption of Bonds

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Notice of Redemption; Rescission

The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services.

Each notice of redemption will state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice will also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption may provide that it is subject to rescission as described in this paragraph. Any notice of redemption will 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 will not constitute an Event of Default. The City and the Trustee have no Liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

Effect of Redemption

Notice of redemption having been duly given, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue, said Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. The City makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix G for a specimen of the municipal bond insurance policy.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (the "Insurer" or "AGM") will issue its Municipal Bond Insurance Policy for the Insured Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an Appendix G to this Official Statement. The Policy does not insure scheduled payments of principal of and interest on the Uninsured Bonds

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On June 26, 2017, S&P issued a research update report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 8, 2016, Moody's published a credit opinion affirming its existing insurance financial strength rating of "A2" (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Capitalization of AGM

At June 30, 2017:

- The policyholders' surplus of AGM was approximately $2,222 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately $1,289 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately $1,699 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

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

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (filed by AGL with the SEC on May 5, 2017); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (filed by AGL with the SEC on August 3, 2017).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100).

Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

SECURITY FOR THE BONDS

Limited Obligations

THE BONDS REPRESENT A SPECIAL, LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATIONS OF THE WATER SYSTEM AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE CITY OR WATER SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR INDIRECTLY OBLIGATE THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS.

Pledge of Net Revenues

Under the Indenture, the City will transfer and assign to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds.

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds, and may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture. This pledge constitutes a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds and other Parity Debt in accordance with the terms thereof. The Bonds are not secured by a direct lien on the Water System or any other property of the City.

Net Revenues. The Indenture defines "Net Revenues" as, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

Gross Revenues. The Indenture defines "Gross Revenues" as all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System calculated in accordance with GAAP and deposited in the Water Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including amounts in the Rate Stabilization Fund and City Water System reserves, plus (3) the proceeds of any stand-by or water availability charges collected by the City, plus (4) all amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during any Fiscal Year in accordance with the Indenture hereof, and (5) all other monies howsoever derived by the City from the operation of the Water System or arising from the Water System; but excluding (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, (ii) any proceeds of taxes restricted by law to be used by the City to pay the Bonds or Parity Debt and (iii) any amounts transferred from the Water Revenue Fund to the Rate Stabilization Fund during any Fiscal Year pursuant to the Indenture.

Maintenance and Operation Costs. The Indenture defines "Maintenance and Operation Costs" as the reasonable and necessary costs spent or incurred for maintenance and operation of the Water System calculated in accordance with GAAP, including (among other things) the reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, including, but not limited to, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Parity Debt or other obligations required to be paid by it to comply with the terms of the Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

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

In the Indenture, the City covenants that, so long as any Bonds are Outstanding, the City will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the debt service on the Bonds or Parity Debt. The City is authorized to issue additional Parity Debt secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See "– Issuance of Additional Debt" below. The District is also authorized to issue Subordinate Obligations secured by Net Revenues.

Receipt and Deposit of Gross Revenues

Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City in a Water Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Water Revenue Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Allocation of Gross Revenues

Under the Indenture, all Gross Revenues will be held in trust by the Finance Director in the Water Revenue Fund and will be applied, transferred, used and withdrawn only for the purposes set forth below.

(a) Operating Costs. The Finance Director will first pay from the moneys in the Water Revenue Fund the Maintenance and Operation Costs as such costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments becoming due and payable on all Outstanding Bonds on the next succeeding Principal Payment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Bonds.

(c) Debt Service Funds for Future Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will cause to be transferred from the Water Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any sinking fund installments) becoming due and payable on all

Outstanding Parity Debt on the next succeeding Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Water Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Debt Service Fund

Under the Indenture, the Trustee will allocate amounts in the Debt Service Fund as follows:

(a) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the payment of such interest.

(b) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date, and will cause the same to be applied to the payment of the principal.

(c) All withdrawals and transfers under the provisions of subparagraphs (a) or (b) above will be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

Application of Reserve Fund

In order to further secure the payment of principal of and interest on the Bonds, the Trustee will establish, maintain and hold in trust a separate fund designated as the "Reserve Fund" into which the Trustee will deposit the Reserve Policy in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean $432,875.

Transfers to Pay Debt Service on Bonds. The Reserve Policy will be used by the Trustee for the purpose of paying principal of or interest on the Bonds when due and payable to the extent that moneys deposited in the Debt Service Fund are not sufficient for such purpose. The Trustee will draw on the Reserve Policy in accordance with its terms and conditions and the terms of the Indenture.

The amounts available under the Reserve Policy will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Debt Service Fund for payment of the Bonds (and not any Parity Debt), in the event of any deficiency at any time in such fund. The City is required to repay from Net Revenues, as available, any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer.

The City will have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Bonds are Outstanding, amounts are not available under the Reserve Policy.

Rate Stabilization Fund

Under the Indenture, the City has the right (but not the obligation) at any time to establish a stabilization fund (the "Rate Stabilization Fund") to be held by it and administered in accordance with the Indenture for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund in any fiscal year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Revenue Fund will constitute Gross Revenues for such fiscal year in which drawn (except as otherwise provided in the Indenture), and will be applied for the purposes of the Water Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Bonds or any Parity Debt.

The City may at any time withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City. There will be no balance in the Rate Stabilization Fund at the time of Closing.

Rate Covenant

Under the Indenture, the City will, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Water System which will be at least sufficient to yield Net Revenues equal to one hundred twenty twenty-five (125%) of Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture.

For the purpose of computing the amount of Gross Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City will be permitted to transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

No Outstanding Parity Debt

The City has no Outstanding Parity Debt that is payable from Net Revenues on parity with the Bonds.

Issuance of Parity Debt

In addition to the Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which is payable from the Net Revenues on parity with the payments by the City under the Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the resolution authorizing the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Water System which was enacted prior to the issuance or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City will have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Bonds and all Parity Debt outstanding after the issuance of such Parity Debt.

Furthermore, in order to issue such Parity Debt, the City may not be in default with respect to its obligations under the Indenture or any Parity Debt Instruments.

Subordinate Debt

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

Eminent Domain Proceeds

If all or any part of the Water System is taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom will be deposited by the City with the Trustee in a special fund in trust and applied by the City to the cost of acquiring or constructing or financing Improvements to the Water System.

Insurance

The City covenants under the Indenture that it will at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System is damaged or destroyed, such part will be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Water System will be used for repairing or rebuilding the damaged or destroyed portions of the Water System.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City will establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

Limited Obligation

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues.

THE CITY

General

The City encompasses approximately five square miles and is located in Humboldt County (the "County"), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City's fiscal year begins on July 1 and ends June 30 of the following year. The City is a full-service city, and with an average of 73 full and part-time personnel, provides water and wastewater utility services, public safety, street maintenance, land use and building regulation, transit, recreational and park services. See "APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA" herein.

Governance and Management

The City has a Council/Manager form of municipal government. The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at-large for staggered four-year terms. Biennially, the Mayor and Mayor Pro Tempore are selected by the City Council to serve 2-year terms. The City Manager is appointed by the City Council and is responsible for administration of City affairs, day-to-day operations and implementation of City Council policies. The current Mayor, Mayor Pro Tempore and City Council members and their respective titles and ending terms of office are as follows:

Name	Title	Expiration of Office Term
Sue Long	Mayor	November 2018
Tami Trent	Mayor Pro Tem	November 2020
Doug Strehl	Council Member	November 2018
Tiara Brown	Council Member	November 2018
Dean Glaser	Council Member	November 2020

Following are biographies of certain City staff:

MARK WHEETLEY; City Manager. Mr. Wheetley is the new City Manager for the City. His background and work experience includes a 30-year career in state and local government with the California Natural Resources Agency, the California Coastal Conservancy, and the California Coastal Commission on a wide range of watershed restoration, community land use and coastal management issues. Most recently, he worked as a Senior Environmental Scientist Specialist with the CA Department of Fish & Wildlife Coastal Fisheries Program. Mr. Wheetley also served on the Arcata City Council for 12 years (2005–17) including three terms as mayor, and represented the Redwood Empire Division for 6 years on the League of California Cities Board of Directors. Mr. Wheetley has chaired both the League's Environmental Policy Committee and the Coastal Cities Issues Group. He was a Governor appointee to the CA Seismic Safety Commission.

AARON FELMLEE; Finance Director. Mr. Felmlee, appointed to Finance Director for the City in March of 2017, is responsible for all day-to-day financial operations. Prior to joining the City of Fortuna, Mr. Felmlee worked as an accountant for the City of Eureka where he performed many of the same accounting and reporting functions required by his position as Finance Director. Mr. Felmlee oversees all City accounting, reporting, and records maintenance as well as prepares and monitors the annual budget. As Finance Director, Mr. Felmlee is also responsible for coordinating and completing all external auditing functions, revenue management, including billing and collection for utilities, licenses, taxes and other revenues and maintaining the fiscal integrity of the City.

City Investments

The investment of the City's funds is performed in accordance with the City's adopted Investment Policy. Funds are invested with the following objectives in mind:

1. Assets are to be invested with prudence – made with judgment and care – under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the invested capital as well as the probable income to be derived therefrom.

2. The portfolio is invested in a manner consistent with the primary emphasis on preservation of the principal, while attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives. Trading of securities for the sole purpose of realizing trading profits is prohibited.

3. Sufficient liquidity is maintained to provide a source for anticipated financial obligations as they become due. The City will diversify its investment by security type, issuer and maturity dates.

The Investment Policy calls for the City's investment portfolio to be structured to provide that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities is to be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities.

The City's Investment Policy also requires that deposits in banks must meet the requirements of California Government Code. Under this code, deposits of more than $250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first $250,000 of the City's deposits is insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the $250,000 insured amount are collateralized.

According to the most recent report for the month ended June 30, 2016, the City had invested funds as set forth in Table 3 below. As of June 30, 2016, approximately 28.1% of the invested funds were assets of the Water System. The City's practice is to hold securities to maturity.

Table 3
CITY OF FORTUNA

INVESTMENT PORTFOLIO (AS OF JUNE 30, 2016)

Investment Type	Average maturity	Fair Value
JP Morgan Institutional Prime Money Market-City	48 Days	$2,976,467
JP Morgan Institutional Prime Money Market-Fiduciary	48 Days	859,244
Humboldt County Treasurer's Pool[1]	815 Days	9,242,468
Local Agency Investment Fund[2]	167 Days	9,039,784
Certificates of deposit and local government bonds	2 Years	8,324,368
Total Investments		$30,442,331

[1] The City is a participant in the Humboldt County Treasurer's Pool which is managed by the Humboldt County Treasurer. On a monthly basis, interest is allocated to participants based on average daily balances. The Humboldt County Treasury Oversight Committee oversees the Treasurer's investments and policies. Investments held in the County's investment pool are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City's position in the pool is the same as the value of the pooled shares.

[2] The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code and is managed by the Treasurer of the State of California. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by State statute. Investments in LAIF are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City's position in the pool is the same as the value of the pooled shares.

Source: City

Risk Management

The City carries insurance to cover its exposure to various risks of loss related to torts, theft and destruction of assets, errors and omissions, and natural disasters. The City is a member of the Redwood Empire Municipal Insurance Fund (the "Fund"), a joint powers authority with 15 cities in Northern California as members. The Fund provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims.

Under the program, the City has a $10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to $500,000. The Fund carries excess liability coverage to a total of $40 million in excess of its $500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers. The Fund covers workers compensation claims up to its self-insurance limit of $1 million and a deductible of $10,000. A purchased excess policy insures the Fund for an additional $1 million to provide aggregate coverage of up to $2 million per claim. The City pays an annual premium to the Fund; the City may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results. The Fund also provides property coverage up to $25,000 per occurrence in excess of the City's deductible. Losses in excess of $25,000 are paid by the excess insurance policy up to the replacement value of all covered property with a cap at $300 million.

The City paid $589,166 in uninsured losses during the 2014-2015 fiscal year. Of the $589,166, $569,166 pertains to the settlement of one matter related to an inverse condemnation action. For more information on the City's risk management policy, see "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16."

Labor Contracts

The City maintains labor contracts with two organized labor groups. The number of members covered by and expiration date of each contract is set forth below.

Labor Groups/Contracts	Number of Members	Date of Contract Expiration
Fortuna Police Employees Association	22	June 30, 2019
Fortuna Employees Association	26	June 30, 2019

Employee Retirement System; CalPERS

The following information relating to the California Public Employees Retirement System ("CalPERS") is primarily derived from information produced by CalPERS, its independent accountants and actuaries, as interpreted by the City and its Auditor. The City has not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS. The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. Neither the City nor the Underwriter can guarantee the accuracy of such information.

Actuarial assessments are forward-looking statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. The City contributes to the CalPERS, a cost sharing multiple-employer public employee defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police) and Miscellaneous (all other) Employee Pension Plans (the "Pension Plans").

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, including the City. Benefit provisions under the Pension Plans are established pursuant to State statute and City ordinance. CalPERS issues publicly available financial reports that include the financial statements and required supplementary information for the CalPERS. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of CalPERS' annual financial report may be obtained from its executive office located at 400 Q Street, Sacramento, California 95811, or via http://www.calpers.ca.gov.

The City participates in the Safety and Miscellaneous CalPERS cost sharing multiple-employer plans. The Safety plans consists of Safety – 1st Tier, Safety – 2nd Tier and Safety Public Employee Pension Reform Act (PEPRA). The Miscellaneous plans consist of Miscellaneous – 1st Tier, Miscellaneous – 2nd Tier and Miscellaneous PEPRA.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA) and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Preretirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Effective January 1, 2013, CalPERS instituted a new pension plan as a result of PEPRA. Employees hired from that date on are subject to the new 2% at 62 benefit formula. The 2.5% at 55 benefit formula has been closed to new hires from January 1, 2013 on, unless they meet the rules for a CalPERS Classic employee. A Classic employee is already CalPERS member through prior employment and was employed by a CalPERS member within the last 6 months. See the CalPERS website for more information.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Pension Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

The City is required to contribute at an actuarially determined rate of annual covered payroll, plus a fixed payment of unfunded liability. The actuarially determined rates and amounts for each Pension Plan for the fiscal years ended June 30, 2017 and June 30, 2018, are as follows:

CITY'S REQUIRED EMPLOYER CONTRIBUTION RATES & PAYMENTS

Pension Plan	Fiscal Year 2016-17 Employer Normal Cost Rate	Fiscal Year 2016-17 Employer Normal Cost Payment	Fiscal Year 2016-17 Employer Payment of Unfunded Liability	Fiscal Year 2017-18 Employer Normal Cost Rate	Fiscal Year 2017-18 Employer Normal Cost Payment	Fiscal Year 2017-18 Employer Payment of Unfunded Liability
Miscellaneous – 1st Tier	12.151%	$241,278	$216,504	12.192%	$217,119	$256,601
Safety – 1st Tier	19.536	168,575	153,727	19.723	173,848	187,116
Miscellaneous – 2nd Tier	9.302	26,529	0	9.343	24,748	0
Safety – 2nd Tier	16.656	8,029	0	0	0	0
Miscellaneous – PEPRA	6.555	10,323	27	6.533	30,238	112
Safety (Fire) – PEPRA	12.082	11,070	0	11.990	17,055	83
Totals		$465,804	$370,258		$463,008	443,912

Source: CalPERS Annual Valuation Report as of June 30, 2015.

Funding History. The funding history for the Miscellaneous 1st Tier Pension Plan and the Safety 1st Tier Pension Plan is shown in the tables below, listing for each plan the actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

MISCELLANEOUS – 1st Tier

Valuation Date	Accrued Liability (AL)	Share of **Pool's Market** Value of Assets (MVA)	Share of **Pool's** Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$13,427,764	$10,296,768	$3,130,996	76.7%	$2,481,362
06/30/12	14,351,492	10,389,379	3,962,113	72.4%	2,272,299
06/30/13	15,581,271	11,945,289	3,635,982	76.7%	2,056,399
06/30/14	17,055,736	13,686,143	3,369,593	80.2%	1,817,137
06/30/15	17,495,009	13,341,927	4,153,082	76.3%	1,629,714

Source: CalPERS Annual Valuation Report as of June 30, 2015.

SAFETY – 1st Tier

Valuation Date	Accrued Liability (AL)	Share of **Pool's Market** Value of Assets (MVA)	Share of **Pool's** Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$9,886,109	$7,729,333	$2,156,776	78.2%	$992,571
06/30/12	10,848,570	7,936,601	2,911,969	73.2%	870,963
06/30/13	11,294,847	8,694,911	2,599,936	77.0%	813,517
06/30/14	12,615,018	10,189,033	2,425,985	80.8%	789,686
06/30/15	13,208,992	10,143,902	3,065,090	76.8%	806,648

Source: CalPERS Annual Valuation Report as of June 30, 2015.

Actuarial Assumptions. Actuarial calculations are based on a number of assumptions about long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	All Pension Plans
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Discount Rate	7.65%
Inflation	2.75%
	Varies by Entry Age and Service
Salary Increases	(1)
Post Retirement Benefit Increase	(2)
Mortality	(3)

(1) Depending on age, service, and type of employment
(2) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
(3) Derived using CalPERS' Membership Data for all Funds

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. More information on this table and assumptions can be found in the Experience Study report on CalPERS' website under Forms and Publications.

Change in Assumptions. According to Paragraph 68 of GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate. The discount rate used to measure the total pension liability was 7.65% for each Pension Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would mostly likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50.0%	5.25%	5.71%
Global Fixed Income	17.0%	0.99%	2.43%
Inflation Sensitive	5.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Discount Rate Being Lowered Over Next 3 Years. At the December 21, 2016, meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years. This will increase public agency employer contribution costs beginning in Fiscal Year 2018-19. The phase-in of the discount rate change approved by the CalPERS Board for the next three Fiscal Years is as follows:

Valuation Date	Fiscal Year for Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Lowering the discount rate means plans will see increases in both the normal costs and the accrued liabilities. These increases will result in higher required employer contributions. In addition, active members hired after January 1, 2013, under PEPRA may also see their contribution rates rise.

Employer contribution increases as a result of the discount rate changes are estimated below by Normal Cost and required Unfunded Accrued Liability (UAL) payment. The Total Employer Contribution is the sum of the Normal Cost Rate applied to reported payroll plus the UAL payment. The Normal Cost portion of the Employer Contribution is expected to increase by the listed percentages of payroll. Increases to the UAL payments are provided as relative increases to be applied to the projected UAL payments in the June 30, 2015, valuation report.

The changes to the UAL due to changes of actuarial assumptions are amortized over a fixed 20-year period with a 5-year ramp up at the beginning and a 5-year ramp down at the end of the amortization period. The 5-year ramp up means that the payments in the first four years of the amortization schedule are 20 percent, 40 percent, 60 percent and 80 percent of the ultimate payment, which begins in year five. The 5-year ramp down means that the reverse is true and the payments in the final four years are ramped down by the above percentages. A new ramp is established with each change to the discount rate. There will be three ramps established in the first three years. As a result of the 5-year ramp up and effective date of the increase, it will be seven years until the full impact of the discount rate change is completely phased in.

The tables below were taken from the latest CalPERS Actuarial Reports, and shows the 2016-17 UAL contribution made by the City, as well as the City's projected UAL contributions for the next five fiscal years.

	Miscellaneous – 1st Tier		Safety – 1st Tier	
iscal Year	Projected UAL Contribution*	% Increase	Projected UAL Contribution*	% Increase
2016-17	$256,601	—	$187,116	—
2017-18	315,104	22.80%	234,590	25.37%
2018-19	376,887	19.61	284,745	21.38
2019-20	414,757	10.05	298,695	04.90
2020-21	457,096	10.21	331,127	10.86
2021-22	489,037	06.99	354,816	07.15
Totals	$2,309,482	90.58%	$1,691,089	89.62%

* The annual UAL Contribution is now a fixed amount regardless of current payroll.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Pension Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	$6,289,838	$4,562,842
Current Discount Rate	7.65%	7.65%
Net Pension Liability	$3,861,526	$2,779,976
1% Increase	8.65%	8.65%
Net Pension Liability	$1,856,666	$1,318,059

Source: *City's 2015*-16 Audited Financial Statements.

Asset Volatility Ratio (AVR). Plans that have higher asset-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility, due to investment return volatility, than a plan with an asset-to-payroll ratio of 4. Shown below is the asset volatility ratio for the Miscellaneous Plan and the Safety Plan, which a measure of each plan's current contribution volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR). Plans that have higher liability-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return and changes in liability. For example, a plan with a liability-to-payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability-to-payroll ratio of 4. The liability volatility ratio for the Miscellaneous Plan and the Safety Plan is also shown in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility. The asset volatility ratio, described above, will tend to move closer to the liability volatility ratio as the plan matures.

Rate Volatility	Miscellaneous – 1st Tier*	Safety – 1st Tier*
1. Market Value of Assets	$13,341,927	$10,143,902
2. Payroll	1,629,714	806,648
3. Asset Volatility Ratio (AVR) [(1) / (2)]	8.2	12.6
4. Accrued Liability	$17,495,009	13,208,992
5. Liability Volatility Ratio (LVR) [(4) / (2)]	10.7	16.4

Source: CalPERS Annual Valuation Report as of June 30, 2015.
*As of June 30, 2015

Other Post-Employment Benefits

The City provides no post-employment benefits other than those associated with the Public Employees Retirement System.

Other City and Financial Information

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in "APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA." Also, see "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16."

The City's general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds. The City has included its Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016 (the "City's Audited Financial Statements"), as Appendix B to this Official Statement. The City has not requested, and the City's auditor has not given, such auditor's consent to the inclusion in Appendix B of its report contained in the City's Audited Financial Statements. The City has not requested that such auditor undertake any review or investigation concerning subsequent events with respect to such City's Audited Financial Statements.

THE WATER SYSTEM

General

The City owns and operates the water production, storage, disinfection, and transmission facilities that serve the City of Fortuna. The Water System currently provides water to approximately 5,594 connections, serving approximately 12,032 customers. Approximately 5,042 connections are residential, and approximately 552 connections are non-residential (mostly commercial). Fire protection is achieved through 279 fire hydrants strategically located throughout the City. The maximum production output of the Water System is presently 1.1 million gallons per day ("MGD"), and the peak demand on the Water System has been as high as 1.7 MGD on a peak day. Based on production and sales records, the City estimates that current average water demand for the City of Fortuna is 1.1 MGD, or 408 million gallons (MG) of water per year.

Water Supply and Storage Capacity

Groundwater is the sole source of water supply for the Water System. Water is extracted from five (5) shallow groundwater wells owned by the City. These wells, which are up to 112 feet deep, are all located at the southwest corner of the City, and produce excellent quality water. Approximately 408 MG of potable water were produced by the City's wells in 2016. The water from these wells receive chlorination before distribution to the reservoir storage and distribution system. Drinking water is pumped to four (4) reservoirs, for a total storage capacity of approximately 8,250,000 gallons.

