PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 20, 2012

NEW ISSUE—BOOK-ENTRY ONLY
BANK QUALIFIED

RATING:
S&P: "AA"
See "RATING" herein.

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, subject to compliance by the City with certain covenants, interest with respect to the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Special Counsel, the Installment Sale Agreement is a "qualified tax-exempt obligation" under section 265(b)(3) of the Internal Revenue Code of 1986. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

$5,700,000*
CERTIFICATES OF PARTICIPATION
(2012 Sewer System Financing Project)
Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the CITY OF MILL VALLEY (Marin County, California) As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Mill Valley Public Financing Authority

Dated: Date of Delivery **Due: July 1, as shown on the Inside Cover**

The captioned certificates of participation (the "Certificates") are being executed and delivered to provide funds to (a) finance the acquisition and construction of additions, betterments, extensions and improvements to the City of Mill Valley's (the "City") municipal sewer system (the "Sewer System"), and (b) pay costs of the financing, all as more fully described herein. See "THE PROJECT" herein. The Certificates will evidence the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "Installment Payments") to be made by the City as the purchase price for certain property pursuant to an installment sale agreement, dated as of September 1, 2012 (the "Installment Sale Agreement"), with the Mill Valley Public Financing Authority (the "Authority"). The Authority will assign its right to receive Installment Payments from the City under the Installment Sale Agreement and its right to enforce payment of the Installment Payments when due or otherwise protect its interest in the event of a default by the City thereunder to The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered pursuant to a trust agreement, by and among the Authority, the City and the Trustee (the "Trust Agreement"). The Certificates will be executed and delivered in book-entry form only, and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each January 1 and July 1, commencing January 1, 2013. The Certificates may be executed and delivered in denominations of $5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. (See "THE CERTIFICATES—Book-Entry-Only System" herein).

The Certificates are subject to redemption, as described herein.

The City is legally required under the Installment Sale Agreement to make Installment Payments from a first and prior lien on the Net Revenues of the Sewer System. "Net Revenues" are the gross revenues of the Sewer System less operating and maintenance expenses of the Sewer System. Installment Payments are scheduled in an amount sufficient to pay, when due, the annual principal and interest with respect to the Certificates. The City has covenanted under the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.25 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year, as required by the Installment Sale Agreement. The City's obligation to pay the Installment Payments is on a parity with its obligation under a financing agreement, dated as of September 1, 2012, by and between the Sewerage Agency of Southern Marin ("SASM") and the City, to pay the City's allocable share of debt service payments securing SASM's Revenue Bonds, Series 2012 (described herein), together with any additional parity obligations incurred by the City in the future.

THE OBLIGATION OF THE CITY TO MAKE THE INSTALLMENT PAYMENTS DESCRIBED HEREIN IS A LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES OF THE SEWER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE CITY, MARIN COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

SEE THE INSIDE COVER

Bids for the purchase of the Certificates will be received by the City on Thursday, August 30, 2012, *electronically only*, through the I-Deal LLC BiDCOMP/PARITY© system, until 10:00 A.M., Pacific Daylight time. The Certificates will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated August 20, 2012.

The following firm, serving as financial advisor to the City, has structured this issue:

WULFF, HANSEN & CO.
ESTABLISHED 1931
INVESTMENT BANKERS

The cover page contains certain information for general reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriter subject to approval by Quint & Thimmig LLP, San Francisco, California, as Special Counsel. Certain matters will be passed upon for the City by Richards, Watson & Gershon, San Francisco, California City Attorney. Certain matters will be passed upon for the City by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates will be available for delivery to DTC in New York, New York, on or about September 12, 2012.

Dated: August __, 2012

*Preliminary, subject to change.