The City extracts groundwater from the Eel River Valley Groundwater Basin. The City does not have adjudicated rights to pump groundwater, but instead operates under a permit from California State Water Resources Control Board (CSWRCB). According to the City, the groundwater basin contains a volume of approximately 44,300 MG that is recharged by percolation at a rate of approximately 32,565 MG per year. Although the storage capacity is about 44,300 MG, the usable yield of this groundwater storage basin is estimated to be approximately 13,000 MG to 19,500 MG annually. Approximately 3,257 MG of ground water is currently being pumped from the basin for agricultural purposes, leaving a potential of producing approximately 9,743 MG to 16,243 MG per year. Based on production and sales records, current water demand for the City is approximately 408 MG of water per year.

Water Treatment System

The City of Fortuna's water supply is treated to raise the pH and make the water less corrosive to comply with State and Federal requirements for lead and copper. This treatment process makes the water less acidic by aerating and removing carbon dioxide gas which is naturally dissolved in the water. As required by the California Department of Public Health, after the water is aerated, it is then chlorinated to prevent bacteriological contamination of the water.

The City employs a "Cross-Connection Control Program" to protect the Water System from contamination due to backflow. A backflow condition can be created when water from the consumer's plumbing flows back into a water main. The California Department of Health Services and Fortuna City Code both require backflow prevention assemblies to be installed at all actual or potential sources of contamination. Such sources of contamination include hospitals, mortuaries, fire sprinkler systems, sewage treatment plants and customers with their own water system such as a well. These assemblies are required to be tested annually to ensure proper operation.

Distribution System

The distribution system is currently composed of a looped system being fed through approximately sixty-five (65) miles of water mains, seven (7) pump stations and four (4) water storage reservoirs at various locations that provide 8.25 million gallons of treated water storage. The City's existing storage capacity provides the Water System with approximately 750% of the average daily demand in the City (based on average daily use of 1.1 MGD). All of the City booster stations have stand-by emergency power and are controlled and monitored by the SCADA system located at the water treatment plant.

Environmental Regulation

The City operates the Water System under a permit from CSWRCB, Division of Water Rights Permit No. 12390. None of the permits applicable to the Water System have expiration dates, and the California State Department of Health Services permit is revised, modified and re-issued as necessary. The City believes that it is in compliance with the requirements of all permits in all material respects.

Water System Users

The Water System served approximately 5,594 accounts as of June 30, 2016, consisting of approximately 5,042 single-family residential accounts and 552 non-residential accounts. The number of accounts does not equal the number of parcels connected to service because some parcels have multiple accounts. Residential utility accounts account for approximately 78% of the Water System's revenue and non-residential utility accounts are responsible for approximately 22%.

Water System Rates and Charges

General. Rates and charges for water service within the Water System service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases water service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserves.

The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Water System, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 125% of debt service of the Water System in such Fiscal Year. See the caption "SECURITY FOR THE BONDS – Rate Covenant – Covenant Regarding Net Revenues" herein.

Rate Increases. The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIIIC and Article XIIID" herein

Water Service Charges. The City has separated its customer base into various classes, and the rates charged to each class of customer varies. Pursuant to City Council action taken on April 4, 2016 (Resolution No. 2016-12), the City adopted its most recent schedule of monthly water rates, which summarized in the Table 4 below. The City charges based on the number of units associated with each parcel.

Table 4
WATER SYSTEM

SCHEDULE OF MONTHLY WATER RATES

BASE CHARGE	
Meter Size in Inches	Monthly Base Fee(1)
5/8 by 3/4	$23.04
1	$44.07
1 1/2	$87.21
2	$147.61
3	$320.16
4	$561.73
6	$1,251.95

USAGE CHARGE	
Amount of Water in Cubic Feet	Charges/100 Cubic Feet(1)
0 to 300	Monthly Base Fee
Over 300	$1.90

Source: City
(1) For customers located outside the City Limits the rate charged is one and one-half (1.5) times the rate for service within the Limits. Between May and October each year summer water rates will be in effect for all customers. The summer rates will provide each customer under the base rate with an additional 200 cubic feet of water each month. The water rates for multiple units will be calculated by multiplying the lowest base charge fee and the usage charge by the number of units.

Connection Charges. The City also charges development impact fees, including water capacity charges to new customers connecting to the Water System. Development impact fees may be used for the payment of Debt Service on the Bonds and constitute Gross Revenues from which pledged Net Revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Water System revenues. Water connection fees for each new single-family residence is currently $1,165, as established pursuant to Resolution No. 2016-12

Operation, Management and Governance

The City has primary responsibility for the day-to-day management, operation and maintenance of the Water System and has covenanted to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order. The City endeavors to provide for the operation and maintenance of Water System facilities for the purpose of treating and utilizing water and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future water treatment needs to meet the anticipated growth of the City; and to establish water user fees for properties receiving City water service.

The City has covenanted that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Water Revenues prior or superior to the lien granted under the Indenture, or which may otherwise impair the ability of the City to pay the Debt Service in accordance therewith.

Rate Setting and Collection Process

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for water service as needed, without the overview of any other governmental agency. The present rate schedule for water service rates and charges was established by City Resolution No. 2016-12, which was adopted by the City Council on April 4, 2016 by not less than a two-thirds vote. No rate increases have been proposed or adopted with respect to the issuance of the Bonds. The City also establishes and maintains a schedule of water connection fees and fees for other services.

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

Under the protest hearing process, property owners within the service area are mailed a rate increase notice detailing the proposed rate increase. To oppose the rate increase, the property owner must return a written notice of protest to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase.

If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the noticed rate increase. The City believes that it has followed the Proposition 218 process in connection with its water related rate increases last approved on April 4, 2016. See also "RISK FACTORS – Rate Process" herein.

Largest Water Customers

The following Table 5 sets forth the 10 largest customers of the Water System as of June 30, 2016, as determined by total annual water revenue. The top water users accounted for approximately 7.39% of total water billings during this period.

Table 5
WATER SYSTEM

TEN LARGEST WATER CUSTOMERS

Customer	Business Type	Annual Billings[1]	% of Total Billings
Royal Crest Investors	Mobile Home	$61,565	02.80%
Fortuna Trailer Village	Mobile Home	15,444	00.70
Mountain View Village	Senior Living	13,744	00.63
AWI (Redwood Way Apts)	Apartments	13,317	00.61
Emeritus Senior Living	Rest/Nursing Home	12,203	00.56
Best Western	Hotel	11,145	00.51
Fortuna Rehabilitation	Rest/Nursing Home	10,716	00.49
Whitney Place	Rest/Nursing Home	8,525	00.39
Fortuna Family Associates	Apartments	8,269	00.38
Comfort Inn	Hotel	7,435	00.34
Total Top 10 Customer Billings[1]		$ 162,363	7.39%
All other Customer Billings [1]		$2,033,903	92.61%
Total All Customer Billings[1]		$2,196,266	100.00%

[1] Based upon Fiscal Year 2015-16.
Source: City.

Comparative Rates

Table 6 below sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities, based on rates in effect as of July 1, 2017.

Table 6
WATER SYSTEM

COMPARISON OF WATER SYSTEM RATES AND CHARGES*

Customer	Monthly Charge
Fortuna	$26.84
Arcata	29.57
McKinleyville	31.11
Eureka	35.90
Humboldt CSD	40.99
Rio Dell	53.11

Source: City
* Based upon a 5/8" meter at a volumetric charge based on water consumption of 5hcf per month.

Future Water Enterprise Improvements

The City has an ongoing five-year capital improvement program (CIP) in connection with the maintaining, upgrading and replacing of facilities and infrastructure with respect to the Water Enterprise. The CIP is adopted annually by Resolution of the City Council, with the last adoption occurring June 19, 2017. Among other things, the CIP (i) identifies specific public improvement projects by location, size, function, and cost, (ii) establishes the timing for funding of major cost elements related to each project, such as right-of-way acquisitions, design, construction, etc. (for large projects, these may be spread over several years, while for smaller projects, funding may occur in a single budget year), (iii) proposes specific revenue sources for each project, (iv) facilitates prioritizing where funds are insufficient to cover all desired projects, (v) enhances coordination of separate but interrelated projects, whether internal or involving other agencies, and (vi) allows other affected agencies, such as utilities, an opportunity to develop long-range programming.

The City has identified fifteen (15) priority projects that require capital outlay over the course of the next five (5) years at a total estimated cost of approximately $4.1 million. The City anticipates funding these improvements from reserves, annual revenues, connection fees and other available funds of the Water Enterprise on a pay as you go basis; however, the City can incur future long-term indebtedness on parity with the payment of the principal of and interest on the Bonds. See "SECURITY FOR THE BONDS – Issuance of Parity Debt" herein for a discussion of conditions which must be satisfied prior to issuance of any future Parity Debt.

Delinquent Accounts

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by water industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years have averaged less than $10,000 annually.

Historical Operating Results

The following Table 7 is a summary of audited operating results of the Water System for Fiscal Years ended June 30, 2013 through 2016. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2016. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the City requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following five-year comparative summary of revenues and expenses.

The results presented in the following Table 7 summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City's other Fiscal Years can be obtained at the office of the City Manager.

Table 7
WATER SYSTEM

HISTORICAL OPERATING RESULTS

	Audited 2013	Audited 2014	Audited 2015	Audited 2016
GROSS REVENUES				
Charges for Services	$2,260,870	$2,337,351	$2,204,102	$2,196,266
Capital Impact Fees	14,053	81,685	90,899	64,231
Other Revenues	38,606	54,582	41,195	128,506
Total Operating Revenues	$2,313,529	$2,473,618	$2,336,196	$2,389,003
MAINTENANCE AND OPERATION COSTS[1]				
Salaries and Benefits	$607,633	$590,137	$662,489	$908,853
Purchased Power	181,347	202,343	156,826	177,759
Supplies and Materials	285,898	256,570	271,715	328,273
Total Operating Expenses	$1,074,878	$1,049,050	$1,091,030	$1,414,885
Operating Income	$1,238,651	$1,424,568	$1,245,166	$974,118
Nonoperating Revenues (Expenses)[2]	12,226	38,381	55,327	77,313
NET REVENUES	$1,250,877	$1,462,949	$1,300,493	$1,051,431
DEBT SERVICE				
Debt Service on the 2006 Bonds	$534,697	$532,297	$532,797	$534,797
DEBT SERVICE COVERAGE	2.34	2.75	2.44	1.97
FUND BALANCE, JUNE 30	$7,472,251	$7,563,343	$8,062,526	$8,567,671

[1] Excludes depreciation of the Water System for purposes of calculating debt service coverage.
[2] Excludes interest paid as debt service on the 2006 Bonds.
Source: City's Audited Financial Statements

Operating Projections

The City's estimated actual unaudited operating results for the Fiscal Year ending June 30, 2017, and projected operating results and debt service coverage (adjusted to exclude depreciation, and certain other noted adjustments and assumptions) relating to the Water System for the Fiscal Years ending June 30, 2018, through June 30, 2020, are set forth in the following Table 8, reflecting certain significant assumptions concerning future events and circumstances (the "Coverage Projections"). The financial forecast represented by the Table 8 is the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 8 are material to the development of the City's financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See "RISK FACTORS – Uncertainties of Projections, Forecasts and Assumptions" herein.

Table 8
WATER SYSTEM

PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE	Unaudited Fiscal Year 2017	Budgeted Fiscal Year 2018	Projected Fiscal Year 2019	Projected Fiscal Year 2020
OPERATING REVENUES				
Charges for Services[1]	$2,249,647	$2,249,647	$2,249,647	$2,249,647
Capital Impact Fees[2]	95,300	70,000	72,100	74,263
Other Revenues[3]	66,000	87,546	86,264	84,364
Total Operating Revenues	$2,410,947	$2,407,194	$2,408,011	$2,408,274
OPERATING EXPENSES				
Salaries & Benefits[4]	864,100	947,000	984,880	1,024,275
Purchased Power	198,552	201,530	204,553	207,622
Services & Supplies	304,120	308,682	313,312	318,012
Total Operating Expenses	$1,366,772	$1,457,212	$1,502,745	$1,549,908
Operating Income	1,044,175	949,982	905,266	858,366
Nonoperating Revenues	0	0	0	0
NET REVENUES	$1,044,175	$949,982	$905,266	$858,366
Debt Service on the 2006 Bonds	529,548	377,149		
Debt Service on the 2017 Bonds		70,625	432,875	398,675
Total Debt Service	$529,548	$447,774	$432,875	$398,675
DEBT SERVICE COVERAGE	1.97	2.12	2.09	2.15
CIP PROJECTS (CASH FUNDED)[5]	$327,660	$595,000	$645,000	$1,327,000
FUND BALANCE, JUNE 30	$8,754,639	$8,661,846	$8,489,592	$7,622,814

[1] User Fees and Charges based upon adopted rate increases, assuming no growth in customer accounts or change in consumption.
[2] Development of large medical complex accounts for higher Capital Impact Fees in FY17.
[3] Other Revenues are mostly interest earnings on Fund Balance.
[4] Salaries & Benefits estimated to increase by 9.6% in FY18, 4% thereafter due to the planned hire of Utilities Superintendent, position that had been vacant for many years. Also includes .50/hour cost-of-living adjustment for all employees.
[5] Capital projects all cash funded based on adopted 5-year CIP plan.
Source: City

CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES

California Constitution Articles XIIIA and XIIIB

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

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

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

The City is of the opinion that the water service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the water services. 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 an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIIIC and XIIID

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 California Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect new or increased taxes, assessments, and property-related fees and charges.

Article XIIIC provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the local government, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote.

In addition, Article XIIIC provides that the constitutional initiative power will not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: "Section 3 of Article XIIIC of the California Constitution, as adopted at the November 5, 1996 general election, will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution." Government Code Section 5854 appears to limit the voters' power to repeal or reduce Water System fees and charges if such reduction would interfere with the City's payment of Debt Service on the Bonds. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

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

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

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City's water service fees and charges, which are the source of Net Revenues pledged to the payment of Debt Service on the Bonds. Though the use of the initiative power is arguably limited in a case such as this where fees and charges have been imposed by the City for services of the Water System that are pledged to the payment of Debt Service on the Bonds, there can be no assurance that the voters of the City will not seek to approve such an initiative which attempts to reduce the fees and charges imposed by the City for services of the Water System that are pledged to the payment of Debt Service on the Bonds.

Article XIIID imposes various procedural and substantive requirements on local governments that levy an "assessment," "fee," or "charge." Article XIIID defines "fees" or "charges" as "any levy other than an ad valorem tax, a special tax, or an assessment imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." "Property related service" means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice forty-five (45) days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

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

The City believes that it has complied with the procedures required by Article XIIID, as such article has been construed by the California Supreme Court, in connection with the increases in the Water fees and charges approved by the City Council of the City on April 4, 2016. See "THE WATER SYSTEM – Rate Setting and Collection Process" herein.

The ability of the City to comply with the covenants in each of the Indenture, including the rate covenants described under "SECURITY FOR THE BONDS – Rate Covenant," in connection with the levy and collection of Water System service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Water System service charges. Furthermore, the interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also "RISK FACTORS – Rate Process" herein.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that the enactment of Proposition 26 will affect its ability to levy rates and charges for water services.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Water System revenues, including the ability to increase or expend such revenues.

RISK FACTORS

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

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Net Revenues and other payments paid by the City pursuant to the Indenture. The obligation of the City to make the Debt Service on the Bonds is a limited obligation of the City payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water services to its users, and the ability of the City to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs. Among other matters, natural disasters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums) could adversely affect the amount of Net Revenues realized by the City.

Accuracy of Assumptions

To estimate projected financial results of the Water System, including the Coverage Projections set forth in Table 8, and the corresponding projected Net Revenues available to pay debt service on the Bonds, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, estimated foreseeable Parity Debt, the expenses associated with Water System operations and the interest rate at which funds will be invested.

The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance.

Limited Obligation

The obligation of the City to pay Debt Service on the Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to Debt Service on the Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. No owner of any Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property.

Limited Recourse on Default

If the City defaults on its obligation to make payment on the Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient Net Revenues to pay the accelerated unpaid principal amount of the Bonds.

Increased Maintenance and Operation Costs

There can be no assurance that expenses of the City with respect to the Water System will be consistent with the levels contemplated in this Official Statement. Maintenance and Operation Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology, safety or regulatory costs, unforeseen costs associated with spills or other accidents involving the Water System, and other factors beyond the City's control.

Increases in Maintenance and Operation Costs could require an increase in rates or charges in order to comply with the Rate Covenants in the Indenture. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See "RISK FACTORS – Rate Covenant" herein.

Project Management

The City has agreed under the Indenture to maintain and operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order. Should management prove deficient, it is possible that the Water System could fall into disrepair, possibly to levels that would require significant rate increases to properly remediate conditions. The City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels; however, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Bonds. Additionally, the ability of the City to comply with its covenants under the Indenture, and to generate Net Revenues sufficient to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES" herein. Any remedies available to the owners of the Bonds, upon the occurrence of an event of default under the Indenture, are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. See "Limitations on Remedies and Bankruptcy."

Financial Controls

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City, including the Water System, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. While the City believes that it has established an internal control structure designed to protect against such events, no assurance can be given as to the adequacy of thereof, or any insurance coverage related thereto. If there were to be an occurrence of a loss, theft, or misappropriation, there could be a substantial reduction in the City's ability to pay Debt Service on the Bonds.

Insurance

The Indenture requires the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of applicable portions of the Water System in the event of damage or destruction thereto. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any such applicable portions of the Water System. Significant damage to the Water System could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds.

Further, the City is not legally obligated under the Indenture to maintain, or cause to be maintained, earthquake or flood insurance on the either the Water System, and the City does not presently maintain earthquake or flood insurance on behalf of the Water System. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the City, there could be substantial damage to the Water System, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to the Water System, there can be no assurance that Net Revenues would be sufficient to pay principal of and interest on the Bonds.

Limitations on Remedies and Bankruptcy

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

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

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Bonds may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Water System, under Article XIIIC and XIIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the City fails to comply with its covenants under the Indenture or to pay Debt Service on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

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

Physical Condition of Water System Facilities

The reliability of the Water System is affected by a number of factors including physical and operational vulnerabilities of its facilities. Certain of the Water System facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The City budgets for the maintenance and operations of its facilities; however, the City gives no assurance that any future significant diminished physical status of its facilities would not materially adversely affect the operations of the Water System. Partial or complete failure of components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues.

Energy Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water System. The volume of water processed and treated in the Water System on a daily basis requires a significant amount of power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery.

The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIIC and XIIID" herein.

Statutory and Regulatory Impact

Laws and regulations governing treatment and disposal of water are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be extremely costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase.

Claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from assets of the Water System or from other legally available sources. Although the City has covenanted in the Indenture to fix, prescribe and collect rates, fees and charges during each Fiscal Year at specified levels, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Revenues in the amounts required by the Indenture to pay Debt Service on the Bonds. Certain potential increasing regulatory standards could materially increase the cost to the City of providing water services.

Natural Disasters

The area in and surrounding the City, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires, soil expansion and liquefaction and seismic activity that could negatively affect the value of the Water System, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Water System and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the City or other public agencies.

The City expects that one or more of these conditions will likely occur in the future, and, even if design criteria have been implemented to mitigate certain geologic events, which may or may not prove to be the case, such conditions may nevertheless result in damage to or destruction of part or all of the Water System.

If there were to be an occurrence of a severe geotechnical condition or natural disaster in the area of the City, there could be an interruption in the service provided by the Water System resulting in a reduction in the amount of Net Revenues available to pay Debt Service on the Bonds. Further, damage to components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on respective Net Revenues.

Safety and Security

The safety of the facilities of the Water System is maintained by a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the City, are controlled access facilities with fencing and gates. Despite the security measures and precautions that are in place, military conflicts and terrorist activities could adversely impact operations of the Water System and the finances of the City.

The City continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Water System or that costs of security measures will not be greater than presently anticipated. Furthermore, damage to the Water System could require the City to increase expenditures for repairs significantly enough to adversely impact the City's ability to pay Debt Service on the Bonds.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally.

Such conditional changes may include (but are not limited to): fluctuations in business production, consumer prices, financial markets, or unemployment rates; technological advancements; shortages or surpluses in natural resources or energy supplies; changes in law; social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism; environmental damage; and natural disasters.

Rate Process

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

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

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See APPENDIX A attached hereto for a summary of the definition of Authorized Investments. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City could have a material adverse effect on the security of the Bonds.

Secondary Market Risk

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

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of execution and delivery of the Bonds, as a result of future acts or omissions of the City in violation of certain covenants contained in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

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

IRS Audit

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). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections.

FINANCIAL STATEMENTS

Attached as APPENDIX B are the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2015-16, which include financial statements for the Water System, prepared by the City's Finance Department and audited by Terry E. Krieg, CPA, Santa Rosa, California (the "Auditor").

The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The Financial Statements include information regarding other certain funds of the City, which are not pledged to pay Debt Service on the Bonds.

Additionally, the City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

TAX MATTERS

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds, other than as expressly described above. The proposed form of the opinion of Bond Counsel is attached as APPENDIX E.

CERTAIN LEGAL MATTERS

The Weist Law Firm, Scotts Valley, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the City has undertaken for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the City's Water System by not later than the March 31 following the end of the City's fiscal year (which is currently June 30), commencing with the report for the 2016-17 Fiscal Year (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events. The Annual Information will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format prescribed by MSRB (currently Electronic Municipal Market Access system). Notices of enumerated events will be filed by or on behalf of the City with the MSRB. The nature of the information to be provided in the Annual Information and the notices of certain enumerated events is described in "APPENDIX C –FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto.

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

During the past five years, the City and its related entities have failed to file, or file on a timely basis, annual continuing disclosure reports, annual audited financials for the City, notices of insurer-related rating changes with respect to multiple series of bonds, and failed to file failure to file notices with respect to instances in which the City failed to comply with its prior undertakings. However, the City has since brought itself current with respect to all of its filings that were required to have been made within the past five years.

Each of the Annual Reports, audited financial statements and event notices were subsequently filed. Accordingly, the City believes it is currently in compliance with its existing continuing disclosure undertakings. The City has adopted policies and procedures necessary to ensure compliance with the continuing disclosure undertakings of the City, and its related entities, in the future.

LITIGATION

To the best knowledge of the City there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of Net Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Debt Service on the Bonds made pursuant to the Indenture, or in any way contesting or affecting validity of the Bonds, the Indenture, or the agreement for the sale of the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. However, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Water System or the sources of payment for the Bonds.

RATINGS

The Insured Bonds are expected to be assigned an insured rating of "AA" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") upon the issuance of the Policy by Insurer at the time of delivery of the Insured Bonds. The Bonds have also been assigned an underlying rating of "A+" by S&P. Such ratings reflect only the view of S&P, and any desired explanation of the significance of such ratings should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. The City and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal might have an adverse effect on the market price or marketability of the Bonds. The City has no obligation to maintain any rating for the Bonds.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC (the "Municipal Advisor") in connection with the issuance of the Bonds. The Municipal Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor will receive compensation from the City contingent upon the sale and delivery of the Bonds.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $5,903,121.80 (which price is equal to the $5,405,000.00 aggregate principal amount of the Bonds, plus net Original Issue Premium of $532,741.80, and less Underwriter's Discount of $34,620.00).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, the Verification Agent will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the amounts deposited pursuant to the Escrow Agreement to pay the applicable redemption price of and accrued interest on, the 2006 Installment Sale Agreement and the 2006 Bonds on their respective payment and redemption dates. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

MISCELLANEOUS

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

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City (including financial statements of the City's Water System), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2016 is contained in APPENDIX B.

EXECUTION AND DELIVERY

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

CITY OF FORTUNA, CALIFORNIA

By: /s/ Aaron Felmlee
Finance Director

APPENDIX A

SUMMARY OF INDENTURE

Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. In the event of a conflict between this summary and the Indenture, the terms of the Indenture shall govern.

Certain Definitions

"Authority" means the Fortuna Public Financing Authority, a joint exercise of powers agency organized and existing under the laws of the State of California.

"Authorized Investments" means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) (i) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, Federal Housing Administration and Federal Financing Bank. and (ii) direct obligations for any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by Fannie Mae or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts federal funds and banker's acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P or are collateralized by Federal Securities and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(d) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than 270 calendar days after the date of purchase;

(e) investments in a money market fund, including those of an affiliate of the Trustee, rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;

(f) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund, in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) subject to the approval of S&P, which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of Federal Securities, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the prepayment date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(g) 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 register such investment in its name.

"Authorized Representative" means the Mayor, City Manager, Finance Director, or the designee of the City Manager.

"Average Annual Debt Service" means the total aggregate Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

"Bond Counsel" means The Weist Law Firm or any other attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Law" means Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

"Bond Registration Books" means the books maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Series 2017 Bonds.

"Bond Proceeds Fund" means the fund established and held by the Trustee pursuant to the Indenture.

"Bonds" means, collectively, the Series 2017 Bonds and any Parity Debt issued and at any time Outstanding under the Indenture.

"2006 Bonds" means the Authority's Water Revenue Bonds, Series 2006, issued in the original principal amount of $8,085,000.

"Bond Year" means the twelve-month period beginning on October 2 in each year and ending on October 1 in the following year except that (i) the first Bond Year with respect to the Series 2017 Bonds shall begin on the Closing Date, and (ii) the last Bond Year with respect to the Series 2017 Bonds may end on a redemption date prior to maturity of the Series 2017 Bonds or the final maturity date of the Series 2017 Bonds.

"Business Day" means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

"Certificate of the City" means a certificate in writing signed by the Authorized Representative or by any other officer of the City duly authorized by the Council for that purpose.

"Charges" means fees, tolls, assessments, rates and charges prescribed by the Council for the services and facilities of the Water System furnished by the City.

"City" means the City of Fortuna, a municipal corporation organized and existing under the Constitution and laws of the State, and any successor thereto.

"Closing Date" means, with respect to the Series 2017 Bonds, the date upon which there is an exchange of the Series 2017 Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the City and dated the date of original execution and delivery of the Series 2017 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Cost of Issuance Fund" means the fund by that name established pursuant to the Indenture.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to compensation, fees and expenses of the City and the Trustee and their respective counsel, compensation to any financial consultants and underwriters, legal fees and expenses, municipal bond insurance or surety bond premiums, filing and recording costs, rating City fees, costs of preparation and reproduction of documents and costs of printing.

"Council" means the City Council of the City.

"Debt Service" The term "Debt Service" means, for any period of calculation, the sum of:

(1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding Serial Bonds are retired as scheduled and that all outstanding Term Bonds are redeemed or paid from Sinking Fund Installments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) those portions of the principal amount of all Outstanding Serial Bonds maturing in such period; and

(3) those portions of the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such period;

provided, as to any such Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greater of: (a) the actual interest rate on such Bonds on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c)(i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Tax Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of the Indenture (Issuance of Parity Debt and Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such Bonds have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Debt Service Fund.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Obligations" means the Federal Securities listed in clause (a) of the definition thereof.

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository pursuant to the Indenture.

"Depository System Participant" means any participant in the Depository's book-entry system.

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

"Escrow Agent" means U.S. Bank National Association, acting as Escrow Agent under the Escrow Agreement.

"Escrow Agreement" means the Escrow Agreement, dated as of November 1, 2017, by and between the Authority and U.S. Bank National Association, as Escrow Agent.

"Event of Default" means any of the events described in 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 Tax 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 Tax 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 Tax Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"Federal Securities" means, with respect to the Bonds: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; or (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America; specifically:

U.S. treasury Obligations,
all direct or fully guaranteed obligations,
Farmers Home Administration,
General Services Administration,
Guaranteed Title IX financing,
Government National Mortgage Association (GNMA), and
State and Local Government Series.

"Fiscal Year" means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

"Gross Revenues" means all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System calculated in accordance with GAAP and deposited in the Water Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including amounts in the Rate Stabilization Fund and City Water System reserves, plus (3) the proceeds of any stand-by or water availability charges collected by the City, plus (4) all amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during any Fiscal Year in accordance with the Indenture, and (5) all other monies howsoever derived by the City from the operation of the Water System or arising from the Water System; but excluding (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, (ii) any proceeds of taxes restricted by law to be used by the City to pay the Series 2017 Bonds or Parity Debt and (iii) any amounts transferred from the Water Revenue Fund to the Rate Stabilization Fund during any Fiscal Year pursuant to the Indenture.

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Water System.

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

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom–

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

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"Independent Consultant" means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom–

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

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"Information Services" means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as EMMA"), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org), or such service or services as the City may designate in a certificate delivered to the Trustee.

"2006 Installment Sale Agreement" means the Installment Sale Agreement, dated as of October 1, 2006 between the City and the Authority.

"Insurance Policy" means the Municipal Bond Insurance Policy No. 218553-N issued by Insurer guaranteeing the scheduled payment of principal and interest on the Insured Bonds when due.

"Insured Bonds" means the Series 2017 Bonds maturing on October 1 of the years 2020 through 2036, inclusive, which are insured by the Insurer.

"Insurer" means Assured Guaranty Municipal Corp., or any successor thereto, as issuer of the Reserve Policy and the Insurance Policy.

"Interest Payment Date" means, with respect to the Series 2017 Bonds, April 1 and October 1 in each year, beginning April 1, 2018, and with respect to any Parity Debt, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Debt remain Outstanding.

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount that will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on Bonds or other Parity Debt on such next succeeding Interest Payment Date or payment date for interest on Parity Debt.

"Maintenance and Operation Costs" means reasonable and necessary costs spent or incurred for maintenance and operation of the Water System calculated in accordance with GAAP, including (among other things) the reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, including, but not limited to, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Parity Debt or other obligations required to be paid by it to comply with the terms of the Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

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

"Net Revenues" means, with respect to the Water System, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

"Original Purchaser" means, in the case of the Series 2017 Bonds, Stifel, Nicolaus & Company, Incorporated.

"Outstanding", when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, issued and delivered by the City under the Indenture except:

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

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to the Indenture or any Parity Debt Instrument.

"Owner" or "Bond Owner" or "Bondowner", when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

"Parity Debt" means any indebtedness or other obligations (including leases and installment sale agreements, bonds or contracts) hereafter issued or incurred and secured by a pledge of and lien upon any of the Net Revenues issued or incurred in compliance with the Indenture.

"Parity Debt Instrument" means the resolution, trust indenture or installment sale agreement or other evidence of indebtedness adopted, entered into or executed and delivered by the City, and under which Parity Debt is issued.

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

"Principal Corporate Trust Office" means the corporate trust office of the Trustee at the address set forth in the Indenture, provided that for purposes of payment, cancellation, surrender, redemption, exchange and transfer of Bonds, such term means the corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be designated by the Trustee from time to time.

"Principal Installment" means with respect to any particular Principal Payment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Payment Date as determined by the applicable Parity Debt Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Payment Date as determined under the Indenture and by the applicable Parity Debt Instrument.

"Principal Payment Date" means the date on which Principal Payments are required to be made pursuant to the Indenture, and with respect to any Parity Debt, any date on which principal is due and payable thereon, and continuing so long as any Parity Debt remains Outstanding.

"Rate Stabilization Fund" means the fund by that name established and held by the City pursuant to the Indenture.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Record Date" means, with respect to the Series 2017 Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date or, with respect to any Parity Debt, any other date established in the applicable Parity Debt Instrument.

"Redemption Account" means the Account by that name established and held by the Trustee pursuant to the Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture and the Parity Debt Instrument pursuant to which the same was issued.

"Request of the City" means a request in writing signed by an Authorized Representative, or by any other officer of the City duly authorized by the Council for that purpose.

"Reserve Fund" means the fund by that name established in the Indenture.

"Reserve Policy" means the Municipal Bond Debt Service Reserve Account Policy No. 218553-R issued by Insurer guaranteeing payments to be applied to the payment of principal and interest on the Bonds as provided in such policy, for the credit of the Reserve Fund.

"Reserve Requirement" means an amount equal to the lesser of: (i) maximum annual debt service on the Outstanding Series 2017 Bonds; (ii) ten percent (10%) of the principal amount of the Series 2017 Bonds; or (iii) 125% of average annual debt service on the Outstanding Series 2017 Bonds.

"S&P" means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in writing to the Trustee.

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

"Series" when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Indenture.

"Series 2017 Bonds" means the $5,405,000 City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project), issued and at any time Outstanding under the Indenture.

"Sinking Fund Installment" means, with respect to any particular date, the amount of money required by the Indenture or by or pursuant to a Parity Debt Instrument to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

"State" means the State of California.

"Subordinate Bonds" means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to the Indenture.

"Subordinate Bonds Instrument" means the resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City, and under which Subordinate Bonds are issued.

"Supplemental Indenture" means any supplement or amendment to the Indenture which complies with the provisions of the Indenture.

"Tax Certificate" means the tax certificate delivered by the City at the time of the issuance and delivery of the 2017 Bonds, as the same may be amended or supplemented in accordance with its terms.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

"Tax Regulations" means temporary and permanent regulations promulgated under the Tax Code.

"Term Bonds" means, with respect to any Series 2017 Bonds or any Parity Debt, such Series 2017 Bonds or Parity Debt which are payable prior to their stated maturity by operation of Sinking Fund Installments.

"Trustee" means U.S. Bank National Association, appointed by the City to act as trustee under the Indenture, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

"2006 Trustee" means U.S. Bank National Association, as trustee for the 2006 Bonds.

"Water Revenue Fund" means the fund by that name established and held by the City pursuant to the Indenture.

"Water System" means the entire system of the City for the production, storage, disinfection, and transmission of water, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the production, storage, disinfection, and transmission of water within the service area of the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

Certain Provisions of the 2017 Bonds

Transfer of Series 2017 Bonds. Any Series 2017 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series 2017 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Series 2017 Bond shall be surrendered for transfer, the City shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount. No Series 2017 Bonds, the notice of redemption of which has been mailed pursuant to the Indenture, shall be subject to transfer pursuant to the Indenture.

Exchange of Series 2017 Bonds. Series 2017 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for Series 2017 Bonds of the same tenor and maturity and of other authorized denominations. No Series 2017 Bonds the notice of redemption of which has been mailed pursuant to the Indenture shall be subject to exchange pursuant to the Indenture.

Temporary Bonds. The Series 2017 Bonds may be issued initially in temporary form exchangeable for definitive Series 2017 Bonds when ready for delivery. The temporary Series 2017 Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Series 2017 Bond shall be executed by the City and be registered and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Series 2017 Bonds. If the City issues temporary Series 2017 Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Series 2017 Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Series 2017 Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds authenticated and delivered under the Indenture.

Bond Registration Books. The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which shall at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond issued under the Indenture shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The

City may require payment of a reasonable fee for each new Bond issued under the Indenture and of the expenses which may be incurred by the City and the Trustee.

Issuance of Parity Debt. In addition to the Series 2017 Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which are secured by a pledge of Net Revenues on parity with the payments by the City under the Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Water System which was enacted prior to the adoption of such resolution or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City shall have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Series 2017 Bonds and all Parity Debt outstanding after the issuance of such Parity Debt. Furthermore, in order to issue such Parity Debt the City may not be in default with respect to its obligations under the Indenture or any Parity Debt Instrument.

Pledge of Net Revenues; Funds and Accounts

Pledge of Net Revenues.

(a) Under the Indenture the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds. The Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture applicable to Parity Debt. Said pledge shall constitute a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof.

(b) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

Receipt and Deposit of Gross Revenues. The City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust under the Indenture and will be deposited by the City in a Water Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Water Revenue Fund, and the City shall only have such beneficial right or interest in any of such money as in the Indenture provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Establishment of Funds and Accounts and Allocation of Gross Revenues. The Debt Service Fund, as a special fund, and the Redemption Account, as a special account therein, are created under the Indenture. The Debt Service Fund and the Redemption Account therein shall be held and maintained by the Trustee.

All Gross Revenues shall be held in trust by the Finance Director in the Water Revenue Fund and shall be applied, transferred, used and withdrawn only for the purposes authorized in the Indenture.

(a) Operating Costs. The Finance Director shall first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as such Costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Series 2017 Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Series 2017 Bonds on the next succeeding Principal Payment Date.

(c) Debt Service Funds for Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall also cause to be transferred from the Water Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Debt on the next succeeding Principal Payment Date (or, as to Parity Debt with annual principal payments, one-half of the annual principal payment amount).

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Series 2017 Bonds and Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Series 2017 Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Water Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

Application of Debt Service Fund.

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to apply the same to the payment of such interest.

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date (including any Sinking Fund Installments due and payable on said Principal Payment Date), and shall cause the same to be applied to the payment of such principal.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) above shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate fund or account until such Interest Payment Date or Principal Payment Date.

Application of Reserve Fund. The Trustee shall establish and maintain the Reserve Fund. All amounts in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying principal of or interest on the Bonds when due, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under the Indenture, when due and payable to the extent that moneys deposited in the Debt Service Fund are not sufficient for such purpose. If at any time the amount on deposit in the Reserve Account is less than the Reserve Requirement, the City is required to pay from Net Revenues to the Trustee the amount of such deficiency as provided in the Indenture.

Application of Redemption Account. The Trustee shall establish and maintain the Redemption Account. On or before the date which is at least one day prior to any Interest Payment Date on which Series 2017 Bonds are subject to redemption pursuant to the Indenture, the City shall transfer from the Water Revenue Fund to the Trustee for deposit in the Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Series 2017 Bonds to be redeemed on such date. In addition, the City shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any Series 2017 Bonds which are subject to redemption pursuant to the Indenture, when and as such amounts become available. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of Bonds to be redeemed pursuant to the Indenture. If after all of the Series 2017 Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the Finance Director for deposit in the Water Revenue Fund.

Establishment of Rate Stabilization Fund. The City has the right at any time to establish a rate stabilization fund (the "Rate Stabilization Fund") to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Water Revenue Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Water Revenue Fund. Amounts on deposit in a Rate Stabilization Fund shall not be pledged to or otherwise secure the Bonds or any Parity Debt. All interest or other earnings on deposits in a Rate Stabilization Fund shall be withdrawn therefrom at least annually and accounted for as Gross Revenues in the Water Revenue Fund. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City.

Investments. All moneys in the Water Revenue Fund and the Rate Stabilization Fund may be invested by the City from time to time in any investments authorized by law, consistent with the City's investment policy.

All moneys in the Debt Service Fund and Cost of Issuance Fund shall be invested by the Trustee solely in Authorized Investments, as directed pursuant to a Request of the City. In the absence of any such Request of the City, the Trustee will invest any such moneys in money market funds whose investments are restricted to Federal Securities, provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the City specifying a specific money market fund and, if no such written direction is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such Fund or Account, and all interest or gain derived from the investment of amounts in any of the Funds or Accounts established under the Indenture shall be deposited in the Fund or Account from which such investment was made; and shall be accounted for and applied as provided in the Indenture (with respect to the Debt Service Fund). For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture with the written approval of the City. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment, and shall be entitled to its customary fees therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

The Trustee shall furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated the "Rebate Fund" in connection with the 2017 Bonds. Within the Rebate Fund, the Trustee shall maintain such accounts or subaccounts as are specified in a Certificate of the City to the Trustee pursuant to the Tax Certificate. The Trustee shall deposit moneys in the Rebate Fund pursuant to a Certificate of the City. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Trustee or the Owner of any 2017 Bond shall have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate if it follows the Certificate of the City, including supplying all necessary information in the manner requested by the City, and except as otherwise expressly provided in the Indenture, shall not be required to take any actions under the Indenture in the absence of written directions by the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate or the Indenture. The Trustee agrees to comply with all Certificate of the City given pursuant to the Tax Certificate.

(1) Upon a Certificate of the City, an amount shall be deposited into the Rebate Fund by the Trustee from deposits by the City, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the City in accordance with the Tax Certificate. The City shall provide the Trustee with a Certificate of the City evidencing that the computation of the Rebate Requirement has been made.

(2) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the City.

(3) The Trustee shall invest all amounts held in the Rebate Fund in Authorized Investments as directed by a Certificate of the City. Money, including investment earnings, shall not be transferred from the Rebate Fund except as provided in subparagraph (4) below.

(4) Upon receipt of a Certificate of the City, the Trustee shall remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Certificate of the City. Any funds remaining in the Rebate Fund in excess of the Rebate Requirement (as defined in the Tax Certificate) as of the end of any Bond Year shall be transferred to the Interest Account.

Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements shall survive the defeasance or payment in full of the 2017 Bonds.

Covenants of the City; Special Tax Covenants

Punctual Payment; Compliance with Documents. The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Parity Debt Instruments.

Against Encumbrances. The City will not mortgage or otherwise encumber, pledge or place any charge upon the Water System or any part thereof, or upon any of the Gross Revenues or Net Revenues, except as provided in the Indenture.

Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Gross Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Gross Revenues therefrom.

Acquisition, Construction or Financing of any Improvements to the Water System. The City will acquire, construct, or finance Improvements to the Water System to be financed with the proceeds of any Parity Debt with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Maintenance and Operation of Water System in Efficient and Economical Manner. The City covenants and agrees to maintain and operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

Against Sale, Eminent Domain.

(a) The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Revenues except as expressly permitted in the Indenture. The City will not enter into any lease or agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Water System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of the Owners if such sale will not reduce Net Revenues and if all of the net proceeds of such sale are deposited in the Water Revenue Fund.

(b) If all or any part of the Water System shall be taken by eminent domain proceedings, the net proceeds realized by the City therefrom shall, at the option of the City, either (a) be used for the acquisition or construction of improvements to the Water System, or (b) be applied to prepay the Series 2017 Bonds and Parity Debt on a pro rata basis.

Insurance. The City covenants that it shall at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The net proceeds of insurance against accident to or destruction of the physical Water System shall be used for repairing or rebuilding the damaged or destroyed portions of the Water System.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

Records and Accounts. The City covenants that it shall keep proper books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Water System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The City covenants that it will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail. The City shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Parity Debt by the City, such Parity Debt shall be incontestable by the City.

Against Competitive Facilities. The City will not acquire, construct, operate or maintain the Water System or utility within the service area of the City that would be competitive with the Water System.

Payment of Taxes, Etc. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon any Gross Revenues when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Water System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Water System.

Rates and Charges. (a) The City shall, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Water System which will be at least sufficient to yield Net Revenues equal to one hundred twenty-five percent (125%) of Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture.

For the purpose of computing the amount of Gross Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City shall be permitted to transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

No Priority for Additional Obligations. The City covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment of principal or interest out of the Gross Revenues or Net Revenues over the Bonds.

No Arbitrage. The City shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the Series 2017 Bonds which would cause any of the Bonds to be "arbitrage bonds" within the meaning of the Tax Code.

Information Report. Under the Indenture, the Finance Director is directed to assure the filing of an information report for the Series 2017 Bonds in compliance with Section 149 (e) of the Tax Code.

Private Activity Bond Limitation. The City shall assure that the proceeds of the Series 2017 Bonds are not so used as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax 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 Series 2017 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture.

Continuing Disclosure. Under the Indenture, the City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, 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.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax 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 Series 2017 Bonds.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Series 2017 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

The Trustee

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee, prior to the occurrence of an Event of Default and after curing all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default under the Indenture has occurred (which has not been cured or waived) the Trustee may exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill in their exercise, as a prudent and reasonable man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers but shall be answerable for the selection of the same in accordance with the standard specified above, and shall be entitled to rely conclusively on advice of counsel of its choice concerning all matters of trust and its duty under the Indenture.

(c) The Trustee shall not be responsible for the sufficiency of the security for the Bonds issued under the Indenture or intended to be secured by the Indenture and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the City under the Indenture. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Indenture.

(d) The Trustee shall not be accountable for the use of any proceeds of sale of the Bonds delivered under the Indenture. The Trustee may become the Owner of Bonds secured by the Indenture with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in principal amount of the Bonds then Outstanding.

(e) In the absence of bad faith on its part, the Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee pursuant to the Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at his request unless the ownership of such Bond by such person shall be reflected on the Bond Registration Books.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Certificate of the City as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default under the Indenture of which the Trustee has been given notice or is deemed to have notice, as provided in the Indenture, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a Certificate of the City to the effect that an authorization in the form therein set forth has been adopted by the City, as conclusive evidence that such authorization has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct as finally determined by a court of competent jurisdiction. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under the Indenture except failure by the City to make any of the payments to the Trustee required to be made by the City pursuant hereto or failure by the City to file with the Trustee any document required by the Indenture to be so filed subsequent to the issuance of the Bonds, unless the Trustee shall be specifically notified in writing of such default by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and all notices or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Corporate Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default under the Indenture except as aforesaid.

(i) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect the Water System, including all books, papers and records of the City pertaining to the Water System and the Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in the Indenture with respect to the execution of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the City to the execution of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking the action referred to in the Indenture the Trustee may require that an indemnity bond satisfactory in terms and amount be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is finally adjudicated by a court of competent jurisdiction to have been caused solely by its own negligence or willful misconduct in connection with any such action. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

(m) All moneys received by the Trustee shall, until used or applied or invested as provided in the Indenture, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee shall not be under any liability for interest on any moneys received under the Indenture except such as it may agree to in writing.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided that such company shall be eligible under the Indenture), shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

Indemnification; Limited Liability of Trustee. The City shall indemnify and hold the Trustee harmless from and against all claims, losses, costs, expenses, liabilities and damages including legal fees and expenses arising from the exercise and performance of its duties under the Indenture and the termination of the Indenture. Such indemnity shall survive the resignation or removal of the Trustee under the Indenture. No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture if it shall have reasonable grounds for believing repayment of such funds or adequate indemnity against such liability or risk is not assured to it. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of a majority of the Owners of the principal amount of Bonds Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under the Indenture.