$5,700,000*
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(2012 Sewer System Financing Project)
Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the
CITY OF MILL VALLEY
(Marin County, California)
As the Purchase Price for Certain Property
Pursuant to an Installment Sale Agreement with the
Mill Valley Public Financing Authority

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

CUSIP† Prefix: _____

Maturity July 1	Principal Amount	Interest Rate	Yield	CUSIP† Suffix
2013	$135,000			
2014	105,000			
2015	110,000			
2016	115,000			
2017	115,000			
2018	120,000			
2019	125,000			
2020	135,000			
2021	140,000			
2022	145,000			
2023	150,000			
2024	155,000			
2025	160,000			
2026	170,000			
2027	175,000			
2028	185,000			
2029	190,000			
2030	200,000			
2031	205,000			
2032	215,000			
2033	220,000			
2034	230,000			
2035	240,000			
2036	250,000			
2037	260,000			
2038	270,000			
2039	280,000			
2040	290,000			
2041	300,000			
2042	310,000			

*Preliminary, subject to change.

CITY OF MILL VALLEY, CALIFORNIA

26 Corte Madera Avenue
Mill Valley, CA 94941
(415) 388-4033
(415) 381-1736 (Fax)

http://www.cityofmillvalley.org

CITY COUNCIL

Garry Lion, *Mayor*
Andrew Berman, *Vice Mayor*
Shawn E. Marshall, *Council Member*
Stephanie Moulton-Peters, *Council Member*
Kenneth R. Wachtel, *Council Member*

CITY OFFICIALS

James C. McCann, *City Manager*
Eric R. Erickson, *Finance and Human Resources Director*
Kelsey Rogers, *City Clerk/Administrative Analyst*
Jill Barnes, Public Works Director
Richards, Watson & Gershon, *City Attorney*

PROFESSIONAL SERVICES

Financial Advisor
Wulff, Hansen & Co.
San Francisco, California

Special Counsel and Disclosure Counsel
Quint & Thimmig LLP
San Francisco, California

Trustee
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. 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 facts.

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

The information set forth herein has been obtained from the City and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates 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. All summaries of the Certificates, the Installment Sale Agreement, the Trust Agreement, the Assignment Agreement, or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Finance and Human Resources Director for further information. See "INTRODUCTION—Other Information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES 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 CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The execution, sale and delivery of the Certificates has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is ***not*** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates.

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CITY OF MILL VALLEY
(Marin County, California)
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Mill Valley Public Financing Authority

INTRODUCTION

This introduction does not purport to be complete and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the captioned Certificates. Potential investors are encouraged to read this entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement and in APPENDIX E—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.

General

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of Certificates of Participation (2012 Sewer System Financing Project) (the "Certificates"), in aggregate principal amount of $5,700,000,* representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "Installment Payments") to be made by the City of Mill Valley, California (the "City"), as the purchase price for certain additions, betterments, extensions and improvements (the "Project") to the City's municipal sewer system (the "Sewer System"), pursuant to an Installment Sale Agreement, dated as of September 1, 2012 (the "Installment Sale Agreement"), by and between the City and the Mill Valley Public Financing Authority (the "Authority"). The Authority will sell the Project to the City pursuant to the Installment Sale Agreement. The Certificates are being executed and delivered to (a) finance the Project, and (b) pay expenses of the transaction.

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2012 (the "Trust Agreement"), by and among the City, the Authority and The Bank of New York Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"), and constitute direct, undivided fractional interests of the Owners in the Installment Payments. Pursuant to an Assignment Agreement, dated as of September 1, 2012 between the Authority and the Trustee (the "Assignment Agreement") the Authority will assign to the Trustee, for the benefit of the Owners, its rights under the Installment Sale Agreement, including (i) its right to receive Installment Payments, and (ii) its right to enforce amounts payable upon default.

Source of Payment for the Certificates

In general, the City is required to pay to the Trustee, from a first and prior lien on the Net Revenues of the Sewer System, Installment Payments which are designed to be sufficient in

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* Preliminary, subject to change.

both time and amount to pay, when due, the principal and interest with respect to the Certificates.

"*Gross Revenues*" means all gross income and revenue received by the City from the ownership and operation of the Sewer System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Sewer System, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is not limited by or pursuant to the law to the Sewer System, (c) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Sewer System as permitted in the Installment Sale Agreement, and (d) all investment earnings credited by the Trustee under the Trust Agreement to the Installment Payment Fund; *provided, however*, that the term "Gross Revenues" shall not include customers' deposits or any other deposits subject to refund until such deposits have become the property of the City.