Modification and Amendment of the Indenture

Amendment by Consent of Bond Owners. The Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the City to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Amendment Without Consent of Bondholders. The Indenture and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes–

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

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the Bonds; or

(c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

Disqualified Bonds. Bonds owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Indenture.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken pursuant to the Indenture, the City may determine that the Bonds shall bear a notation, by endorsement in form approved by the City, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the City shall so determine, new Bonds so modified as, in the opinion of the City, shall be necessary to conform to such Bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided that due notation thereof is made on such Bond. The Trustee may not enter into any amendment or supplement to the Indenture unless it shall have first received an opinion of Bond Counsel to the effect that such amendment or supplement will not adversely affect the validity or enforceability of the Bonds or adversely affect any exemption for purposes of federal income taxation to which the interest paid on any Bonds would otherwise be entitled and that such amendment or supplement is authorized or permitted by the Indenture.

Events of Default and Remedies of Bond Owners

Events of Default and Acceleration of Maturities. The following events shall be Events of Default under the Indenture:

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

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

(c) Default by the City in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in any Parity Debt Instrument or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee; or

(d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, and shall at the direction of the owners of a majority of the principal amount of the Bonds, by written notice to the City, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and there interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the City and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid –

First, to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

<u>Other Remedies; Rights of Bond Owners</u>. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in the Indenture, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners under the Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

<u>Power of Trustee to Control Proceedings</u>. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law

or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and under the Indenture the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Revenues and other moneys pledged under the Indenture for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bond Owners, the City and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Rights and Remedies of Bond Owners. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the City, the Trustee and the Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Miscellaneous

Discharge of Indenture. If the City shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the City (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the City under the Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

Limited Liability of City. Notwithstanding anything in the Indenture contained, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants contained in the Indenture (except to the extent any such covenants are expressly payable under the Indenture from the Gross Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The obligation of the City to pay interest and principal on the Series 2017 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Parties Interested. Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Trustee and the Owners any right, remedy or claim under or by reason of this Trust Indenture, or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in this Trust Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Trustee and the Owners.

Provisions Relating to the Insurance Policy

Notwithstanding anything to the contrary set forth in the Indenture or in the Bonds, the following provisions govern with respect to the Insured Bonds:

(a) "Insurance Policy" shall be defined as follows: "the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Insured Bonds when due." "Insurer" shall be defined as follows: "Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof."

(b) The prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Series 2017 Bonds.

(c) The Insurer shall be deemed to be the sole Owner of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Insured Bonds are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Indenture and each Insured Bond, the Trustee and each Owner of the Insured Bonds appoint the Insurer as their agent and attorney-in-fact with respect to the Insured Bonds and agree that the Insurer may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Owner of the Insured Bonds delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Trustee and each Owner of the Insured Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Owners shall expressly inclu.de mandamus.

(d) The maturity of Insured Bonds shall not be accelerated without the consent of the Insurer and in the event the maturity of the Insured Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Issuer) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Insured Bonds shall be fully discharged.

(e) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

(f) The Insurer is a third-party beneficiary of the Indenture.

(g) Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Insured Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of the Indenture which permits the purchase of Insured Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Insured Bonds so purchased is not cancelled upon purchase.

(h) Any amendment, supplement, modification to, or waiver of, the Indenture or any other transaction document, including any underlying security agreement (each a "Related Document"), that requires the consent of Owners or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

(i) The rights granted to the Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

(j) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S&P or any combination thereof, shall be used to effect defeasance of the Insured Bonds unless the Insurer otherwise approves.

To accomplish defeasance of the Insured Bonds, the Issuer shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Bonds are no longer "Outstanding" under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, the Trustee and the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

Insured Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(k) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Indenture and the Insured Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

(l) Each of the Issuer and Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Net Revenues under applicable law.

(m) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal on Insured Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Owner of the Insured Bonds, whether OTC or its nominee or otherwise, and shall issue a replacement Insured Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Bond shall have no effect on the amount of principal or interest payable by the Issuer · on any Insured Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Insured Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners of the Insured Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners of the Insured Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of the Insured Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections hereof regarding payment of Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Notwithstanding anything herein to the contrary, the Issuer agrees to pay, solely from Net Revenues, to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Issuer hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Insured Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Payment Date shall promptly be remitted to the Insurer.

(n) The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Issuer to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.

(o) The Issuer shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document.

(p) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Issuer or rebate only after the payment of past due and current debt service on the Insured Bonds and amounts required to restore the Reserve Fund to the Reserve Requirement.

(q) The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy) and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(r) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 1633 Broadway, New York, New York 10019, Attention: Managing Director – Surveillance, Re: Policy No. 218553-N, Telephone: (212) 974-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(s) The Insurer shall be provided with the following information by the Issuer or Trustee, as the case may be:

(i) Annual audited financial statements within 180 days after the end of the Issuer's fiscal year (together with a certification of the Issuer that it is not aware of any default or Event of Default under the Indenture), and the Issuer's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of Insured Bonds;

(iii) Notice of any default known to the Trustee or Issuer within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the Insured Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Trustee and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(vi) Notice of the commencement of any Insolvency Proceeding;

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Insured Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(ix) All reports, notices and correspondence to be delivered to Owners under the terms of the Related Documents.

In addition, to the extent that the Issuer has entered into a continuing disclosure agreement, covenant or undertaking with respect to the Insured Bonds, all information furnished pursuant to such agreements shall also be provided to the Insurer, simultaneously with the furnishing of such information.

(t) The Insurer shall have the right to receive such additional information as it may reasonably request.

(u) The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Insured Bonds with appropriate officers of the Issuer and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any Business Day upon reasonable prior notice.

(v) The Trustee shall notify the Insurer of any known failure of the Issuer to provide notices, certificates and other information under the Related Documents.

(w) Notwithstanding satisfaction of the other conditions to the issuance of additional Parity Debt set forth in the Indenture, no such issuance may occur (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance and (2) unless the Reserve Fund is fully funded at the Reserve Requirement (including the proposed issue) upon the issuance of such additional Parity Debt, in either case unless otherwise permitted by the Insurer.

(x) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Insured Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(y) No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Insured Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

(z) The Issuer shall not enter into any interest rate exchange agreement or any other interest rate maintenance agreement secured by and payable from the Net Revenues without the prior written consent of the Insurer.

Provisions Relating to the Reserve Policy

With respect to the Reserve Policy, notwithstanding anything to the contrary set forth in the Indenture or in the Bonds, the City and the Trustee have each agreed to comply with the following provisions:

(a) The City shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer and shall pay interest thereon from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (x) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2017 Bonds and (y) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify. If the interest provisions of this subparagraph (a) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding under the Indenture or the Reserve Policy to the extent that interest otherwise due under the Indenture or the Reserve Policy for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Insurer, with the same force and effect as if the City had specifically designated such extra sums to be so applied and the Insurer had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created herein exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw. Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Series 2017 Bonds (subject only to the priority of payment provisions set forth under the Indenture).

All cash and investments in the Reserve Fund shall be transferred to the Debt Service Fund for payment of debt service on Series 2017 Bonds before any drawing may be made on the Reserve Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(b) If the City shall fail to pay any Policy Costs in accordance with the requirements of subparagraph (a) above, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than (i) acceleration of the maturity of the Series 2017 Bonds or (ii) remedies which would adversely affect owners of the Series 2017 Bonds.

(c) The Indenture shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The City's obligation to pay such amounts shall expressly survive payment in full of the Series 2017 Bonds.

(d) The City shall include any Policy Costs then due and owing the Insurer in the calculation of the additional Parity Debt test and the rate covenant in the Indenture.

(e) The Trustee shall be required to ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of subparagraph (a) above, and to provide notice to the Insurer in accordance with the terms of the Reserve Policy at least five Business Days prior to each date upon which interest or principal is due on the Series 2017 Bonds. Where deposits are required to be made by the City with the Trustee to the Debt Service Fund for the Series 2017 Bonds more often than semi-annually, the Trustee shall give notice to the Insurer of any failure of the City to make timely payment in full of such deposits within two Business Days of the date due.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16

[THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF FORTUNA, CALIFORNIA
Basic Financial Statements
June30, 2016

[THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF FORTUNA, CALIFORNIA
Basic Financial Statements
For the
Fiscal Year Ended June 30, 2016
Table of Contents

FINANCIAL SECTION

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS, BASIC FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Fortuna
Fortuna, California

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fortuna, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Fortuna's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with audited 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements,

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fortuna, California as of June 30, 2016, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed I note 5H to the financial statements, the City in fiscal 2016 made a change in accounting principle and adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 72, Fair Value Measurement and Application. My opinion is not modified with respect to these matters.

131-A Stony Circle, Suite 500 | Santa Rosa, California 95401
P: 707-544-5684 E: Kriegcpa@msn.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedules, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer Pension Contributions on pages 47 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fortuna's basic financial statements. The accompanying nonmajor fund combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor fund combining financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the nonmajor fund combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report, dated December 30, 2016, on my consideration of the City of Fortuna's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fortuna's internal control over financial reporting and compliance.

Terry E Krieg

Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
December 30, 2016

INTRODUCTION

This section of the City of Fortuna's annual financial report presents discussion and analysis of the city's financial performance during the fiscal year that ended on June 30, 2016. Please read this analysis in conjunction with the transmittal letter contained in the front of this report and the city's financial statements which follow this section.

Financial Highlights

- The city's total net position continued to improve during the 2015-2016 fiscal year with an increase of \$2.5 million at the end of the fiscal period. Net position is the difference between the city's assets, deferred outflows of resources, deferred inflows of resources and liabilities.

- The Successor Agency (Former Redevelopment Agency) continues to move forward with the completion of "winding down" the city's former redevelopment activities. In fiscal 2016, the Successor reduced its deficit position by \$57,432 and retired \$150,000 in bonds. The Agency however, was unable to commence the repayment of the City's reinstated \$2.47 million loan from the City.

- The city's general fund earned \$6.1 million in revenues during the 2015-2016 fiscal year with \$6.0 million in total expenditures. General government administration expenditures were about \$450,000 lower in fiscal 2016 because in fiscal 2015 they included \$560,000 in litigation costs for the settlement of an inverse condemnation action. This was offset by about a \$400,000 increase in capital asset expenditures in fiscal 2016; mainly for public safety purposes.

The fiscal period ending June 30, 2016 resulted in a general fund balance of \$4.87 million with all of this reported as un-assigned. (See page 14 for details.) The City's has designated about \$3.8 million end of year unassigned fund balance as stabilization reserves for contingencies and cash flow shortfalls.

- The city's water and wastewater programs generated over \$5.6 million in user fees and \$160,600 in miscellaneous revenue this fiscal period for a total of \$5.77 million in revenue. Utility fees continue to support daily operations, debt service, and capital improvement projects. The net position of the water enterprise increased by 1.7 percent to \$14.9 million, and the wastewater enterprise net position increased by 1.6 percent to \$22.9 million indicating stable growth and management of the city's vital utility services.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Basic Financial Statements consists of four main components: (1) the independent auditor's report and management's discussion and analysis; (2) the basic financial statements and notes to the financial statements; (3) required supplementary information; and (4) combining fund financial statements. The basic financial statements include two types of statements that present different views of the city; the government-wide and the fund financial statements.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.

- The fund financial statements focus on individual parts of city government, reporting the city's operations in more detail than the government-wide statements.

The basic financial statements also include notes that provide additional information essential to understanding the data contained in the government-wide and fund financial statements. The statements and notes are followed by required supplementary information, including budgetary comparison schedules for the general fund and other major governmental funds. In addition to these required elements, we have included combining statements that provide details about the city's non-major funds.

Figure A-1 summarizes the major features of the city's financial statements, including the portion of the city government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the City of Fortuna's Government-Wide and Fund Financial Statements

		Fund Statements	
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire city government	The activities of the city that is not proprietary or fiduciary, such as the Police Dept. and Parks & Recreation	Activities the city operates similar to private businesses: Water, sewer, and transit
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be depleted and liabilities that are due and payable during the fiscal year. No capital assets are included.	All assets and liabilities, both financial and capital, including short-term and long-term liabilities.
Type of inflow/outflow information	All revenues earned or received; and expenses incurred during fiscal period, regardless of when cash is received or expended.	Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and payment is due during the fiscal year.	All revenues and expenses received/incurred during the fiscal year regardless of when cash is received or expended.

Government-Wide Statements

Government-wide statements report information similar to those used by private-sector companies. Current year revenues and expenses are accounted for in the statement of activities on a full accrual basis regardless of when cash is *actually* received or disbursed.

The government-wide financial statements provide a broad overview of the city's activities as a whole. These financial statements are comprised of the:

1) *Statement of Net Position* - Includes *all* of the city's assets, deferred outflows of resources, liabilities and deferred inflows of resources used to measure total economic resources. Net position is the difference between the city's assets, deferred outflows, liabilities and deferred inflows. Over time, increases or decreases in the net position is an indicator of whether the city's financial health is improving or deteriorating.

2) *The Statement of Activities* - Provides information regarding the city's total revenues and expenses and is critical in measuring the net revenues and expenses of each of the city's programs.

The government-wide financial statements of the city are divided into two categories:

- *Governmental activities* – The majority of the city's basic services are reported as *governmental activities*, including general government, police, streets, public works, parks and recreation. Activities are primarily financed with property taxes, sales taxes, transient occupancy taxes, user charges and fees, and state and federal grants.

- *Business-type activities* – The city's water, wastewater, and transit systems are reported as *business-type activities*. These programs are financed with user fees and transit subsidies that are intended to cover the long-term costs of services including capital infrastructure and debt financing.

Fund Financial Statements

A **fund** is a grouping of related accounts that is used to maintain control and monitor resources that have been segregated or "restricted" for specific activities or objectives. The city, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into two categories: governmental funds and proprietary funds. The concept of major funds, and the determination of which are major funds is established by the Governmental Accounting Standards Board (GASB).

- *Governmental funds* – Most of the city's basic services are included in governmental funds which focus on (1) *How cash and other financial assets* can readily be converted to cash flow; and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is included at the bottom of the governmental funds statement, or on subsequent pages, that explain the relationship (or differences) between them.

- *Proprietary funds* – Services for which the city charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. Similarly, the city's enterprise funds (one type of proprietary fund) are essentially equal to its *business-type* activities, but provide more detail and information such as cash flow.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position. The city's total combined net position increased $2.5 million during the 2015-2016 fiscal year. See Table A-1 below:

CITY OF FORTUNA
TABLE A-1 CAPITAL ASSETS
(In thousands of dollars)

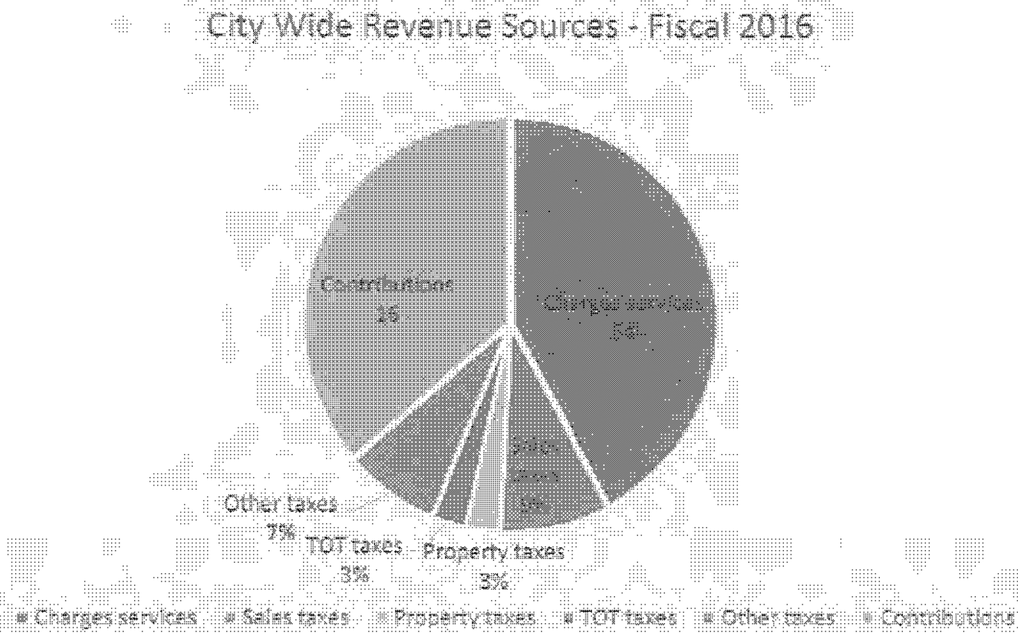
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS		PERCENT CHANGE
Assets:	2016	2015	2016	2015	2016	2015	
Current and other assets	$29,573	$29,960	$22,260	$21,015	$51,833	$50,975	2%
Capital assets	11,750	9,561	36,894	37,803	48,644	47,364	3%
Total assets	41,323	39,521	59,154	58,818	100,477	98,339	2%
Deferred outflows:							
Pension related items	676	456	351	146	1,027	602	71%
Liabilities:							
Current liabilities	1,143	716	976	1,093	2,119	1,809	17%
Long-term liabilities	7,469	6,887	20,194	20,040	27,663	26,927	3%
Total liabilities	8,612	7,603	21,170	21,133	29,782	28,736	4%
Deferred inflows:							
Pension related items	553	1,316	201	428	754	1,744	-57%
Net Position:							
Net investment in capital assets	8,883	6,750	18,128	18,490	27,011	25,240	7%
Restricted	20,959	22,549	1,724	2,248	22,683	24,797	-8%
Unrestricted	2,992	1,759	18,282	16,665	21,274	18,424	15%
Total Net Position (As restated)	$32,834	$31,058	$38,134	$37,403	$70,968	$68,461	20%

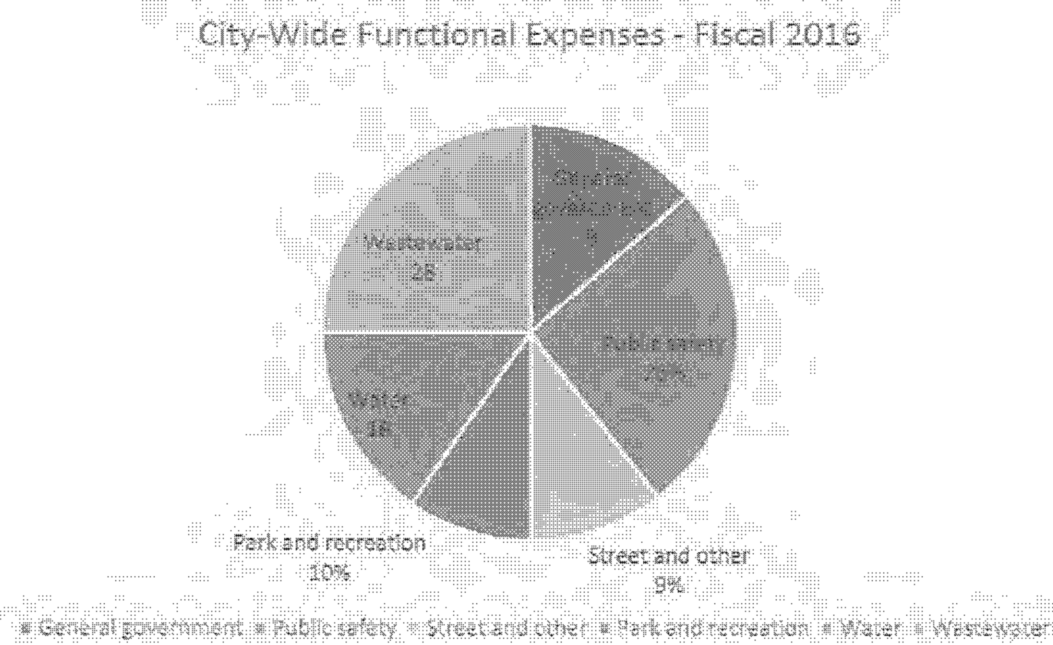
The net position of the city's governmental activities increased by six percent (6%) to $32.8 million during the 2015/2016 fiscal year. The city has $2.8 million in long-term debt related to assets used in its governmental activities – about the same as compared to the previous fiscal year. Net capital assets for governmental activities increased to $11.7 million at year-end mainly from street and drainage improvements.

The net position of the city's business-type activities increased by about $732,000 this fiscal year to $38.14 million. Assets generated from business-type activities are restricted to supporting the continuing operations of the city's utility and transit services.

Combined Revenues and Expenditures

City revenues decreased overall by twenty-four percent (24 %) ending the year with a combined total of $14.6 million. In comparing revenues to the previous fiscal year, it is important to consider that there was a one-time $2.9 million capital contribution of unexpended bond proceeds from the Successor Agency and a one-time $2.4 million item for the reinstatement of an enforceable obligation of the Successor Agency to repay general fund loan to the extent that residual revenues become available pursuant to the redevelopment dissolution regulations. (See Table A - 2). These one- time 2015 inflows are the main reason for the decrease in 2016 City-wide overall revenues.





The total cost of city programs and services decreased to $12.1 million during 2016, a decrease of about $273,000. Costs cover a variety of services with approximately 49% of total costs attributed to business-type activities (water, wastewater, and transit) and the remaining 51% related to general government, public safety, streets, parks and recreation programs, and other services provided to the community. Of the 273,000 decrease in expenses, about $600,000 was for a one-time inverse condemnation litigation settlement that was expensed in fiscal 2015 and was not a recurring item in fiscal 2016.

Contributions decreased in fiscal 2016 by about $5.4 million in fiscal 2016-2015. When the $5.4 million in contributions from the Successor Agency are excluded from the analysis, then the City still reported about an overall $650,000 increase in City-Wide revenues.