"*Operation and Maintenance Expenses*" means all expenses and costs of management, operation, maintenance and repair of the Sewer System, including operating charges payable to the Sewerage Agency of Southern Marin ("SASM") for treatment of wastewater transported to SASM, but excluding (i) debt service or other similar payments on Parity Debt or other obligations, a (ii) depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature; (iii) payments made to SASM which are characterized as "capital costs;" and (iv) any expense classified as discretionary by the City to the operation of the Sewer System.

"*Net Revenues*" means Gross Revenues less Operation and Maintenance Expenses.

The City has covenanted in the Installment Sale Agreement to prescribe, revise and collect such charges from the services and facilities of the Sewer System which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.25 times the aggregate annual payment requirements with respect to the Installment Sale Agreement and any parity obligations in such Fiscal Year.

In August 2012, the City entered into a financing agreement (the "SASM Financing Agreement"), by and between the SASM and the City, to pay the City's allocable share (50.1%) of the debt service payments securing SASM's Revenue Bonds, Series 2012 (the "SASM Bonds"). Such payment obligation for the SASM Bonds (the "SASM Payments") is approximately $120,000 per year, increasing to approximately $130,000 per year, through 2042. The City's obligation to make the Installment Payments will be on a parity with the City's obligation to make the SASM Payments under the SASM Financing Agreement.

THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES AND DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Sewer System

The Sewer System is a collection system for the City's sanitary sewers and storm drains. The Sewer System is comprised of approximately 69 miles of sewer mains, collector mains and trunk lines (large pipelines), manholes, valves, and pump stations used to move wastewater from a home or business to the treatment plant. The City does not operate and the Sewer System does not include a treatment facility. Sewage is conveyed to SASM for treatment and disposal. The Sewer System currently serves 6,900 customer accounts in the City. See "THE SEWER SYSTEM."

The City

The City is located in Marin County (the "County"), approximately 11 miles north of the Golden Gate Bridge and San Francisco. The City limits encompass 4.72 square miles. As of January 1, 2011, the population of the City was approximately 14,064. See "THE CITY" and APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, subject to compliance by the City with certain covenants, interest with respect to the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Special Counsel, the Installment Sale Agreement is a "qualified tax-exempt obligation" under section 265(b)(3) of the Internal Revenue Code of 1986. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

Continuing Disclosure

The City will covenant in a Continuing Disclosure Certificate to prepare and deliver an annual report to the Municipal Securities Rulemaking Board (the "MSRB") through the MSRB's Electronic Municipal Market Access system. See "CONTINUING DISCLOSURE" and APPENDIX G—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Summaries of Documents

This Official Statement contains descriptions of the Certificates, the Trust Agreement, the Installment Sale Agreement, the Assignment Agreement and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors' rights generally. Copies of the various documents described herein are available for inspection during business hours at the corporate trust office of the Trustee at 700 South Flower Street, Suite 500, Los Angeles, CA 90017.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled "PROJECT," "THE SEWER SYSTEM," "RISK FACTORS RELATING TO THE

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

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, the information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof.

Unless otherwise expressly noted, all references to internet websites in this Official Statement, including without limitation, the City's website, are shown for reference and convenience only and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the City and the City makes no representation regarding the accuracy or completeness of the information therein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of Certificates are anticipated to be applied as follows:

SOURCES:	
Par Amount of Certificates	
Less: Underwriter's Discount	
Plus: Original Issue Premium	
Total Sources of Funds	
USES:	
Deposit to Project Fund [1]	
Deposit to Delivery Costs Fund [2]	
Total Uses of Funds	

(1) Amounts deposited in the Project Fund will be applied to the acquisition and construction of the Project. See "THE PROJECT" herein.

(2) Delivery Costs include fees and expenses of the financial advisor, special counsel, disclosure counsel and the Trustee, printing expenses, rating fees and other costs.

THE PROJECT

Proceeds of the Certificates will be used to (a) finance the Project and (b) pay delivery costs incurred in connection with the execution, delivery and sale of the Certificates. The Project is expect to consist of sewer main replacements throughout the City.

DEBT SERVICE REQUIREMENTS

The following table shows the scheduled annual debt service for the Certificates (assuming no redemptions other than sinking fund redemptions) is presented below:

Year Ending July 1	Principal*	Interest	Total
2013	$ 135,000		
2014	105,000		
2015	110,000		
2016	115,000		
2017	115,000		
2018	120,000		
2019	125,000		
2020	135,000		
2021	140,000		
2022	145,000		
2023	150,000		
2024	155,000		
2025	160,000		
2026	170,000		
2027	175,000		
2028	185,000		
2029	190,000		
2030	200,000		
2031	205,000		
2032	215,000		
2033	220,000		
2034	230,000		
2035	240,000		
2036	250,000		
2037	260,000		
2038	270,000		
2039	280,000		
2040	290,000		
2041	300,000		
2042	310,000		
TOTAL	$5,700,000		

*Preliminary, subject to change.

General

The Certificates will be executed and delivered in the aggregate principal amount and will mature on the dates and interest with respect thereto will be payable at the rates per annum as set forth on the cover of this Official Statement. The Certificates will be delivered in the form of fully registered Certificates without coupons in the denomination of $5,000 or any integral multiple thereof. Interest with respect to the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on January 1 and July 1 of each year, commencing January 1, 2013 (each an "Interest Payment Date"), until maturity or earlier redemption thereof. The Certificates will be initially executed, delivered and registered in the name of "Cede & Co." as nominee of DTC and will be evidenced by one Certificate maturing on each of the maturity dates in a denomination corresponding to the total principal therein designated to mature on such date. See "THE CERTIFICATES—Book-Entry Only System."

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is executed after a Regular Record Date (i.e., the close of business on the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a Business Day) and before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (iii) it is executed on or before December 15, 2012, in which event interest with respect thereto will be payable from its dated date; *provided, however*, that if, as of the date of execution of any Certificate, interest is in default with respect to any Outstanding Certificates, interest represented by such Certificate shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Certificates. Payment of defaulted interest shall be paid by check mailed to the Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners not less than ten (10) days prior to such special record date.

Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request shall remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

Redemption

Optional Redemption. The Certificates maturing on or before July 1, 2021, are not subject to optional redemption prior to maturity. The Certificates maturing on and after July 1, 2022, are subject to optional redemption in whole or in part on any date in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, on or after July 1, 2021, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest, without premium, to the date fixed for redemption, from the proceeds of the optional prepayment of Installment Payments made by the City pursuant to the Installment Sale Agreement.

Extraordinary Redemption from Net Proceeds of Insurance, Condemnation or Eminent Domain Award. The Certificates are subject to extraordinary redemption in whole on any date or in part on any Interest Payment Date from the Net Proceeds of an insurance, condemnation or eminent domain award, to the extent credited towards the prepayment of the Installment Sale Agreement Payments by the City pursuant to the Installment Sale Agreement, in such order of maturity as shall be designated by the City (or, if the City shall fail to so designate the order of redemption, in *pro rata* among maturities) and by lot within a maturity, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Selection of Certificates for Redemption. Whenever provision is made in the Trust Agreement for the redemption of Certificates and less than all of the Outstanding Certificates are to be redeemed, the Trustee will select Certificates for redemption from the Outstanding Certificates not previously called for redemption in such order of maturity as will be designated by the City (and, in lieu of such designation, *pro rata* among maturities) and by lot within a maturity. The Trustee will select Certificates for redemption within a maturity by lot in any manner which the Trustee, in its sole discretion, deems appropriate. For purposes of such selection, Certificates will be deemed to be composed of $5,000 portions and any such portion may be separately redeemed. The Trustee will promptly notify the City in writing of the Certificates so selected for redemption. Selection by the Trustee of Certificates for redemption will be final and conclusive.