CITY OF FORTUNA
TABLE A-2 CHANGES IN THE CITY'S NET POSITION
(In thousands of dollars)

	GOVERNMENTAL-TYPE ACTIVITIES		*BUSINESS-TYPE ACTIVITIES*		*TOTALS CITY WIDE*		PERCENT CHANGE
	2016	2015	2016	2015	2016	2015	
Revenues:							
Program revenues:							
Charges for services	$1,907	$2,058	$5,953	$5,886	$7,860	$7,944	-1%
Operating grants	650	855	279	250	929	1,105	-15%
Capital grants	996	3,458	394	297	1,390	3,755	-63%
General revenues:							
Unrestricted contribution	-	2,473	-	-	-	2,473	-100%
Taxes	4,337	4,028	-	-	4,337	4,028	8%
Other	99	57	-	-	99	57	26%
Total revenues	7,989	12,929	6,626	6,433	14,615	19,362	-24%
Expenses:							
General government	1,057	1,686	-	-	1,057	1,686	-27%
Public safety	3,072	3,153	-	-	3,072	3,153	-2%
Streets	664	843	-	-	664	843	-12%
Parks and recreation	1,221	1,187			1,221	1,187	3%
Sanitation	43	39	-	-	43	39	10%
Housing and community	94	96	-	-	94	96	-2%
Water	-	-	2,207	1,896	2,207	1,896	16%
Wastewater	-	-	3,332	3,083	3,332	3,083	8%
Transit	-	-	345	268	345	268	29%
Other	73	130	-	-	73	130	-44%
Total expenses	6,224	7,134	5,884	5,247	12,108	12,381	2%
Increase(decrease)	1,765	5,795	742	1,186	2,507	6,981	-64%
Transfers	11	11	(11)	(11)	-	-	-
Change in net position	1,776	5,806	731	1,175	2,507	6,981	-64%
Net position	31,058	25,252	37,403	36,228	68,461	61,480	
Net position, ending	$32,834	$31,058	$38,134	$37,403	$70,968	$68,461	4%

The cost of the city's *governmental activities* this year was $6.2 million - a decrease of $910,000 or 13%, compared to fiscal year 2015 as presented in Table A-2. These costs were financed by taxes, fees, and grant revenue. Most of the expense decrease of $910,000 was a result of about $600,000 being expensed for the inverse condemnation litigation settlement; a one-time financial event. Also, street maintenance expenses were lower in fiscal 2016 by about $180,000.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The city uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and regulations. The fund financial statements focus on individual parts of city government in order to report city operations in more detail than the government-wide statements.

Governmental Funds

The general fund, HOME fund, and city housing fund are reported as major governmental funds. Other non-major governmental fund programs include gas tax(s), storm drain maintenance, federal and state grants, debt service, and capital projects.

The general fund reported $6.1 million in tax, grant, and fee revenues during the year. These revenues were used to support $3.5 million in public safety programs, nearly $1 million to support parks and recreation programs and services, and the remainder supported streets, capital improvement projects, and general administration including debt service. The ending general fund balance of $4.8 million includes $4.8 million in unassigned funds.

On a budgetary basis, general fund revenues exceeded budget estimates by about $611,000 . Sales tax revenues exceeded projections by nearly $191,000 with charges for services and miscellaneous revenues exceeding projections by the remaining $420,000. In total, general fund expenditures and transfers were $307,700 over approved budget appropriations with about $200,000 of the unfavorable over run related to additional public safety grant programs..

The city's HOME grant fund continues to administer an $8.3 million portfolio of federally funded housing loans. No new loans were extended during the year.

The city continues to administer a $2.5 million portfolio of low-to-moderate income housing loans that were originally funded by Community Development Block Grants ("CDBG") and by set-aside requirements of the former redevelopment agency. Administration of these assets is a result of the city's ongoing commitment to support low and moderate income housing programs within city limits.

Business-Type Funds

The water fund earned $2.3 million in user fees during the year to support operating costs, debt service, and capital improvements.
The wastewater fund earned $3.4 million in user fees during the year to support operating costs, debt service, maintenance costs and over $221,000 in system improvements.

The nonmajor transit fund earned $13,225 in fees during the 2016 fiscal period. Operating subsidies combined with user fees supports the operating costs necessary to provided essential transportation services to city residents.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The city continues to invest in improvements to maintain and improve the city's infrastructure. At the end of 2016, the city has invested $48.6 million in a broad range of capital assets (net of accumulated depreciation) that support the essential services provided to the city's residents and businesses. Assets include land, equipment, vehicles, buildings, park facilities, and water and wastewater systems. (See Table A-3.) Additional information about the city's capital assets can be found in Note 4, Section C, of the notes to the basic financial statements.

CITY OF FORTUNA
TABLE A-3 CAPITAL ASSETS
(In thousands of dollars)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS		PERCENT CHANGE
	2016	2014	2016	2014	2016	2015	
Land	$595	$695	$154	$154	$749	$749	-
Construction in progress	4,498	2,485	636	653	5,134	3,138	64%
Wastewater plant/system			32,534	32,493	32,534	32,493	-
Water plant & system			19,252	18,982	19,252	18,982	1%
Buildings, governmental	4,249	4,147			4,249	4,147	3%
Machinery & equipment	1,724	1,430	1,654	1,668	3,378	3,098	9%
Vehicles	814	701	1,063	1,128	1,877	1,829	3%
Infrastructure assets	5,557	5,361			5,557	5,361	4%
Improvements	1,851	1,767			1,851	1,767	5%
Total capital assets	19,288	16,486	55,293	55,078	74,581	71,564	4%
Less accumulated depreciation	(7,580)	(6,967)	(18,399)	(17,275)	(25,979)	(24,242)	7%
Capital assets, net of Accumulated depreciation	$11,708	$9,519	$36,894	$37,803	$48,602	$47,322	3%

Major additions to capital assets in fiscal 2016 included:

1. Storm drain and street projects ($1,900,000)
2. Wastewater lateral and improvement projects ($224,000)
3. Water system improvements ($100,000)
4. Vehicle and equipment replacements ($435,000)

Long-Term Debt

The city ended the 2016 fiscal year with $21.1 million in principal owed for the city's revenue bonds and new capital leasing arrangements. The following is a breakdown of the outstanding principal by fund:

General and Lease Payment Fund	$ 2,520,000
Capital leases and loans	299,780
Water Fund	6,960,000
Wastewater Fund	11,350,000
City Total:	$ 21,129,780

The outstanding principal on the city revenue bonds was reduced by $770,000 during the fiscal year. For further detail, see Notes to the Basic Financial Statement, Long-Term Debt, contained in the basic financial statements.

Pension Accounting Matters

The City's overall actuarially determined net pension liability was $6.64 million at the end of fiscal 2016 compared to $5.39 million at June 30, 2015. Additional information about the City's pension liability and related matters can be found in note 5E to these financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The city's general fund tax revenues have remained stable over the last several years after declining sharply in 2010. Appraised property values are recognizing slight increases this year. Increases in property values and the stabilization of sales tax revenue are an indicator of the region's recovery from the economic downturn that began in 2008. The unemployment rate has improved significantly from a high of 10.2% in 2010 to 6.8% in 2014. The city continues to remain conservative, yet optimistic, in projecting revenues for the 2016/2017 budget anticipating stable revenues through the next fiscal year.

Future year expenditures are expected to continue to face cost pressures in maintaining existing and essential services to city residents. In particular, energy, pension, and health benefit costs have increased significantly over the past decade and are projected to increase again in 2016/2017 and beyond. As the city monitors budget results during the current fiscal period, Council and staff are mindful to be financially prudent when prioritizing the services that are sustainable with existing revenue streams such as property and sales tax, grants, and fees for services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Fortuna, 621 Eleventh Street, P.O. Box 545, Fortuna, California 95540.

CITY OF FORTUNA
Statement of Net Position
June 30, 2016

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,125,403	$ 4,737,830	$ 12,863,233
Net receivables	1,397,369	545,143	1,942,512
Prepayments	19,035	28,200	47,235
Inventory	5,357	90,435	95,792
Total current assets	9,547,164	5,401,608	14,948,772
Noncurrent assets:			
Restricted cash and cash equivalents	4,217,962	1,895,645	6,113,607
Cash and cash equivalents designated for capital improvements	-	14,963,254	14,963,254
Notes receivable-long term	12,892,279	-	12,892,279
Lease receivable-long term	441,889	-	441,889
Loan receivable succesor agency	2,473,402	-	2,473,402
Capital assets not being depreciated	5,134,832	789,645	5,924,477
Capital assets being depreciated,net	6,615,338	36,104,136	42,719,474
Total noncurrent assets	31,775,702	53,752,680	85,528,382
Total assets	41,322,866	59,154,288	100,477,154
DEFERRED OPUTFLOWS OF RESOURCES			
Pension related items	676,215	350,537	1,026,752
LIABILITIES			
Current liabilities:			
Accounts payable	471,786	123,315	595,101
Accrued liabilities	272,491	2,141	274,632
Compensated absences	64,276	6,049	70,325
Deposits	36,137	80,732	116,869
Accrued interest payable	43,044	213,592	256,636
Revenue bonds are leases due in one year	255,000	550,000	805,000
Total current liabilities	1,142,734	975,829	2,118,563
Noncurrent liabilities:			
Compensated absences	179,747	16,915	196,662
Net pension liability	4,680,198	1,961,304	6,641,502
Revenue bonds due in more than one year	2,265,000	17,760,000	20,025,000
Capital leases due in more than one year	299,780	-	299,780
Premium from sale of bonds,net	44,027	455,931	499,958
Total noncurrent liabilities	7,468,752	20,194,150	27,662,902
Total liabilities	8,611,486	21,169,979	29,781,465
DEFERRED INFLOWS OF RESOURCES			
Pension related items	553,666	200,479	754,145
NET POSITION			
Net investment in capital assets	8,883,363	18,127,850	27,011,213
Restricted for:			
Debt service	1,252,512	1,724,364	2,976,876
Capital projects	3,211,141	-	3,211,141
Affordable housing	11,745,661	-	11,745,661
Streets and storm drains	2,090,484	-	2,090,484
Economic development	2,648,818	-	2,648,818
Other purposes	10,774	-	10,774
Unrestricted	2,991,176	18,282,153	21,273,329
Total net position	$ 32,833,929	$ 38,134,367	$ 70,968,296

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Activities
For The Fiscal Year Ended June 30, 2016

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position — City Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
City government							
Governmental activities:							
General government	$ 1,056,456	$ 371,856	$ -	$ -	$ (684,600)	$ -	$ (684,600)
Public safety	3,071,641	504,948	345,961	-	(2,220,732)	-	(2,220,732)
Streets	664,186	83,551	298,630	996,076	714,069	-	714,069
Parks and recreation	1,221,248	458,292	5,651	-	(757,305)	-	(757,305)
Sanitation	43,095	53,873	-	-	10,778	-	10,778
Business development and housing	94,393	434,634	-	-	340,241	-	340,241
Interest on long-term debt	73,164	-	-	-	(73,164)	-	(73,164)
Total governmental activities	6,224,185	1,907,154	650,242	996,076	(2,670,713)	-	(2,670,713)
Business-Type Acrivities:							
Water	2,206,878	2,402,085	-	64,231	-	259,438	259,438
Wastewater	3,331,929	3,536,519	-	157,956	-	362,546	362,546
Transit	344,951	14,796	279,140	171,281	-	120,266	120,266
Total business-type activities	5,883,758	5,953,400	279,140	393,468	-	742,250	742,250
Total City government	$ 12,107,943	$ 7,860,554	$ 929,382	$ 1,389,544	(2,670,713)	742,250	(1,928,463)
General revenues and transfers:							
Taxes:							
Property taxes					423,766	-	423,766
Sales taxes					1,834,956	-	1,834,956
Transient occupancy taxes					610,627	-	610,627
Other taxes					417,310	-	417,310
Property tax in lieu VLF					1,050,708	-	1,050,708
Unrestricted investment earnings					98,452	-	98,452
Transfers					10,597	(10,597)	-
Total general revenues and transfers					4,446,416	(10,597)	4,435,819
Change in net position					1,775,703	731,653	2,507,356
Net position, beginning					31,058,226	37,402,714	68,460,940
Net position, ending					$ 32,833,929	$ 38,134,367	$ 70,968,296

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	HOME Grants	City Housing Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 4,349,850	$ 89,957	$ 48,779	$ 7,854,779	$ 12,343,365
Accounts receivable	68,120	-	-	37,488	105,608
Taxes receivable	840,439	-	-	-	840,439
Due from other governments	42,120	-	-	409,202	451,322
Inventory	5,357	-	-	-	5,357
Prepayments	19,035	-	-	-	19,035
Notes receivable	7,320	8,882,473	2,683,561	1,318,925	12,892,279
Lease receivable	-	-	-	441,889	441,889
Loan receivable successor agency	2,473,402	-	-	-	2,473,402
Land held for resale	-	-	41,716	-	41,716
Total assets	$ 7,805,643	$8,972,430	$ 2,774,056	$ 10,062,283	$ 29,614,412
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 113,982	$ 825	$ -	$ 356,979	$ 471,786
Accrued liabilities	238,292	-	-	34,199	272,491
Compensated absences	64,276	-	-	-	64,276
Deposits	36,137	-	-	-	36,137
Total liabilities	452,687	825	-	391,178	844,690
Deferred inflows of resources:					
Long-term receivables	2,473,402	8,882,473	2,683,561	1,760,814	15,800,250
Fund balances:					
Nonspendable	24,392	-	-	-	24,392
Restricted for affordable housing	-	88,132	90,495	-	179,627
Restricted for economic development	-	-	-	1,345,380	1,345,380
Restricted for capital projects	-	-	-	3,211,141	3,211,141
Restricted for CCC facility	-	-	-	10,774	10,774
Restricted for debt service	-	-	-	1,252,512	1,252,512
Restricted for streets and storm drains	-	-	-	2,090,484	2,090,484
Unassigned	4,855,162	-	-	-	4,855,162
Total fund balances	4,879,554	89,132	90,495	7,910,291	12,969,472
Total liabilities, deferred inflowsof resources and fund balances	$ 7,805,643	$8,972,430	$ 2,774,056	$ 10,062,283	$ 29,614,412

Total Governmental Fund Balances	$ 12,969,472
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	11,705,454
Long-term notes receivable do not provide current financial resources and are therfore reported as deferred inflows of resources	15,800,250
The net pension liability and related deferred outflows of resources and deferred inflows of resources do not provide or use current financial resources and are not reported in the funds	(4,557,649)
Some liabilities, including bonds, leases, compensated absences, and accrued interest are not due and payable in the current period and are therefore not reported in the funds	(3,086,598)
Net Position of Governmental Activities	$ 32,833,929

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	HOME Grants	City Housing Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 423,766	$ -	$ -	$ -	$ 423,766
Sales taxes	1,834,956	-	-	-	1,834,956
Other taxes	1,027,937	-	-	-	1,027,937
Special assessments	-	-	-	54,947	54,947
Licenses and permits	309,104	-	-	-	309,104
Fines and forfeits	56,823	-	-	-	56,823
Intergovernmental	1,359,312	-	-	1,294,800	2,654,112
Interest	98,452	417	228	25,459	124,556
Charges for services	912,960	-	-	80,459	993,419
Miscellaneous	112,307	14,236	-	414,011	540,554
Total revenues	6,135,617	14,653	228	1,869,676	8,020,174
EXPENDITURES					
Current:					
General government	1,145,627	-	-	-	1,145,627
Public safety	3,541,001	-	-	-	3,541,001
Highway and streets	255,440	-	-	322,326	577,766
Parks and recreation	1,023,453	-	-	-	1,023,453
Health and welfare	-	-	-	43,095	43,095
Busness development and housing	-	1,536	-	99,208	100,744
Capital outlay	-	-	-	2,280,583	2,280,583
Debt service:					
Principal	54,343	-	-	261,219	315,562
Interest	501	-	-	124,229	124,730
Total expenditures	6,020,365	1,536	-	3,130,660	9,152,561
Excess (deficiency) of revenues over expenditures	115,252	13,117	228	(1,260,984)	(1,132,387)
OTHER FINANCING SOURCES (USES)					
Capital lease financing	248,703	-	-	121,641	370,344
Transfers in	-	-	-	435,569	435,569
Transfers out	(218,325)	-	-	(206,647)	(424,972)
Total other financing sources (uses)	30,378	-	-	350,563	380,941
Net change in fund balances	145,630	13,117	228	(910,421)	(751,446)
Fund balances, July 1	4,733,924	76,015	90,267	8,820,712	13,720,918
Fund balances, June 30	$ 4,879,554	$ 89,132	$ 90,495	$ 7,910,291	$ 12,969,472

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	$ (751,446)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($2,802,600) exceed depreciation ($ 613,536) in the current period.	2,189,064
Repayments of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position	315,562
Amortization of premiums from the sale of bonds do not provide current financial resources and are not reported in the funds	2,025
Governmental funds report interest expenditures when due, but these costs are accrued as an expense in the statement of net position	(21,522)
Governmental funds report compensated absences when payments are made or are immediately due. However, in the statement of activities these costs are recorded when incurred.	(17,971)
Changes in the net pension liability and related deferred items do not use or provide current financial resources and are not reported in the funds	461,218
Capital leases provide inflows of resources, but are reported as liabilities in the statement of net position	(370,344)
Interest earned on long-term receivables, payable at maturity, is not current financial resources and is deferred in the funds	204,750
Long-term receivables are deferred in the funds until collected and available for use. In the statement of activities, no revenues are recognized from the collection of receivables	(235,633)
Net differences	2,527,149
Change in Net Position of Governmental Activities	$ 1,775,703

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Funds			
	Water	Wastewater	Nonmajor Transit Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,924,220	$ 2,728,828	$ 84,782	$ 4,737,830
Receivables(net)	242,725	302,418	-	545,143
Inventory	90,435	-	-	90,435
Prepayments	-	28,200	-	28,200
Total current assets	2,257,380	3,059,446	84,782	5,401,608
Noncurrent assets:				
Other assets:				
Restricted cash and cash equivalents	859,228	865,136	171,281	1,895,645
Designated cash and cash equivalents	5,784,223	9,179,031	-	14,963,254
Total other noncurrent assets	6,643,451	10,044,167	171,281	16,858,899
Capital assets:				
Capital assets not being depreciated:				
Land	26,996	126,695	-	153,691
Construction in progress	1,088	634,866	-	635,954
Total capital assets not being depreciated	28,084	761,561	-	789,645
Capital assets being depreciated				
Collection system	-	8,016,734	-	8,016,734
Pumping system	-	1,060,229	-	1,060,229
Treatment plant	-	23,457,739	-	23,457,739
Distribution and treatment system	19,252,044	-		19,252,044
Equipment	723,763	930,280	-	1,654,043
Vehicles	387,111	502,877	173,314	1,063,302
Less accumulated depreciation	(6,212,342)	(12,087,640)	(99,973)	(18,399,955)
Total capital assets being depreciated	14,150,576	21,880,219	73,341	36,104,136
Total noncurrent assets	20,822,111	32,685,947	244,622	53,752,680
Total assets	$ 23,079,491	$ 35,745,393	$ 329,404	$ 59,154,288
DEFERRED OUTFLOWS OF RESOURCES				
Pension plan deferrals	140,989	189,459	20,089	350,537
LIABILITIES				
Current liabilities:				
Accounts payable	$ 63,559	$ 57,883	$ 1,873	$ 123,315
Compensated absences	1,000	4,805	244	6,049
Other current liabilities	1,282	859	-	2,141
Deposits	80,732	-	-	80,732
Interest	81,199	132,393	-	213,592
Bonds and Notes due within one year	210,000	340,000	-	550,000
Total current liabilities	437,772	535,940	2,117	975,829
Noncurrent liabilities:				
Compensated absences	2,797	13,437	681	16,915
Net pension liability	788,809	1,060,074	112,421	1,961,304
Revenue bonds and notes	6,750,000	11,010,000	-	17,760,000
Premium from sale of bonds, net	169,930	286,001	-	455,931
Total noncurrent liabilities	7,711,536	12,369,512	113,102	20,194,150
Total liabilities	8,149,308	12,905,452	115,219	21,169,979
DEFERRED INFLOWS OF RESOURCES				
Pension plan deferrals	80,632	108,357	11,490	200,479
NET POSITION				
Net investment in capital assets	7,048,730	11,005,779	73,341	18,127,850
Restricted	859,228	865,136	-	1,724,364
Unrestricted	7,082,582	11,050,128	149,443	18,282,153
Total net position	$ 14,990,540	$ 22,921,043	$ 222,784	$ 38,134,367

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds			
	Water	Wastewater	Nonmajor Transit Fund	Totals
OPERATING REVENUES				
Sales of water	$ 2,196,266	$ -	$ -	$ 2,196,266
Service fees	-	3,400,885	13,225	3,414,110
Miscellaneous	128,506	32,083	-	160,589
Total operating revenues	2,324,772	3,432,968	13,225	5,770,965
OPERATING EXPENSES				
Employee services	908,853	1,181,946	153,310	2,244,109
Contract services	-	-	156,006	156,006
Purchased power	177,759	212,501	-	390,260
Supplies and materials	328,273	651,536	17,772	997,581
Depreciation and amortization	473,385	739,340	17,863	1,230,588
Total operating expenses	1,888,270	2,785,323	344,951	5,018,544
Operating income (loss)	436,502	647,645	(331,726)	752,421
NON-OPERATING REVENUES (EXPENSES)				
Operating subsidies	-	-	279,140	279,140
Interest expense	(318,608)	(546,606)	-	(865,214)
Gain on disoposal of capital assets	2,925	9,855	1,530	14,310
Interest and investment revenue	74,388	93,696	41	168,125
Net nonoperating revenues (expenses)	(241,295)	(443,055)	280,711	(403,639)
Income (loss) before contributions and transfers	195,207	204,590	(51,015)	348,782
Contributions and transfers:				
Capital contributions	64,231	157,956	171,281	393,468
Transfers out	(4,652)	(5,945)	-	(10,597)
Net contributions and transfers	59,579	152,011	171,281	382,871
Change in net position	254,786	356,601	120,266	731,653
Total net position, July 1	14,735,754	22,564,442	102,518	37,402,714
Total net position, June 30	$ 14,990,540	$ 22,921,043	$ 222,784	$ 38,134,367

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds			
	Water	Wastewater	Nonmajor Transit Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,178,968	$ 3,404,393	$ 13,225	$ 5,596,586
Payments to suppliers	(491,749)	(923,978)	(172,535)	(1,588,262)
Payments to employees for services	(819,072)	(1,105,751)	(96,303)	(2,021,126)
Other operating receipts	128,506	32,083	-	160,589
Net cash provided by (used for) operating activities	996,653	1,406,747	(255,613)	2,147,787
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies	-	-	487,846	487,846
Transfers to other funds	(4,652)	(5,945)	-	(10,597)
Net cash provided by noncapital financing activities	(4,652)	(5,945)	487,846	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	64,231	157,956	171,281	393,468
Proceeds from sale capital assets	2,925	9,855	1,530	14,310
Payments on long-term debt principal	(200,000)	(325,000)	-	(525,000)
Interest paid on long-term debt	(328,797)	(563,640)	-	(892,437)
Purchases of capital assets	(99,603)	(221,682)	-	(321,285)
Net cash provided by (used for) capital and related financing activities	(561,244)	(942,511)	172,811	(1,330,944)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest receipts	74,388	93,696	41	168,125
Net cash provided by investing activities	74,388	93,696	41	168,125
Net increase (decrease) in cash and cash equivalents	505,145	551,987	405,085	1,462,217
Balances-beginning of the year	8,062,526	12,221,008	(149,022)	20,134,512
Balances-end of the year	$ 8,567,671	$ 12,772,995	$ 256,063	$ 21,596,729

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Funds			
	Water	Wastewater	Nonmajor Transit Fund	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 436,502	$ 647,645	$ (331,726)	$ 752,421
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	473,385	739,340	17,863	1,230,588
Change in assets and liabilities:				
Decrease(increase) in accounts receivable	(14,338)	3,508	-	(10,830)
Decrease(increase) in prepayments	-	(12,750)	-	(12,750)
Decrease(increase) in inventory	(9,797)	-	-	(9,797)
Increase(decrease) in accounts payable	24,083	(47,191)	1,243	(21,865)
Increase (decrease) in pension items	119,797	119,570	58,629	297,996
Increase(decrease) in other liabilities	(32,979)	(43,375)	(1,622)	(77,976)
Net cash provided by (used for) operating activities	$ 996,653	$ 1,406,747	$ (255,613)	$ 2,147,787

Noncash capital financing activities:
None reported

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Fiduciary Net Position
June 30, 2016

	PRIVATE PURPOSE TRUST Successor Agency to Fortuna Redevelopment Agency	AGENCY FUNDS
ASSETS:		
Cash and cash equivalents	$ 560,861	$ 101,004
Cash with trustees	859,244	-
Assessments receivable	-	3,158
Total assets	$ 1,420,105	$ 104,162
LIABILITIES:		
Payable to Property owners	-	104,162
Interest payable on bonds	78,548	-
Premium on sale of bonds	11,382	-
Loan payable City of Fortuna	2,473,402	-
Tax allocation bonds	9,925,000	-
Total liabilities	12,488,332	$ 104,162
NET POSITION:		
Held in trust for taxing agencies	(11,068,227)	
Total Net Position	$ (11,068,227)	

See accompanying notes to the basic financial statements

CITY OF FORTUNA
Statement of Changes in Fiduciary Net Position
For the fiscal year ended June 30, 2016

	PRIVATE PURPOSE TRUST Successor Agency to Fortuna Redevelopment Agency
ADDITTIONS:	
Distributions for enforceable obligations	$ 778,067
Net investment income (loss)	2,464
Total additions	780,531
DEDUCTIONS:	
Bond interest	473,099
City administrative costs	250,000
	723,099
Increase(decrease) in net position	57,432
Net position, June 30, 2015	(11,125,659)
Net position, June 30, 2016	$ (11,068,227)

See accompnaying notes to the basic financial statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Fortuna is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component units, entities for which the City is considered to be financially accountable. *Blended Component Units* - The Fortuna Public Financing Authority is separate legal entity created for the purpose of improving the economic conditions of the City, making public improvements and providing financing for these purposes. This entity is governed by the City Council of the City of Fortuna, and is therefore reported as if it was part of the City. The Authority is reported as part of the City's special revenue, capital projects and debt service funds. The component unit redevelopment agency was dissolved effective February 1, 2012 and all residual asset and liabilities are reported as private purpose fiduciary funds.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1. Summary of Significant Accounting Policies (continued)

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

Property taxes, sales taxes, transient occupancy taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *HOME* grant fund is used to account for grants and loans related to multi-family affordable housing projects.