Notice of Redemption. Unless waived in writing by any Owner of a Certificate to be redeemed, notice of any such redemption will be given by the Trustee on behalf and at the expense of the City, by mailing a copy of a redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption, to such Owner of the Certificate or Certificates to be redeemed at the address shown on the Registration Books or at such other address as is furnished in writing by such Owner to the Trustee; *provided, however*, that neither the failure to receive such notice nor any defect in any notice will affect the sufficiency of the proceedings for the redemption of the Certificates.

Effect of Redemption. If notice of redemption has been given as described above, the Certificates or portions of Certificates so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date, interest with respect to such Certificates or portions of Certificates will cease to be payable.

Partial Redemption of Certificate. Upon surrender of any Certificate redeemed in part only, the Trustee will execute and deliver to the Owner thereof a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same interest rate and the same maturity.

Transfer and Exchange of Certificates

The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his or her attorney duly authorized in writing upon surrender of such Certificate for cancellation at the Principal Corporate Trust Office, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such transfer, except that the Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Trustee shall not be required to transfer (i) any Certificates or portion thereof during the period between the date fifteen (15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificates selected for redemption.

Certificates may be exchanged, upon surrender thereof, at the Principal Corporate Trust Office for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. Whenever any Certificate or Certificates shall be surrendered for exchange, the Trustee shall execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The City shall pay any costs of the Trustee incurred in connection with such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to exchange (i) any Certificate or any portion thereof during the period between the date fifteen (15) days prior to the date of selection of Certificates for redemption and such date of selection, or (ii) any Certificate selected for redemption.

Book-Entry Only System

The Certificates will be initially executed, delivered and registered as one fully registered certificate for each maturity, without coupons, in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive physical certificates representing their interest in the Certificates 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 Certificates as described herein. So long as DTC's book-entry system is in effect with respect to the Certificates, notices to Owners of the Certificates 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 Certificates, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See APPENDIX F—DTC'S BOOK-ENTRY ONLY SYSTEM.

In the event that such book-entry system is discontinued with respect to the Certificates, the City will cause the Trustee to execute and deliver replacements in the form of registered certificates and, thereafter, the Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement. In addition, the following provisions would then apply: Payment of interest due with respect to any Certificate on any Interest Payment Date will be made to the person appearing on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding such Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such Owner at his or her address as it appears on the Registration Books as of such Regular Record Date or, upon written request filed with the Trustee prior to the Regular Record Date by an Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request. Any such written request will remain in effect until rescinded in writing by the Owner. The principal and redemption price with respect to the Certificates at maturity or upon prior redemption shall be payable by check denominated in lawful money of the United States of America upon surrender of the Certificates at the Principal Corporate Trust Office.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, undivided fractional interest in Installment Payments to be made by the City to the Authority under the Installment Sale Agreement. The Authority, pursuant to the Assignment Agreement, will assign certain of its rights under the Installment Sale Agreement to the Trustee for the benefit of the Owners, including its right to receive Installment Payments and prepayments made under the Installment Sale Agreement and its rights to enforce payment of the Installment Payments when due in the event of a default by the City. The obligation of the City to make Installment Payments constitutes a special obligation of the City payable solely from a first and prior lien on the Net Revenues, certain net proceeds of insurance or condemnation proceedings pertaining to the Project to the extent that such net proceeds are not used for the repair, reconstruction or replacement of the Project pursuant to the Installment Sale Agreement, and certain interest and other income derived from the investment of moneys held in funds and accounts held by the Trustee for the City pursuant to the Trust Agreement. The City's obligation to make the Installment Payments will be on a parity with the City's obligation to make the SASM Payments under the SASM Financing Agreement. As described herein, "Parity Debt" shall be deemed to include the City's obligation to make the SASM Payments under the SASM Financing Agreement.

Special Obligation of the City

The City's obligation to pay the Installment Payments shall be a special obligation limited solely to Net Revenues. Under no circumstances shall the City be required to advance any moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments.