City Housing Fund to account for low and moderate income housing programs, and the residual assets from the dissolution of the housing fund of the City's dissolved redevelopment agency.

The government reports the following major proprietary funds:

The *water and wastewater funds* account for the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and wastewater enterprise funds are charges to the customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees, connection fees and impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Investment Pool, the Humboldt County Treasurer's Pool and other permitted investments.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool and the Humboldt County Treasurer's Pool operate in accordance with appropriate state laws and regulations. The reported value in the pools is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Expenditures for long-term notes receivable are reported in the fund statements when made; and the related receivable is recorded as an asset in the fund statements but is offset by deferred inflows of resources accounts until the receivables are realized by the funds. Long-term receivables are recorded as assets in the statement of net position when the transaction is consummated by the City and are not offset by deferred inflows of resources accounts.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 for equipment and vehicles and $10,000 for other capital assets having an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the City has not recorded such assets. The City may elect to record such infrastructure assets in the future. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	25
Public domain infrastructure	20
System infrastructure	15-50
Vehicles and equipment	5

5. *Compensated Absences and Other Post-Employment Benefits (OPEB)*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The unpaid sick leave is considered a general fund obligation, and it is recorded in the general fund only when current financial resources will be required. The entire liability is reported in the statement of net assets for governmental activities in the government-wide financial statements. The City provides no post-employment benefits other than its participation in the Public Employees Retirement System (PERS).

6. *Long-term Obligations*

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

7. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of California Public Employees Retirement System (PERS) and additions to or deductions from the PERS fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1. Summary of Significant Accounting Policies (Continued)

8. *Fund Balances – Governmental Funds*

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the City is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. These classifications include (1) nonspendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned amounts.

Nonspendable amounts are generally items not expected to be converted into cash within a short period of time such that the cash would to be available to pay reported liabilities of the current period. These nonspendable items typically include inventories, prepayments, long-term receivables not offset by deferred revenue accounts, and advances by the city to its component unit redevelopment agency. Restricted amounts include those where the constraints placed on the uses or resources are externally imposed by grantors, contributors, other governments or by laws and regulations. Committed amounts are those that can only be used for a specific purpose as determined by the City Council. Such committed amounts may be redeployed for other uses only by the direction of the City Council. Assigned amounts are fund balance amounts constrained by the City's intent to be used for specific purposes as determined by the City's Finance Director or City Manager. Assigned amounts can be redeployed for other uses by direction of the City Manager or Finance Director. Unassigned fund balance amounts are the residual amounts of the general fund only or funds having deficit fund balances.

When expenditures are incurred for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, the city considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the City considers committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statements of net position. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this $11,708,454 difference are as follows:

Capital assets	$ 19,288,873
Less: Accumulated depreciation	(7,580,419)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$ 11,708,454

2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position (Continued)

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this $3,086,598 difference are as follows:

Long-Term Debt Obligations:		
Revenue bonds, series 2007	$	2,520,000
Capital leases		299,780
Premium from sale 2007 revenue bonds		44,027
Accrued interest payable		43,044
Unpaid vacation and sick leave		179,747
Net adjustment to decrease fund balance total governmental Funds to arrive at net position - governmental activities	$	(3,086,598)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $ 2,527,149 difference and other significant components of the difference are as follows:

Capital outlay	$ 2,802,600
Depreciation expense	(613,536)
Repayment of long-term debt principal	315,562
Long-term notes receivable	(30,833)
Capital lease financing	(370,344)
Net pension liability and related deferrals	461,218
Other items	(37,518)
Net adjustment to decrease *net changes in fund balances – Total governmental funds* to arrive at *changes in net position of governmental activities*	$ 2,527,149

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. On or before the end of each fiscal year, all agencies of the City submit requests for appropriations to the City Manager so that a budget may be prepared. By May 15 of each year, the proposed budget is presented to the council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made no supplemental budgetary appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds. Budgets were not adopted for the City Housing and Capital Projects Funds.

B. Budgetary Stewardship and Fund Deficit

The TEA/STIP and Safe Routes funds had $59,690 and $108,959 fund deficit, respectively, at June 30, 2016. The City expects to cure the deficit from future grant revenues and other revenue sources. Expenditure budgets were significantly exceeded by the general fund ($305,454).

4. Detailed Notes on All Funds

A. Cash Equivalents and Investments

Deposits and investments consisted of the following at June 30, 2016

Demand deposits	$ 4,357,007
Investments with bond trustee	2,976,467
Pooled investments with City Fortuna	26,606,620
Total City of Fortuna (excluding fiduciary funds)	33,940,094
Fiduciary funds held by City	
Investments with bond trustee	859,244
Pooled deposits with City Fortuna	661,865
Total cash and investments	$ 35,461,203

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made in institutions in California, and that they shall be insured or fully collateralized with government securities. At June 30, 2016, $4,728,442 of the City's bank balances of $4,978,442 was exposed to credit risk as follows:

Uninsured and collateral held by pledging bank's agent but not in the City's name:	$4,782,442

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

As of June 30, 2016, the City had the following investments:

Type Investment	Average Maturity	Fair Value
Local Agency Investment Fund	167 Days	$ 9,039,784
Certificates of deposit and local government bonds	2 Years	8,324,368
JP Morgan Institutional Prime Money Market -City	48 Days	2,976,467
JP Morgan Institutional Prime Money Market-Fiduciary	48 Days	859,244
Humboldt County Treasurer's Pool	815 Days	9,242,468
Total Investments		$ 30,442,331

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the City has a formal policy which limits City purchased investments to securities having a remaining maturity date from time of purchases to five years or less.

Credit Risk - The City's investment policy limits investments in mutual and money market funds to the top two ratings issued by nationally recognized statistical ratings organizations. Investments in obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require the disclosure of credit quality. The Local Agency Investment Fund and Humboldt County Treasurer's Investment Pool are unrated. The JP Morgan Money Market Fund was rated AAA.

Concentration of Credit Risk- Investments explicitly guaranteed by the U.S. government and investments in mutual funds, and external investment pools such as those held by the City are excluded from concentration of credit risk disclosures.

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party. Investments in mutual funds and external investment pools are not subject to custodial credit risk because these investments are not evidenced by specific securities.

Fair Value Measurements - The City categorizes its fair value measurements within the hierarchy of established generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, and Level 3 inputs are other significant unobservable inputs. The City's investments in the Local Agency Investment Fund and County Treasurers Pool are valued using Level 1 inputs as are the certificates of deposits, local government bonds and money market funds.

4. Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts are as follows:

	General Fund	HOME & City Housing Funds	Nonmajor Funds	Total Governmental	Water Enterprise	Wastewater and Transit Enterprise
Receivables:						
Taxes	$ 840,439	$ -	$ -	$ 840,439	$ -	$ -
Accounts	68,120	-	37,488	105,608	242,725	302,418
Governments	42,120	-	409,202	451,322	-	-
Subtotal current	950,679	-	446,690	1,397,369	242,725	302,418
Leases	-	-	441,889	441,889	-	-
Loan receivable	2,473,402	-	-	2,473,402		
Notes receivable	7,320	11,566,034	1,318,925	12,892,279	-	-
Net total receivables	$ 3,431,401	$ 11,566,034	$ 2,207,504	$ 17,204,939	$ 242,725	$ 302,418

Revenues of the water and wastewater enterprises are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are not material at year-end.

Long-term notes receivable of $12,892,279 consists of two notes relating to affordable housing projects for $8,882,473 (with accumulated and unpaid interest) and various other notes for $4,009,806 relating to business development and redevelopment projects. The notes for $8,882,473 bear interest at 3 percent per annum, mature in 55 years, and are repayable annually to the extent that the housing projects have residual receipts with the unpaid balance due at maturity. The notes are secured by a deed of trust on the housing projects. The other notes are generally repayable in monthly installments of principal and interest at various rates and terms.

The lease receivable of $441,889 represents the net present value of lease rents receivable under an agreement with the State of California pursuant to a sublease arrangement of the California Conservation Corps Facility. The lease expires June 30, 2018. Upon expiration, the facility passes to the State of California. The lease payments are due in annual installments of $245,000.

The loan receivable of $2,473,402 in the general fund is the amount determined to be an enforceable obligation of the successor agency to the former redevelopment agency of the City. When the redevelopment agency was dissolved in fiscal 2012, previously approved loans between the City and the former redevelopment agency were deemed to not be an enforceable obligation of the successor agency under the dissolution rules and were written off at that time. The Dissolution Act further provided that after a successor agency receives a Finding of Completion by the California Department of Finance, such previously disallowed loans may be deemed to be enforceable obligations of the successor and repayable to the City. The successor agency has received its Finding of Completion and the Oversight Board has approved the loan agreement and its validity as an enforceable obligation. The loan is repayable in semiannual installments to the extent that funds are available under the formula-based method specified in the dissolution rules which also contain a provision that 20 percent of any such repayment shall be placed by the City in its Low and Moderate Income Housing Fund.

4. Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 595,341	$ -	$ -	$ 595,341
Construction in progress	2,484,624	2,126,280	(113,129)	4,497,775
Total capital assets, not being depreciated	3,079,965	2,126,280	(113,129)	5,093,116
Capital assets, being depreciated:				
Buildings	4,146,934	102,087	-	4,249,021
Improvements	1,767,400	83,861	-	1,851,261
Equipment	1,429,662	294,198	-	1,723,860
Vehicles	700,871	113,534	-	814,405
Infrastructure - primarily street systems	5,361,439	195,771	-	5,557,210
Total capital assets being depreciated	13,406,306	789,451	-	14,195,757
Less accumulated depreciation for:				
Buildings	(2,485,328)	(148,643)	-	(2,633,971)
Improvements	(941,975)	(59,130)	-	(1,001,105)
Equipment	(1,307,254)	(66,912)	-	(1,374,166)
Vehicles	(645,918)	(65,885)	-	(711,803)
Infrastructure	(1,586,408)	(272,966)	-	(1,859,374)
Total accumulated depreciation	(6,966,883)	(613,536)	-	(7,580,419)
Total capital assets, being depreciated, net	6,439,423	175,915	-	6,615,338
Governmental activities capital assets, net	$ 9,519,388	$ 2,302,195	$ (113,129)	$ 11,708,454

Construction in progress at June 30, 2016 consists primarily of $4,497,775 pertaining to a new police facility, street improvements and drainage system infrastructure.

4. Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 153,691	$ -	$ -	$ 153,691
Construction in progress	653,265	169,907	(187,218)	635,954
Total capital assets, not being depreciated	806,956	169,907	(187,218)	789,645
Capital assets, being depreciated:				
Wastewater collection system	8,016,734	-	-	8,016,734
Wastewater pumping	1,060,229	-	-	1,060,229
Wastewater treatment plant	23,415,814	41,925	-	23,457,739
Water treatment and distribution	18,982,403	269,641	-	19,252,044
Equipment	1,667,879	-	(13,836)	1,654,043
Vehicles	1,128,496	27,032	(92,226)	1,063,302
Total capital assets, being depreciated	54,271,555	338,598	(106,062)	54,504,091
Less accumulated depreciation for:				
Wastewater system	(11,383,331)	(739,340)	35,031	(12,087,640)
Water system	(5,760,153)	(473,385)	21,196	(6,212,342)
Transit system	(131,945)	(17,863)	49,835	(99,973)
Total accumulated depreciation	(17,275,429)	(1,230,588)	106,062	(18,399,955)
Total capital assets, being depreciated, net	36,996,126	(891,990)	-	36,104,136
Business-type activities capital assets, net	$37,803,082	$ (722,083)	$ (187,218)	$36,893,781

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	Amounts
General government	$ 123,467
Public safety	72,441
Streets	281,028
Parks and recreation	136,600
Total depreciation expense-governmental activities	$ 613,536
Business-Type Activities:	
Wastewater	$ 739,340
Water	473,385
Transit	17,863
Total depreciation expense-business-type activities	$ 1,230,588

4. Detailed Notes on All Funds (Continued)

D. Inter-fund Transfers and Intergovernmental Expenditures

Interfund transfers at June 30, 2016 were as follows:

Transfers out:	Transfer in: City 2007 Bond Debt Service	City Non-major Funds	General Fund	Total Transfers Out All Funds
General fund	$ 218,325	$ -	$ -	$ 218,325
Lease fund	140,307	-	-	140,307
Non-major funds		66,340	-	66,340
Water/wastewater	10,597	-	-	10,597
Totals	$ 369,229	$ 66,340	$ -	$ 435,569

The transfers out of the general fund and lease fund were made for the purpose of providing debt service funds for repayment of long-term obligations.

E, Long-Term Debt

Water Revenue Bonds

During the 2007 fiscal year, the City's Public Financing Authority issued $8,085,000 in water revenue bonds, series 2006 for the purpose of providing long-term financing for the water treatment plant project of the City. The Fortuna Public Financing Authority entered into an installment sale agreement with the City whereby the City agreed to pay the debt service on the bonds in exchange for the financing. The installment sale agreement between the City and its Public Financing Authority have been eliminated from these financial statements. The revenue bonds bear interest at rates from 3.375% to 5.0%, are payable each April 1 and October 1 through 2037. The bonds are secured by a pledge of the water system net revenues. Future debts service on the bonds is:

Fiscal Years	Principal	Interest	Total
2017	$ 210,000	$ 319,547	$ 529,547
2018	220,000	309,896	529,896
2019	225,000	300,997	525,997
2020	235,000	291,798	526,798
2021	245,000	282,197	527,197
2022-2026	1,385,000	1,248,173	2,633,173
2027-2031	1,725,000	901,414	2,626,414
2032-2036	2,205,000	413,625	2,618,625
2037	510,000	12,750	522,750
	$ 6,960,000	$ 4,080,397	$ 11,040,397

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Annual principal and interest payments on the bonds are expected to require less than 53 percent of system net revenues as defined. Total interest and principal remaining to be paid is $11,040,367. Principal and interest paid for the current fiscal year and total system net revenues as defined were $528,797 and $987,200 respectively.

Wastewater Revenue Bonds

During the 2007 fiscal year, the City's Public Financing Authority issued $13,820,000 in wastewater revenue bonds, series 2006 for the purpose of providing long-term financing for the wastewater treatment plant project of the City. The Fortuna Public Financing Authority entered into an installment sale agreement with the City whereby the City agreed to pay the debt service on the bonds in exchange for the financing. The installment sale agreement between the City and its Public Financing Authority have been eliminated from these financial statements. The revenue bonds bear interest at rates from 3.25% to 5.0%, are payable each April 1 and October 1 through 2037. Future debts service on the bonds is:

Fiscal Years	Principal	Interest	Total
2017	$ 340,000	$ 521,072	$ 861,072
2018	355,000	505,472	860,472
2019	370,000	490,972	860,972
2020	385,000	475,872	860,872
2021	400,000	460,172	860,172
2022-2026	2,270,000	2,033,624	4,303,624
2027-2031	2,815,000	1,467,462	4,282,462
2032-2036	3,585,000	673,115	4,258,115
2037	830,000	20,750	850,750
	$ 11,350,000	$ 6,648,511	$ 17,998,511

The bonds are secured by a pledge of the wastewater system net revenues. Annual principal and interest payments on the bonds are expected to require less than 47 percent of system net revenues as defined. Total interest and principal remaining to be paid on the bonds is $17,998,511. Principal and interest paid for the current fiscal year and total system net revenues as defined were $888,640 and $1,490,536, respectively.

2007 Revenue Bonds – Governmental Activities

The City and its former component unit redevelopment agency entered into a loan agreement with the Fortuna Public Financing Authority (also a component unit of the City), dated October 1, 2007, wherein the Authority sold $17,500,000 in its revenue bonds, series 2007. From the sale of the Authority's Revenue bonds, $13,280,000 was loaned to the component unit redevelopment agency and $4,220,000 was loaned to the City. The loans receivable and payable between the City and the City's redevelopment agency and the City's component unit Financing Authority have been eliminated from the accompanying financial statements.

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

The 2007 revenue bonds mature each November 1 commencing November 1, 2008 through 2038, bear interest at rates from 3.75 to 5.0 percent and consist of $5,365,000 in serial bonds, $4,110,000 in term bonds due November 2031, $2,525,000 in term bonds due November 1, 2038 (the escrow bonds), and $5,500,000 in term bonds due November 1, 2038. The bonds are subject to early redemptions from certain prepayments, bonds maturing on or after November 1, 2018 are subject to optional early redemption, the escrow bonds are subject to mandatory early redemption on November 1, 2010 and the term bonds maturing November 1, 2031 and 2038 are subject to mandatory sinking fund redemptions on or after November 1, 2024 and 2032, respectively.

2007 Revenue Bonds – City of Fortuna Share of Governmental Activities 2007 Revenue Bonds

Fiscal Years	Principal	Interest	Total
2017	$ 255,000	$ 112,956	$ 367,956
2018	270,000	99,832	369,832
2019	65,000	96,510	161,510
2020	65,000	89,180	154,180
2021	70,000	87,881	157,881
2022-2026	390,000	393,130	783,130
2027-2031	490,000	295,045	785,045
2032-2036	615,000	168,838	783,838
2037-2038	300,000	22,250	322,250
	$ 2,520,000	$ 1,365,622	$3,885,622

The City has not pledged a specific revenue source as security to repay its $2,520,000 share of the 2007 revenue bonds, although it has agreed to appropriate monies to make such scheduled debt service payments.

Capital Lease and Loan Obligations:

In fiscal 2016, the City entered into two capital lease and a loan agreement with PG&E for the purpose of purchasing computer software, police vehicles and installation of LED lighting system for an aggregate amount of $370,344. The leased equipment and lighting system have been capitalized by the City. The PG&E loan bears no interest. Future debt service is as follows:

June 30	Future Minimum Lease Payments	Future Loan Payment
2017	$ 54,344	$ 16,224
2018	54,344	16,224
2019	54,344	16,224
2020	36,967	16,224
2021	-	16,224
Thereafter	-	24,301
Total future minimum lease payments	199,999	105,421
Less amount representing interest	(5,637)	-
Net present value future minimum payments	$ 194,359	$ 105,421

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Changes in Long-term liabilities

Long-term debt activity for the 2016 fiscal year was as follows:

Governmental Type	Beginning	Additions	Reductions	Ending	Due In One Year
2007 Revenue Bonds	$ 2,765,000	$ -	$245,000	$ 2,520,000	$ 255,000
Capital leases	-	248,883	54,522	194,359	14,610
PGE Loan	-	121,461	16,040	105,421	16,224
Compensated absences	161,774	81,973	64,000	179,747	64,276
Totals	$ 2,926,774	$ 452,317	$379,562	$ 2,999,527	$ 350,110
Business Type					
Revenue Bonds	$18,835,000	$ -	$ 525,000	$18,310,000	$ 550,000
Totals	$18,835,000	$ -	$ 525,000	$18,310,000	$ 550,000

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City is a member of the Redwood Empire Municipal Insurance Fund a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the City has a $ 10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to $ 500,000. The Fund carries excess liability coverage to a total of $40 million in excess of its $ 500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers.

The Fund covers workers compensation claims up to its self-insurance limit of $ 1 million. A purchased excess policy insures the Fund for an additional $ 1 million to provide aggregate coverage of up to $ 2 million per claim. The City pays an annual premium to the Fund; the City may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results. The Fund also provides property coverage up to $300 million per occurrence. The City paid $589,166 in uninsured losses during the 2014-2015 fiscal year. Of the $589,166, $569,166 pertains to the settlement of one matter related to an inverse condemnation action. Financial statements of the JPA Fund may be obtained from their administrative offices located at 414 W. Napa Street, Sonoma, California 95476. Liabilities of the City are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years except for fiscal 2015 as discussed above.