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

Nothing shall be construed to release the Authority from the performance of any of the agreements on its part contained in the Installment Sale Agreement, and in the event the Authority shall fail to perform any such agreements on its part, the City may institute such action against the Authority as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the first sentence of the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's right of possession, occupancy and use hereunder, and in such event the Authority has agreed to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Pledge of Net Revenues; Deposits to Pay Installment Payments; Release from Lien

Pledge of Net Revenues. The City has agreed that the payment of the Installment Payments shall be secured by a pledge, charge and first and prior lien upon Net Revenues, and Net

Revenues sufficient to pay the Installment Payments as they become due and payable, are pledged, charged, assigned, transferred and set over by the City to the Authority and its assigns for the purpose of securing payment of the Installment Payments. The Net Revenues shall constitute a trust fund for the security and payment of the Installment Payments.

Transfer to Pay Installment Payments. In order to provide for the payment of Installment Payments when due, the City shall, on or before each June 20 and December 20 (each, an "Installment Payment Date"), transfer to the Trustee for deposit into the Installment Payment Fund the amount required for the next occurring Installment Payment Date. The City shall be obligated to make Installment Payments sufficient to pay all principal and interest due with respect to the Certificates.

Release from Lien. Following the transfer described above with respect to the June 20 Installment Payment Date, Net Revenues in excess of amounts required for the payment of Installment Payments and any Parity Debt, in that Fiscal Year shall be released from the lien of this Installment Sale Agreement and shall be available for any lawful purpose of the City.

Rate Covenant

The City hereby covenants that it shall prescribe, revise and collect such charges for the services and facilities of the Sewer System which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide Net Revenues equal to 1.25 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required to pay debt service on Parity Debt coming due and payable during such Fiscal Year.

Limitations on Future Obligations Secured by Net Revenues

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

Parity Debt. The City covenants that, except for obligations issued or incurred to prepay the Installment Payments in full pursuant to the Installment Sale Agreement, the City shall not issue or incur any Parity Debt unless:

(i) The City is not in default under the terms of this Installment Sale Agreement;

(ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, plus, at the option of the City, the additional allowance described below, shall have amounted to at least 1.25 times the maximum Debt Service coming due and payable in any future Fiscal Year;

(iii) Interest payments on such Parity Debt shall be payable on January 1 and July 1, and principal payments on such Parity Debt shall be payable on July 1.

The City shall deliver to the Trustee a Certificate of the City certifying that the conditions precedent to the issuance of such Parity Debt set forth in the Installment Sale Agreement have been satisfied.

State Loans. The City may borrow money from the State to finance improvements to the Sewer System, without complying with the provisions of paragraphs (iii) or (iv) above, relating to the issuance of Parity Debt, and the obligation of the City to make payments to the State under the loan agreement memorializing said loan (the "State Loan") may be treated as Parity Debt for purposes of this Installment Sale Agreement; provided that the City shall not make a payment on such State Loan (except as hereinafter expressly provided) to the extent it would have the effect of causing the City to fail to pay Installment Payments on a timely basis. In the event the City's Sewer System does not produce sufficient funds to make the full Installment Payments and such State Loan, the City shall make Installment Payments and such State Loan on a pro rata basis.

The City shall deliver to the Trustee a Certificate of the City certifying that the conditions precedent to the issuance of such Parity Debt set forth in the Installment Sale Agreement have been satisfied.

Subordinate Debt. The City covenants that it shall not issue or incur any Subordinate Debt unless:

(i) The City is not in default under the terms of this Installment Sale Agreement;

(ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Subordinate Debt is issued or incurred, plus, at the option of the City, the additional allowance described below, shall have amounted to at least 1.0 times the maximum Debt Service coming due and payable in any future Fiscal Year; and

(iii) Interest payments on such Subordinate Debt shall be payable on January 1 and July 1, and principal payments on such Subordinate Debt shall be payable on July 1.

Adjustment to Net Revenues. Either or both of the following items may be added to such Net Revenues for the purpose of determining the ability of the City to issue or incur Parity Debt or Subordinate Debt:

(i) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be constructed with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed from any source of funds but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following issuance of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the City, may be added to such Net Revenues.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent consultant employed by the City.

The City shall deliver to the Trustee a Certificate of the City certifying that the conditions precedent to the issuance of such Parity Debt set forth in the Installment Sale Agreement have been satisfied.