5. Other Information (Continued)

B. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. City management believes that, based upon consultation with its counsel, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City.

C. Jointly Governed Organizations

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The City is a participant in the following organizations:

Redwood Empire Municipal Insurance Fund. The City is a member of Insurance Fund. The Fund, under the terms of a Joint Powers Agreement with the City and several other cities and governmental agencies, provides insurance coverage for general liability, automobile liability, and workers compensation claims.

Under the arrangement, the Fund purchases liability, automobile liability, and workers compensation insurance and charges participating cities and governmental agencies in amounts planned to match expenses of insurance premiums, estimated payments resulting from self-insurance programs, and operating expenses. The City's obligations are limited to contributions to pay for related insurance premiums.

D. Other Post-Employment Benefits

The City provides no post-employment benefits other than those associated with the Public Employees Retirement System.

E. Public Employee Pension Plans

Plan Description - The plans are a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS).The CalPERS is governed by a 13 member Board of Administration with six elected members, three appointed members and four ex officio members which include the State Treasurer, the State Controller, the Director of the California Department of Human Services and a designee of the State Personnel Board.

Benefits Provided - The CalPERS provides retirement, disability and death benefits. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Pre-retirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants.

5. Other Information (Continued)

E. Public Employee Pension Plans (Continued)

Contributions – Section 20814 of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2014 (the measurement date), the average active employee contribution rate is 7.947 percent of annual pay, and the average employer contribution rate is 16.593 percent of annual payroll (8.986 and 27.374 percent for the safety plan).

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016 the City reported a liability of $6,641,502 for its proportionate share of the net pension liability for all plans. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2016, the City's proportion was 0.096760 percent. For the June 30, 2016 fiscal year, the City recognized pension expense of $573,224. .At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience:	$ 22,593	$ -
Changes in assumptions	-	(213,755)
Net difference between projected and actual earnings on pension plan investments	-	(107,158)
Changes in proportions and differences between City contributions and proportionate share of contributions	280,446	(96,394)
City contributions subsequent to the Measurement date	427,549	-
Totals	$ 730,588	$ (417,307)

The $427,549 reported as deferred outflows of resources is related to pensions from City contributions made subsequent to the measurement date, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources
2015	$ (88,636)
2016	(85,993)
2017	(76,613)
2018	136,974
2019	-
Thereafter	-

5. Other Information (Continued)

E. Public Employee Pension Plans (Continued)

Safety Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (32,952)
Changes in assumptions	-	(151,555)
Net difference between projected and actual earnings on pension plan investments	-	(76,811)
Changes in proportions and differences between City contributions and proportionate share of contributions		(75,520)
City contributions subsequent to the Measurement	296,164	-
Totals	$ 296,164	$ (336,838)

The $296,164 reported as deferred outflows of resources is related to pensions from City contributions made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources
2015	$ (149,136)
2016	(149,564)
2017	(132,428)
2018	94,290
2019	-
Thereafter	-

Actuarial Assumptions – The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.0 percent
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website under Forms and Publications.

5. Other Information (Continued)

E. Public Employee Pension Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension cash flows. The expected rate of return was then set equivalent to a single equivalent rate calculated by CalPERS and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	New Strategic Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	.99	2.43
Inflation Sensitive	6.0	.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure & Forestland	3.0	4.50	5.09
Liquidity	2.0	(.55)	(1.05)

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employee Retirement Fund.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1-percentage higher (8.65 percent) than the current rate.

City's proportionate share of the net pension liability	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous Plan	$6,289,838	$3,861,526	$1,856,666
Safety Plan	$4,562,842	$2,779,976	$1,318,059

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

5. Other Information (Continued)

F. Restricted Net Position and Nonspendable Fund Balances

Restricted Net Position

The $ 20,959,390 restricted amount for debt service, affordable housing, streets and other in the governmental activities statement of net position represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments and primarily relate to housing funds restricted by law to only certain specified uses. The $1,724,364restricted for business-type activities represents spendable net resources in the wastewater and water funds restricted for debt service.

Nonspendable Fund Balances

The nonspendable fund balances in the governmental fund types represent amounts not available for immediate use to pay current liabilities and consists of:

Nonspendable Amounts	General Fund	Nonmajor Funds
Inventory	$ 5,357	$ -
Prepayments	19,035	-
Totals	$ 24,392	$ -

G. Successor Agency Trust for Assets of Former Redevelopment Agency

1. The Dissolution Process

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the financial reporting entity of the City of Fortuna that previously had reported a redevelopment agency within the financial reporting entity of the City as a blended component unit. The bill provides that upon dissolution of a redevelopment agency, either the city or another governmental unit of local government will agree to serve as the successor agency to hold assets until they are distributed to other units of State and local government. The City Council of the City of Fortuna elected to have the City become the Successor Agency for the former redevelopment agency and to become the housing successor for the agency.

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

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

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

5. **Other Information (Continued)**

G. Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City (including the amounts disallowed by the State Department of Finance) and others are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on these issues is not a position of settled law and there is considerable legal uncertainty regarding these issues. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial or other authorized body that would resolve any of the dissolution matters unfavorable to the City.

In accordance with the timeline set forth in the Bill (As modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

2. Enforceable Obligations

2007 Revenue Bonds – Successor Agency Obligations

The City and its former component unit redevelopment agency entered into a loan agreement with the Fortuna Public Financing Authority (also a component unit of the City), dated October 1, 2007, wherein the Authority sold $17,500,000 in its revenue bonds, series 2007. From the sale of the Authority's Revenue bonds, $13,280,000 was loaned to the component unit redevelopment agency and $4, 220,000 was loaned to the City. The loans receivable and payable between the City and the City's former redevelopment agency and the City's component unit Financing Authority have been eliminated from the accompanying financial statements.

From the bond proceeds, the former redevelopment agency deposited $2,525,000 into an Escrowed Project Fund Account until October 15, 2010, of the escrow bonds which bonds are defined as the bonds maturing November 1, 2038 with an interest rate of 4.9 percent. On October 15, 2010 the Trustee shall transfer all amounts then on deposit in the Escrowed Project Fund to the Principal Fund, to be applied to the mandatory redemption on November 1, 2010 of Escrow Bonds pursuant to Section 4.07 of the Trust Agreement. Notwithstanding the foregoing, the former Agency may postpone such redemption to any later date identified in a certificate of the former Agency which sets forth the new date for the transfer of amounts in the Escrowed Project Fund to the Principal Fund to be used to redeem Escrow Bonds pursuant to Section 4.07 of the Trust Agreement and which is accompanied by cash in an amount which is certified by the former Agency as sufficient, together with the earnings thereon, to pay interest on the portion of the Escrow Bonds which represent the funds then on deposit in the Escrowed Project Fund from November 1, 2010 to the redemption date as identified in such certificate of the Agency. The former Agency exercised its option to postpone this redemption until November 1, 2011. The redemption of the $2,525,000 was completed in fiscal 2014 by the Successor Agency.

The 2007 revenue bonds mature each November 1 commencing November 1, 2008 through 2038, bear interest at rates from 3.75 to 5.0 percent and consist of $5,365,000 in serial bonds, $4,110,000 in term bonds due November 2031, $2,525,000 in term bonds due November 1, 2038 (the escrow bonds), and $5,500,000 in term bonds due November 1, 2038. The bonds are subject to early redemptions from certain prepayments, bonds maturing on or after November 1, 2018 are subject to optional early redemption, the escrow bonds are subject to mandatory early redemption on November 1, 2010 and the term bonds maturing November 1, 2031 and 2038 are subject to mandatory sinking fund redemptions on or after November 1, 2024 and 2032, respectively. Future debt service is:

5. **Other Information (Continued)**

G .Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

2. *Enforceable Obligations (Continued)*

2007 Revenue Bonds – Successor Agency Obligations (Continued)

The former redevelopment agency had pledged future incremental property tax revenues to repay its $13,060,000 share of the 2007 revenue bonds. The agency's share of the revenue bonds was payable solely from the pledged tax increment revenues and from certain trust accounts held by the bond trustee. Total principal and interest remaining on the Successor Agency's share of the bonds is $19,798,835.

Fiscal Years	Principal	Interest	Total
2017	$ 165,000	$ 471,286	$ 636,286
2018	185,000	463,036	648,036
2019	205,000	453,786	658,786
2020	225,000	445,586	670,586
2021	245,000	436,586	681,586
2022-2026	1,515,000	2,010,423	3,525,423
2027-2031	2,155,000	1,612,063	3,767,063
2032-2036	3,015,000	1,021,994	4,036,994
2037-2039	2,215,000	225,560	2,440,560
	$ 9,925,000	$ 7,140,320	$ 17,065,320

Loan City of Fortuna

On November 1, 2013, the City received from the State Department of Finance (DOF) a Finding of Completion Letter as regards the Successor Agency to the City's former Redevelopment Agency that had been dissolved effective February 1, 2012. The DOF letter authorized the City to request a finding be made by the Oversight Board to the Successor Agency that the City's loan agreements between the former Redevelopment Agency and the City be qualified as enforceable obligations of the Successor Agency under the laws governing the dissolution of the former agency. In addition, there is a requirement that the accumulated and unpaid interest on any such loans be recalculated using a DOF specified method, that any future repayments, if approved, are to be made subject to a specified formula, and that there will be amounts available pursuant to the formula that will enable the repayments to be made. In addition, all such loan agreements, recalculations of interest, and formula based repayments, are subject to approval of the Successor Agency's Oversight Board and the DOF.

The DOF had initially denied approval of this loan as an enforceable obligation of the Successor Agency, but on May 16, 2014 the DOF rescinded this denial and the loan was approved as an enforceable obligation with an effective date of July 1, 2014 which date has approval of both the DOF and the Successor Agency's Oversight Board. The City and the Successor Agency reinstated this loan for financial reporting purposes in fiscal 2015.

5. Other Information (Continued)

G .Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

2. Enforceable Obligations (Continued)

Repayment Schedule City of Fortuna Loan:

The original repayment schedule was as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	$ 221,382	$ 6,271	$ 227,653
2016	221,985	5,668	227,653
2017	222,356	5,297	227,653
2018	223,115	4,538	227,653
2019	223,695	3,958	227,653
2020	224,277	3,376	227,653
2021-2025	1,136,592	5,855	1,142,447
Totals	$ 2,473,402	$ 34,963	$2,508,365

The scheduled fiscal 2015 and 2016 repayment was not made as a result of the sufficiency of available monies under the prescribed formula being used to calculate amounts available for distribution to the City after amounts made available for other enforceable obligations of the successor agency. The degree to which the above repayment schedule will be realized by the successor agency is not determinable at this time.

Changes in Long –Term Enforceable Obligations.

Changes in long-term enforceable obligations for the year ended June 30, 2016 were:

Private Purpose Trust	*Beginning*	*Additions*	*Reduction*	*Ending*	*Due in One Year*
2007 Revenue Bonds	*$10,075,000*	*$ -*	*$ 150,000*	*$9,925,000*	*$165,000*
Loan City of Fortuna	*2,473,402*	*-*	*-*	*2,473,402*	
Totals	*$12,548,402*	*$ -*	*$ 150,000*	*$12,398,402*	*$165,000*

3.Cash and Investments Held in Trust

The cash and investments of the Successor Agency and Housing Successor at June 30, 2016 consisted of $1,420,105. Of this, $859,244 was held by a bank bond trustee and was invested in money market funds. The remaining $560,861 was held in City of Fortuna pooled investments accounts.

5. Other Information (Continued)

H. Change in Accounting Principles

The City in fiscal 2016 implemented Governmental Accounting Standards Board (GASB) Statement Number 72, Fair Value Measurement and Application. The implementation of this accounting standard had no impact on the beginning of year net position of the government and business-type activities; and the beginning of year balances were not restated and remain as originally reported by the City.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
CITY OF FORTUNA
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Fund Balance, July 1	$ 4,581,544	$ 4,733,924	$ 4,733,924	$ -
Resources (inflows):				
Property taxes	440,197	440,197	423,766	(16,431)
Sales taxes	1,644,000	1,644,000	1,834,956	190,956
Other taxes	1,331,097	1,331,097	1,027,937	(303,160)
License permits	258,989	258,989	309,104	50,115
Fines and forfeits	70,134	70,134	56,823	(13,311)
Interest	20,000	20,000	98,452	78,452
Intergovernmental	1,355,411	1,355,411	1,359,312	3,901
Charges for services	582,447	582,447	912,960	330,513
Miscellaneous	70,982	70,982	112,307	41,325
Proceeds of capital lease financing	-	-	248,703	248,703
Amounts available for charges to appropriations	10,354,801	10,507,181	11,118,244	611,063
Charges to appropriations and and extraordinary item:				
General government:				
City council	31,055	31,055	30,869	186
City manager and clerk	153,166	153,166	133,267	19,899
Finance	107,016	107,016	157,377	(50,361)
Legal	100,000	100,000	80,023	19,977
Nondepartmental	81,717	81,717	84,157	(2,440)
General building	55,143	55,143	67,293	(12,150)
Risk management	277,180	277,180	305,035	(27,855)
Public works administration	39,310	39,310	30,615	8,695
Engineering	34,884	34,884	54,961	(20,077)
Planning	67,481	67,481	60,732	6,749
Tourism	128,900	128,900	141,298	(12,398)
Public safety:				
Police	2,856,908	2,856,908	2,992,656	(135,748)
Avoid grant	88,750	88,750	146,348	(57,598)
BSCC grant	52,559	52,559	31,566	20,993
ABC grant	18,025	18,025	-	18,025
K9	28,750	28,750	25,337	3,413
Animal control	24,764	24,764	29,055	(4,291)
Building and development:				
Building inspections and development reviews	351,107	351,107	316,039	35,068
Highways and streets:				
Street maintenance	214,389	214,389	255,440	(41,051)
Parks and Recreation:				
Recreation programs	252,526	252,526	257,641	(5,115)
Park maintenance	407,122	407,122	428,909	(21,787)
Library	9,931	9,931	9,881	50
Railroad museum	35,946	35,946	30,754	5,192
Riverlodge operations	288,610	288,610	296,268	(7,658)
Debt service	-	-	54,844	(54,844)
Transfers out	225,751	225,751	218,325	7,426
Total charges to appropriations	5,930,990	5,930,990	6,238,690	(307,700)
Fund Balance, June 30	$ 4,423,811	$ 4,578,191	$ 4,879,554	$ 303,363

Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2016

Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:

Sources/inflows resources:	
Actual amounts "available for appropriation" from budgetary comparison schedule:	$ 11,118,244
Differences - budget to GAAP:	
Proceeds of capital leases are an inflow of resources nut are not reported as revenues for financial reporting purposes	$ (248,703)
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(4,733,924)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 6,135,617
Uses/outflows of resources:	
Actual amounts "total charges to appropriations" from the budgetary comparison schedule	$ 6,238,690
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(218,325)
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 6,020,365

Required Supplementary Information
CITY OF FORTUNA
Budgetary Comparison Schedule - HOME Grants Special Revenue Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Fund Balance, July 1	$ 76,015	$ 76,015	$ 76,015	$ -
Resources (inflows):				
Interest	267	267	417	150
Miscellaneous - loan repayments	27,782	27,782	14,236	(13,546)
Amounts available for charges to appropriations	104,064	104,064	90,668	(13,396)
Charges to appropriations:				
Community development :				
Loans	-		-	(3,726)
Loan administration	-	-	1,536	(1,536)
Total charges to appropriations			1,536	(5,262)
Fund Balance, June 30	$ 104,064	$ 104,064	$ 89,132	$ (18,658)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources of inflows of resources:	
Actual amounts available for appropriations from budgetary data above:	$ 90,668
Differences-budget to GAAP:	
Beginning fund balances are financial resources for budgetary purposes, but are not considered as revenues for financial reporting purposes	(76,015)
Total revenues as reported in the statement of revenues, expenditures , and changes in fund balances	$ 14,653

Required Supplementary Information
CITY OF FORTUNA
Budgetary Comparison Schedule - City Housing Special Revenue Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Fund Balance, July 1	$ 90,267	$ 90,267	$ 90,267	$ -
Resources (inflows):				
Interest	500	500	228	(272)
Miscellaneous - loan repayments	-	-	-	-
Amounts available for charges to appropriations	90,767	90,767	90,495	(272)
Charges to appropriations:				
Community development :				
Loan administration	-	-	-	-
Total charges to appropriations			-	-
Fund Balance, June 30	$ 90,767	$ 90,767	$ 90,495	$ (272)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources of inflows of resources:	
Actual amounts available for appropriations from budgetary data above	$ 90,495
Differences-budget to GAAP:	
Beginning fund balances are financial resources for budgetary purposes, but are not considered as revenues for financial reporting purposes	(90,267)
Total revenues as reported in the statement of revenues, expenditures , and changes in fund balances	$ 228

CITY OF FORTUNA

Schedule of the City of Fortuna's Proportionate Share of the Net Pension Liability

California Public Employees Retirement System

(Last Ten Fiscal Years)

As of June 30, 2016

	Fiscal Year Ended	
	2015	2016
Measurement Date	June 30, 2014	June 30, 2015
City's proprotionate of the net pension liability	0.08663%	0.09676%
City's proportionate share of the net pension liability	$ 5,390,654	$ 6,641,499
City's covered payroll	$ 3,210,244	$ 3,278,533
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	167.92%	202.58%
Plan's fiduciary net position as a percentage of the total pension liability	79.82%	78.40%

Notes to the schedule:

Benefit Changes: There were no plan changes in fiscal 2016

Changes in Assumptions: In fiscal 2016, the Plan's discunt rate was changed from 7.5% to 7.65%

Last Ten Years: This schedule is intended to show information for 10 years. Fiscal 2015 was the first year of implementation, and additional years information will be presented as it becomes available.

CITY OF FORTUNA
Schedule of the City's Employer Contributions
California Public Employees Retirement System
(Last Ten Fiscal Years)
As of June 30, 2016

	June 30	
Contributions for the fiscal year ended	2015	2016
Contractually required contribution	$ 602,651	$ 723,714
Contributions in relation to the contractually required contribution	$ 602,651	$ 723,714
Contribution deficiency (excess)	$ -	$ -
City's covered employee payroll	$ 3,278,533	$ 3,381,331
Contributions as a percentage of covered employee payroll	18.38%	21.40%

Notes to the schedule:

Plan Valuation Date: June 30, 2014

Last Ten Years: This schedule is intended to show information for 10 years. Fiscal 2015 was the first year of implementation, and additional years information will be presented as it becomes available

OPTIONAL SUPPLEMENTARY INFORMATION
NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS

CITY OF FORTUNA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds											
	Integrated Waste	Storm Drain Maintenance	Drainage Facility	Transportation Fund SB325	Gas Tax 2105	Gas Tax 2107.5	Business Improvement	TEA & STIP	Housing Revolving Loan	Unrestricted Business Revolving Loan	RSTP, HSIP and HCAOG	CDBG Business
Assets												
Cash and investments	$ 137,115	$ 42,425	$ 479,165	$ 941,670	$ 532,709	$ 9,424	$ 232	$ 96,195	$ -	$ 418,721	$ 284,516	$ 654,730
Receivables:												
Accounts	16,072	4,329	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	15,487	-	-	-	-	-	-	-	1,303,438
Lease receivable	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	$ 153,187	$ 46,754	$ 479,165	$ 957,157	$ 532,709	$ 9,424	$ 232	$ 96,195	$ -	$ 418,721	$ 284,516	$ 1,958,168
Liabilities:												
Liabilities:												
Accounts payable	$ 210	$ 7,505	$ 33,268	$ 40,733	$ 5,776	$ -	$ 256	$ 155,885	$ -	$ 9	$ 79,429	$ 1,039
Accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	210	7,505	33,268	40,733	5,776	-	256	155,885	-	9	79,429	1,039
Deferred inflows of resources:												
Long-term notes receivable	-	-	-	15,487	-	-	-	-	-	-	-	1,303,438
Fund balances:												
Restricted for:												
Capital projects	-	-	-	-	-	-	-	-	-	-	-	-
CCC facility	-	-	-	-	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	(24)	-	-	418,712	-	653,691
Streets	152,977	39,249	445,897	900,937	526,933	9,424	-	(59,690)	-	-	205,087	-
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	152,977	39,249	445,897	900,937	526,933	9,424	(24)	(59,690)	-	418,712	205,087	653,691
Total liabilities, deferred items and fund balances	$ 153,187	$ 46,754	$ 479,165	$ 957,157	$ 532,709	$ 9,424	$ 232	$ 96,195	$ -	$ 418,721	$ 284,516	$ 1,958,168

CITY OF FORTUNA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds						Debt Service Funds		Capital Projects Funds			Totals
	CDBG Unrestricted	Household Waste	HOPS, Rodeo, & McClean, Small Parks	FEMA	Safe Routes	Parking In Lieu	Lease Payment and Reserve	City 2007 Bond Debt Service	2007 Bond Capital Projects City	City Capital Projects & DWR State Water	CCC Project	
Assets												
Cash and investments	$ 259,838	$ (22,816)	$ 13,163	$ (123,390)	$ (92,575)	$ 89	$ 767,077	$ 240,435	$ 708,956	$ 2,501,494	$ 5,609	$ 7,854,779
Receivables:												
Accounts	-	-	-	-	-	-	-	-	-	17,087	-	37,488
Intergovernmental	-	-	-	159,034	-	-	245,000	-	-	-	5,168	409,202
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	1,316,925
Lease receivable	-	-	-	-	-	-	441,889	-	-	-	-	441,889
Total assets	$ 259,838	$ (22,816)	$ 13,163	$ 35,644	$ (92,575)	$ 89	$ 1,453,966	$ 240,435	$ 708,956	$ 2,518,581	$ 10,774	$ 10,062,263
Liabilities:												
Liabilities:												
Accounts payable	$ -	$ -	$ -	$ -	$ 16,384	$ -	$ -	$ -	$ 9,028	$ 7,457	$ -	$ 356,979
Accrued liabilities	-	-	-	34,199	-	-	-	-	-	-	-	34,199
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	34,199	16,384	-	-	-	9,028	7,457	-	391,178
Deferred inflows of resources:												
Long-term notes receivable	-	-	-	-	-	-	441,889	-	-	-	-	1,760,614
Fund balances:												
Restricted for:												
Capital projects	-	-	-	-	-	89	-	-	699,928	2,511,124	-	3,211,141
CCC facility	-	-	-	-	-	-	-	-	-	-	10,774	10,774
Economic Development	259,838	-	13,163	-	-	-	-	-	-	-	-	1,345,380
Streets	-	(22,816)	-	1,445	(108,959)	-	-	-	-	-	-	2,090,484
Debt service	-	-	-	-	-	-	1,012,077	240,435	-	-	-	1,252,512
Total fund balances	259,838	(22,816)	13,163	1,445	(108,959)	89	1,012,077	240,435	699,928	2,511,124	10,774	7,910,291
Total liabilities, deferred inflows of resources and fund balances	$ 259,838	$ (22,816)	$ 13,163	$ 35,644	$ (92,575)	$ 89	$ 1,453,966	$ 240,435	$ 708,956	$ 2,518,581	$ 10,774	$ 10,062,283

CITY OF FORTUNA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmenetal Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds											
	Integrated Waste	Storm Drain Maintenance	Drainage Facility	Transportation Fund SB325	Gas Tax 2105	Gas Tax 2107.5	Business Improvement	TEA & STIP	Housing Revolving Loan	Unrestricted Business Revolving Loan	RSTP, HSIP, and HCAOG	CDBG Business
Revenues:												
Intergovernmental	$ 7,360	$ -	$ -	$ 142,229	$ 293,073	$ 3,000	$ -	$ -	$ -	$ -	$ 71,747	$ -
Property taxes	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	19,700	43,416	17,343	-	-	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	54,947	-	-	-	-	-
Interest	613	274	2,628	4,827	2,499	58	-	836	-	1,960	1,027	2,884
Miscellaneous	22,870	-	-	530	-	-	-	-	-	23,247	-	107,749
Total revenues	50,543	43,690	19,971	147,586	295,572	3,058	54,947	836	-	25,207	72,774	110,633
Expenditures:												
Current:												
Highways and streets	-	79,358	-	-	236,347	6,621	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	54,979	-	-	20,008	-	12,702
Housing	-	-	-	-	-	-	-	-	-	-	-	-
Sanitation and recycling	23,888	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	353,179	327,149	166,283	-	-	250,626	-	-	99,826	-
Debt service:												
Principal	-	-	-	-	16,219	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	23,888	79,358	353,179	327,149	417,849	6,621	54,979	250,626	-	20,008	99,826	12,702
Excess (deficiency) of revenues over expenditures	26,655	(35,668)	(333,208)	(179,563)	(122,277)	(3,563)	(32)	(249,790)	-	5,199	(27,052)	97,931
Other Financing Sources (Uses)												
Transfers in	-	-	66,340	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	(184,440)	-	-	184,440
Capital lease financing	-	-	-	-	121,841	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	66,340	-	121,841	-	-	-	(184,440)	-	-	184,440
Net change in fund balances	26,655	(35,668)	(266,868)	(179,563)	(636)	(3,563)	(32)	(249,790)	(184,440)	5,199	(27,052)	282,371
Fund balances, July 1	126,322	74,917	712,765	1,080,500	527,569	12,987	8	190,100	184,440	413,513	232,139	371,320
Fund balances, June 30	$ 152,977	$ 39,249	$ 445,897	$ 900,937	$ 526,933	$ 9,424	$ (24)	$ (59,690)	$ -	$ 418,712	$ 205,087	$ 653,691

CITY OF FORTUNA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds						Debt Service Funds		Capital Projects Funds			Totals
	CDBG Unrestricted	Household Waste	HOPS, Rodeo & McClean, Small Parks	FEMA	Safe Routes	Parking In Lieu	Lease Payment and Reserve	City 2007 Bond Debt Service	2007 Bond Capital Projects City	Capital Projects & DWR State Water	GCC Project	
Revenues:												
Intergovernmental	$ -	$ -	$ -	$ 547,175	$ -	$ -	$ -	$ -	$ -	$ 223,220	$ 6,996	$ 1,294,800
Property taxes	-	-		-	-		-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-	-	-	80,459
Special assessments	-	-	-	-	-	-	-	-	-	-	-	54,947
Interest	1,220	-	-	-	-	-	4,297	2,336	-	-	-	25,459
Miscellaneous	-	3,330	6,800	-	-	-	245,000	-	-	4,485	-	414,011
Total revenues	1,220	3,330	6,800	547,175	-	-	249,297	2,336	-	227,705	6,996	1,869,676
Expenditures:												
Current:												
Highways and streets	-	-	-	-	-	-	-	-	-		-	322,326
Economic development	-	-	6,351	-	-	-	-	-	-	-	5,168	99,208
Housing	-	-	-	-	-	-	-	-	-	-	-	-
Sanitation and recycling	-	19,207	-	-	-	-	-	-	-	-	-	43,095
Capital outlay	-	-	-	685,848	107,424	-	-	-	65,270	225,978	-	2,260,583
Debt service:												
Principal	-	-	-	-	-		-	245,000	-	-	-	261,219
Interest	-	-	-	-	-	-	-	124,229	-	-	-	124,229
Total expenditures	-	19,207	6,351	685,848	107,424	-	-	369,229	65,270	225,978	5,168	3,130,690
Excess (deficiency)of revenues over expenditures	1,220	(15,877)	449	(138,673)	(107,424)	-	249,297	(366,893)	(65,270)	1,727	1,828	(1,260,984)
Other Financing Sources (Uses)												
Transfers in	-	-	-	-	-	-	-	369,229	-	-	-	435,569
Transfers out	-	-	-	-	-	-	(140,307)	-	-	(66,340)	-	(206,647)
Capital lease financing	-	-	-	-	-	-	-	-	-	-	-	121,641
Total other financing sources (uses)	-	-	-	-	-	-	(140,307)	369,229	-	(66,340)	-	350,563
Net change in fund balances before extraordinary item	1,220	(15,877)	449	(138,673)	(107,424)	-	108,990	2,336	(65,270)	(64,613)	1,828	(910,421)
Fund balances, July 1	258,618	(6,939)	12,714	140,118	(1,535)	89	903,087	238,099	765,198	2,575,737	8,946	8,820,712
Fund balances, June 30	$ 259,838	$ (22,816)	$ 13,163	$ 1,445	$ (108,959)	$ 89	$1,012,077	$ 240,435	$ 699,928	$ 2,511,124	$ 10,774	$ 7,910,291

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated as of November 1, 2017, is executed and delivered by the City of Fortuna (the "City"), as dissemination agent (the "Disclosure Dissemination Agent"), for the benefit of the Beneficial Owner (hereinafter defined) of the $5,405,000 City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the "Bonds") in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The City and the Disclosure Dissemination Agent covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Certificate.

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Certificate.

"Annual Filing Date" means the date, set forth in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

"Audited Financial Statements" means the financial statements (if any) of the City for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Certificate.

"Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bonds" means the $5,405,000 City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) issued pursuant to the Indenture.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual

Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"City" means the City of Fortuna, California.

"Disclosure Representative" means the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Disclosure Dissemination Agent" means the City, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the City.

"Failure to File Event" means the City's failure to file an Annual Report on or before the Annual Filing Date.

"Force Majeure Event" means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Certificate.

"Indenture" means the Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee thereunder.

"Information" means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

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

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Certificate.

“Obligated Person” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the City constitutes the Obligated Person.

“Official Statement” means the final official statement executed by the City in connection with the issuance of the Bonds.

“Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” means the State of California.

“Trustee” means U.S. Bank National Association, as trustee under the Indenture, or any successor Trustee designated in writing by the City.

SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The City shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent by not later than the March 31 following the end of the City’s fiscal year (which is currently June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2017. Such date and each anniversary thereof is the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide such Annual Report to the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Certificate.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the City of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the City will not be able to file the Annual Report within the time required under this Disclosure Certificate, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the City irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements of the City are prepared but not available prior to the Annual Filing Date, the City shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the City pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Certificate:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Bond calls, if material;"

9. “Defeasances;”

10. “Release, substitution, or sale of property securing repayment of the securities, if material;”

11. “Rating changes;”

12. “Tender offers;”

13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”

14. “Merger, consolidation, or acquisition of the obligated person, if material;” and

15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Certificate, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Certificate with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Certificate;

(f) The City may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Certificate will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the information in the following tables as they appear in Official Statement:

1. Information in the form of Table 7 of the Official Statement concerning operating revenues and expenses of the Water System for the then-preceding fiscal year, including Net Revenue of the Water System and debt service coverage.

2. The outstanding principal amount of the Bonds and any Parity Debt as of June 30 of the most recently completed fiscal year.

3. A description of any Parity Debt issued during the most recently completed fiscal year.

4. A description of any changes in Water System rates and charges adopted by the City Council during the most recently completed fiscal year.

5. Information for the most recently-completed fiscal year in the form of Table 5 of the Official Statement (Ten Largest Water Customers).

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–

TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person (Note to subsection (a)(12) of this Section 4: For the purposes of the event described in this subsection (a)(12) of Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person);

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the City or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event in a timely manner not later than the tenth business day after the occurrence of the Notice Event, if the City determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the City as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the City shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that the failure of the Disclosure Dissemination Agent to so advise the City shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Certificate. The City acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Certificate.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, in addition to that required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the City and the Disclosure Dissemination Agent under this Disclosure Certificate shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the City is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The City has itself as the initial Disclosure Dissemination Agent under this Disclosure Certificate. The City may, upon thirty days written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the City or the Disclosure Dissemination Agent, the City agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

SECTION 10. Remedies in Event of Default. In the event of a failure of the City or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Certificate, the Beneficial Owners' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Certificate. Any failure by a party to perform in accordance with this Disclosure Certificate shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) Article VII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Disclosure Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the City agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or 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 Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Certificate. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Beneficial Owners of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the City has complied with this Disclosure Certificate. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

The obligations of the City under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the City.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Certificate shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and the Disclosure Dissemination Agent may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the City and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Beneficial Owners of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the City nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the City. No such amendment shall become effective until counsel to the City of nationally recognized standing in the field of law relating to municipal bonds determines in writing that such amendments are necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission, or if the City shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the City have caused this Disclosure Certificate to be executed, on the date first written above, by their respective officers duly authorized.

CITY OF FORTUNA, CALIFORNIA
As Obligated Person

By: ______________________________
Finance Director

CITY OF FORTUNA, CALIFORNIA,
As Disclosure Dissemination Agent

By: ______________________________
Authorized Signatory

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Fortuna
Obligated Person:	City of Fortuna
Name of Issue:	$5,405,000 City of Fortuna Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project)
Date of Issuance:	November __, 2017

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the City and the Disclosure Dissemination Agent named therein. The City has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by __________.

Dated:____________

_____________________,
as Disclosure Dissemination Agent
on behalf of the City

APPENDIX D

GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

The following information, unless otherwise cited, was directly transcribed from material provided by the City of Fortuna, the County of Humboldt, and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City and surrounding area. The information set forth in this Appendix "D" has not been researched for accuracy or veracity. The Bonds are limited obligations of the City and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Revenues. The full faith and credit of City is not pledged for the payment of the interest on or principal of the Bonds and no tax or other source of funds, other than the Net Revenues, is pledged to pay the interest on or principal of the Bonds. The payment of principal of or interest on the Bonds does not constitute a debt, liability or obligation of the City 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. See "SECURITY FOR THE BONDS" in the forepart of this Official Statement.

General

The City. The City of Fortuna (the "City") encompasses approximately five square miles and is located in Humboldt County (the "County"), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. Fortuna is surrounded by national, state and county redwood parks, and is the gateway to the redwood forests of Northern California.

The County. The County is the largest and most populous of the north coast counties, encompassing 2.3 million acres, 80 percent of which is forest lands, protected redwoods and recreation areas. The County has approximately 110 miles of coastline—more than any other county in the State. The County was created from the western portion of Trinity County in 1853. The County's name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

Topography and Climate

The County is situated along the Pacific Coast in Northern California's rugged coast and mountain ranges, offering a great variety of elevations, terrain and microclimates. The climate in the coastal zone of the County generally experiences very wet, cool winters and dry, mild foggy summers. The inland areas of the County also experience wet, cool winters, with snowfall being common at elevations over 3,000 feet throughout the winter months. Summer displays the sharpest difference between the coastal and inland climates. Inland regions of the County experience highs of 80-99° F depending on the elevation and distance from the ocean. The average annual rainfall is 36 inches. Approximately 90% of average annual rainfall occurs in the six-month period extending from November to April.

Population

The following table lists population figures for the County and major cities in the County (including the City) as of January 1, for the last five completed calendar years.

HUMBOLDT COUNTY
Population Estimates – Calendar Years 2012 through 2016

	2012	2013	2014	2015	2016
Arcata	17,918	18,002	17,983	18,085	18,169
Blue Lake	1,270	1,279	1,278	1,278	1,287
Eureka	27,060	26,894	26,874	26,811	26,765
Ferndale	1,396	1,426	1,429	1,435	1,434
Fortuna	11,870	11,787	11,840	11,882	11,848
Rio Dell	3,384	3,409	3,412	3,414	3,416
Trinidad	368	370	368	368	367
Balance of County	72,023	71,831	71,759	71,779	71,830
County Total	135,289	134,998	134,943	135,052	135,116

Source: State Department of Finance estimates

Major Employers

The following tables list the major employers within the County as of January 2017, listed alphabetically.

HUMBOLDT COUNTY
Major Employers
(Listed Alphabetically)

Employer Name	Location	Industry
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino & Hotel	Blue Lake	Casinos
County-Humboldt-Health & Human	Eureka	Government Offices-County
Eureka City Clerk	Eureka	Government Offices-City, Village & Twp
Eureka High School	Eureka	Schools
Green Diamond Resource Co	Trinidad	Foresters-Consulting
Green Diamond Resource Co	Korbel	Foresters-Consulting
Humboldt Cnty Office-Education	Eureka	Schools
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Mental Health	Eureka	Hospitals
Humboldt County Sheriff Dept	Eureka	Government Offices-County
Humboldt County Social Svc	Eureka	Government Offices-County
Mad River Community Hospital	Arcata	Hospitals
Pacific Choice Seafood Inc	Eureka	Prepared Fish & Seafood Products (mfrs)
Redwood Memorial Hospital	Fortuna	Hospitals
Schmidbauer Lumber Inc	Eureka	Logging (mfrs)
St Joseph Home Health	Eureka	Health Services
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greenhouses
Sunset Restaurant-Cher Ae Csn	Trinidad	Casinos
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
United Indian Health Svc	Arcata	Clinics
US Post Office	Eureka	Post Offices
Winco Foods	Eureka	Grocers-Retail

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2017 2nd Edition.

Commercial Activity

Summaries of historic taxable sales within the City and the County during 2011 through 2015 are shown in the following tables. Figures are not available for 2016.

Total taxable sales during the calendar year 2015 in the City were reported to be $143,263,000, a 5.3% increase over the total taxable sales of $136,011,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016 or beyond.

CITY OF FORTUNA
Taxable Transactions(1)
(dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	259	$102,994	377	$130,380
2012	263	102,297	375	130,714
2013	274	102,793	378	134,201
2014	291	106,008	397	136,011
2015	(2)	112,518	(2)	143,263

(1) Detail may not compute to total due to rounding.
(2) Information not yet available.
Source: "Taxable Sales in California," California State Board of Equalization.

Total taxable sales during the calendar year 2015 in the County were reported to be $1,985,208,747, a 4.5% increase over the total taxable sales of $1,899,619,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2016 or beyond.

COUNTY OF HUMBOLDT
Taxable Transactions(1)
(dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	3,172	$1,224,525	4,491	$1,698,178
2012	3,208	1,298,773	4,499	1,768,170
2013	3,343	1,370,743	4,600	1,869,677
2014	3,440	1,412,669	4,706	1,899,619
2015	3,213	1,474,165	5,105	1,985,209

(1) Detail may not compute to total due to rounding.
Source: "Taxable Sales in California," California State Board of Equalization.

The valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2015 in the County were reported to be $1,985,209,000, a 4.5% increase from the total taxable sales reported during the calendar year 2014 of $1,899,619,000. Annual figures are not yet available for 2016 or beyond.

COUNTY OF HUMBOLDT
Taxable Retail Sales[1]
Valuation of Taxable Transactions
(dollars in thousands)

	2011	2012	2013	2014	2015
Retail and Food Services					
Motor Vehicle and Parts Dealers	$170,895	$193,277	$203,517	$218,176	$239,795
Home Furnish and Appliance Stores	21,435	21,003	22,121	23,563	25,848
Electronics and Appliance Stores	23,182	23,003	24,570	26,995	29,424
Bldg. Mat'l & Garden Equip/Supplies	177,004	186,282	197,895	203,737	242,461
Food and Beverage Stores	120,568	124,300	128,236	132,758	142,322
Health and Personal Care Stores	40,765	41,161	43,125	44,643	46,214
Gasoline Stations	176,188	188,740	191,965	188,154	165,575
Clothing and Accessories Stores	46,445	49,922	54,422	55,823	59,301
Sporting Goods, Book, and Music Stores	43,579	45,349	48,917	47,635	50,036
General Merchandise Stores	188,516	200,740	204,042	204,609	181,305
Miscellaneous Store Retailers	60,098	63,765	64,034	71,659	80,191
Non-Store Retailers	14,641	13,294	23,470	24,887	26,389
Food Services and Drinking Places	141,211	147,867	164,429	170,030	185,305
Total Retail and Food Services	$1,224,525	$1,298,773	$1,370,743	$1,412,669	$1,474,166
All Other Outlets	473,653	469,397	498,934	486,950	511,043
Total All Outlets	$1,698,178	$1,768,170	$1,869,677	$1,899,619	$1,985,209
Permits – All Outlets	4,491	4,499	4,600	4,706	5,105

(1) Detail may not compute to total due to rounding.
Source: "Taxable Sales in California," California State Board of Equalization.

Employment and Industry

The below table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2011 through 2016 in the City, the County and the State.

CITY AND COUNTY AND STATE
Civilian Labor Force, Employment and Unemployment Rate[1]
(Calendar Years 2011 through 2016)

	City			County		State
Year	Labor Force	Employed	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate
2011	4,600	4,200	8.7%	60,500	11.4%	11.8%
2012	4,600	4,200	8.7%	60,100	10.5%	10.4%
2013	4,500	4,100	7.8%	58,400	8.8%	8.9%
2014	4,500	4,200	6.8%	62,700	6.8%	7.5%
2015	4,520	4,260	5.6%	62,630	5.6%	6.2%
2016	4,520	4,300	4.9%	62,670	4.9%	5.4%

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
Source: Labor Division of the California State Employment Development Department.

The distribution of employment in the Humboldt County is presented in the following table for the calendar years 2012 through 2016. These figures are countywide statistics and may not necessarily accurately reflect employment trends in the City.

COUNTY OF HUMBOLDT
Industry Employment & Labor Force[1]
(Calendar Years 2012 through 2016)

Type of Employment	2012	2013	2014	2015	2016
Agriculture	870	810	820	870	880
Mining, Logging, and Construction	2,060	1,960	1,940	2,070	2,060
Manufacturing	2,000	2,070	2,070	2,030	2,080
Wholesale Trade	1,030	1,000	980	920	980
Retail Trade	6,840	6,920	7,010	7,230	7,440
Transportation, Warehousing, Utilities	1,290	1,280	1,270	1,230	1,170
Information	520	500	500	500	460
Financial Activities	1,600	1,600	1,590	1,630	1,620
Professional and Business Services	2,650	2,630	2,580	2,700	2,780
Educational and Health Services	7,440	7,770	8,000	8,110	8,330
Leisure and Hospitality	5,130	5,130	5,280	5,570	5,860
Other Services	1,840	1,920	1,890	1,880	1,800
Government	13,530	13,470	13,730	13,950	14,220
Total, All Industries[2]	46,790	47,070	47,650	48,630	49,710

(1) Data is based on annual averages, unless otherwise specified.
(2) Totals may not add due to rounding.
Source: Labor Division of the California State Employment Development Department.

Transportation

The Humboldt Transit Authority (HTA) operates two fixed route transit bus systems:

- The Redwood Transit System provides intercity service to and within communities between Trinidad and Garberville, including Manila, King Salmon, Field's Landing, Loleta, Fernbridge and Fortuna. HTA also offers service between McKinleyville or Arcata and Willow Creek and an express bus between Arcata and College of the Redwoods when classes are in session.

- The Eureka Transit Service operates in the City of Eureka, and provides local service on four scheduled routes in Eureka and its adjacent unincorporated communities. Connections can be made to the Redwood Transit System at several places in Eureka.

Eureka. Some other local public transit systems are: Arcata and Mad River Transit System, Blue Lake Rancheria Transit Authority and Del Norte County's Redwood Coast Transit.

Amtrak Thruway bus has stops in many cities in the region, including Eureka, Arcata, and Fortuna.

The Arcata-Eureka Airport is located in the City of McKinleyville (northern part of the County). Commercial flights are available. Other (general aviation) airports are located at Dinsmore, Garberville, Kneeland, Murray Field (Eureka), Samoa Field and Rohnerville (Fortuna).

The Port of Humboldt Bay (sometimes also referred to as the Port of Eureka) is a deep-water port with harbor facilities including large industrial docks at Fairhaven, Samoa, and Fields Landing designed to serve cargo and other vessels, while several marinas also located in Greater Eureka have the capacity to serve hundreds of small to mid-size boats and pleasure craft.

Education

The City is served by the Fortuna Elementary School District and the Fortuna Union High School District. The Elementary District currently operates four schools, consisting of three elementary schools and one middle school. The High School District operates two high schools and one academy. The City is also served by the College of the Redwoods which has its main campus located approximately 9 miles from the City, but also offers classes at campuses in down-town Eureka, Del Norte, and Klamath-Trinity. California State University, Humboldt is located approximately 27 miles north of the City.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

__________, 2017

City Council
City of Fortuna
621 11th Street
Fortuna, CA 95540

OPINION: City of Fortuna
$5,405,000 Series 2017 Water Revenue Refunding Bonds
(Water Enterprise Project)

Members of the Council:

We have acted as bond counsel to the City of Fortuna (the "City") in connection with the issuance by the City of the captioned bonds (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), the Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"), and a resolution (the "Resolution") of the Council of the City adopted August 30, 2017. Under the Indenture, the City has pledged certain revenues (the "Revenues") for the payment of principal, premium (if any), and interest on the Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the City contained in the Resolution and in the Indenture, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is a duly created and validly existing municipal corporation and charter city duly organized and existing under the laws of the State of California with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the City, and constitutes a valid and binding obligation of the City, enforceable against the City.

3. The Indenture creates a valid lien on the Net Revenues and other funds pledged by the Indenture for the security of the Bonds, on parity with any future Parity Debt (as defined in the Indenture) to be issued in compliance with the Indenture.

4. The Bonds have been duly authorized and executed by the City, and are valid and binding limited obligations of the City, payable solely from the Net Revenues and other funds provided therefor in the Indenture.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing

Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its

usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or 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, Agent, or Issuer, 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 Issuer or 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.

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

CITY OF FORTUNA SERIES 2017 WATER REVENUE REFUNDING BONDS (WATER ENTERPRISE PROJECT)