Additional Payments

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

Installment Payments

Installment Payments are required to be made by the City under the Installment Sale Agreement on the twentieth (20th) day of each June and December (each a "Installment Payment Date"). The Trust Agreement requires that Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will apply such amounts in the Installment Payment Fund as are necessary to make principal and interest payments due with respect to the Certificates on January 1 and July 1 of each year sufficient to meet the following semi-annual payment schedule:

Installment Payment Date	Principal Component*	Interest Component	Total Installment Payment	Installment Payment Date	Principal Component*	Interest Component	Total Installment Payment
12/20/12	—			12/20/27	—		
06/20/13	$135,000			06/20/28	$185,000		
12/20/13	—			12/20/28	—		
06/20/14	105,000			06/20/29	190,000		
12/20/15	—			12/20/29	—		
06/20/15	110,000			06/20/30	200,000		
12/20/15	—			12/20/30	—		
06/20/16	115,000			06/20/31	205,000		
12/20/16	—			12/20/31	—		
06/20/17	115,000			06/20/32	215,000		
12/20/17	—			12/20/32	—		
06/20/18	120,000			06/20/33	220,000		
12/20/18	—			12/20/33	—		
06/20/19	125,000			06/20/34	230,000		
12/20/19	—			12/20/34	—		
06/20/20	135,000			06/20/35	240,000		
12/20/20	—			12/20/35	—		
06/20/21	140,000			06/20/36	250,000		
12/20/21	—			12/20/36	—		
06/20/22	145,000			06/20/37	260,000		
12/20/22	—			12/20/37	—		
06/20/23	150,000			06/20/38	270,000		
12/20/23	—			12/20/38	—		
06/20/24	155,000			06/20/39	280,000		
12/20/24	—			12/20/39	—		
06/20/25	160,000			06/20/40	290,000		
12/20/25	—			12/20/40	—		
06/20/26	170,000			06/20/41	300,000		
12/20/26	—			12/20/41	—		
06/20/27	175,000			06/20/42	310,000		

*Preliminary, subject to change.

Flow of Funds

Pursuant to the terms of the Installment Sale Agreement, on the twentieth (20^{th}) day of each June and December, the City is legally required to make Installment Payments to the Trustee from Net Revenues, designed to be equal to the amount necessary for the Trustee to pay the principal and interest with respect to the Certificates due and payable on each January 1 and July 1. Pursuant to the terms of the Trust Agreement, (i) all Installment Payments received by the Trustee from the City, (ii) certain net proceeds awarded in insurance or eminent domain proceedings to the extent not used to repair or replace the Project, and (iii) any other moneys required to be deposited pursuant to the Installment Sale Agreement or the Trust Agreement, shall be deposited in the Installment Payment Fund.

The Trustee shall promptly distribute, on each January 1 and July 1, the moneys on deposit in the Installment Payment Fund to the Owners in payment of principal and interest then due with respect to the Certificates.

Any surplus remaining in the Installment Payment Fund after redemption and payment of all Certificates, including accrued interest, if any, and payment of any applicable fees to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall then be remitted to the City.

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

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

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated March 20, 2006 (the "JPA Agreement"), between the City and the California Municipal Finance Authority. The JPA Agreement was entered into pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The members of the governing board of the Authority consist of the members of the City Council of the City. The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the City and to provide financing for public capital improvements for lease or sale to the City.

THE CITY

The City is located in the County, approximately 11 miles north of the Golden Gate Bridge and San Francisco. The City limits encompass 4.72 square miles. The estimated population of the City is approximately 14,064 as of January 1, 2011.

The primary access road to the City is U.S. Highway 101, the main north-south corridor in the West Bay Area.

The City was incorporated in 1900 as a general law city. The City Council is made up of five members, elected at large, serving four-year terms. The Mayor is selected for a one-year term from among the members of the City Council. The City operates under a council-manager form of government. The City Council appoints the City Manager, City Attorney and City Clerk.

See APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for a general description of the City as well as certain demographic and statistical information. Also, see APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

THE SEWER SYSTEM

General

The Sewer System provides sewer collection service to the citizens and businesses within the City limits. The primary source for revenues for the Sewer System is fees (rates) set by the City Council and collected as a fee included on each property tax bill. Additional revenue sources include sewer connection fees and interest income.

Sewer System Description

The collection system, maintained and operated by the City, is comprised of approximately 69 miles of sewer mains, collector mains and trunk lines (large pipelines), manholes, valves, and pump stations used to move wastewater from a home or business to the treatment plant. The network also includes smaller, lateral pipes (owned and maintained by each property owner) that run from the buildings to the larger, City-owned, main pipes. Sewage treatment is handled by SASM.

Management and Employees

The City's Public Works Department is responsible for the management and operation of the Sewer System. For Fiscal Year 2010-11, the City had 3.625 full-time equivalent ("FTE") employee positions budgeted for the Sewer System.

Service Area and Users

The City provides wastewater collection and disposal services within the City limits. The Sewer System includes 6,900 sewer customer accounts, of which approximately 5,900 (approximately 86%) are residential customers and the remaining approximately 1,000 accounts (approximately 14%) are non-residential users.

The ten largest customers of the Sewer System, by revenue, for the 2010-11 fiscal year, are shown in the following table:

Sewer System
Ten Largest Customers, by Revenue
For the Fiscal Year Ended June 30, 2011

	User	Type of Use	Revenue
1	Community Church Retirement Center	Retirement Community	$ 53,221
2	Whole Foods Market	Grocery Store	52,619
3	Safeway Stores	Grocery Store	50,408
4	Piatti Restaurant Co.	Restaurant	41,452
5	John Iavarone	Commercial	32,552
6	280 Rose Ave	Private Residence	31,108
7	Interfaith Housing Foundation	Housing	22,849
8	22 Miller Ave Inc	Restaurant	20,461
9	Nana Enterprises	Hotel/Restaurant	20,387
10	Shapiro Associates	Laundromat	20,131
			$345,188

Source: City of Mill Valley.

The ten largest customers of the Sewer System, by consumption, for the 2010-11 fiscal year, are shown in the following table:

Sewer System
Ten Largest Customers, by Consumption
For the Fiscal Year Ended June 30, 2011

	User	Type of Use	Consumption (1)
1	Community Church Retirement Center	Retirement Community	8,826
2	Whole Foods Market	Grocery Store	4,140
3	280 Rose Ave	Private Residence	4,008
4	Safeway Stores	Grocery Store	3,966
5	1101-333 Shelter Bay Ave	Housing	3,504
6	Piatti Rest Co	Restaurant	3,282
7	175 Alta Vista Av	Private Residence	3,144
8	12 Lower Dr	Private Residence	2,868
9	3101-333 Shelter Bay Av	Housing	2,820
10	Whole Foods Market	Grocery Store	2,550
			39,108

Source: City of Mill Valley.
(1) In 100s of Cubic Feet

Rate Setting Process

The wastewater service charges are established by resolution adopted by a majority vote of the City Council and become effective immediately. Prior to rate increases being implemented they must be presented to the rate payers through a Proposition 218 protest hearing process. This process has been completed for the rate increases associated with this financing. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES."

Utility rates and charges are reviewed as part of the City's budgetary process. Once results of operations for the various enterprise funds are known, a determination is made as to whether it is appropriate for rate adjustments to be made. The timing of rate adjustments may or may not coincide with the budget adoption process, but the implications of any rate adjustments are considered in budget development. The process used to set rates follows State regulations concerning the operation of local government utilities. Typically, several public hearings are held to review staff studies and recommendations concerning rate adjustments before final adoption of rate changes. Annually, a compilation of charges for all City services is done to produce a comprehensive fee schedule for the City.

Prior to June 1, the City Manager submits to the City Council a proposed preliminary budget for the next two fiscal years. The City's fiscal year is July 1 through June 30. The proposed budget includes all funds, including the Sewer Fund and capital projects. The proposed budget includes expected expenditures (or expenses, as appropriate) and the means of financing them. Typically, extensive City Council review occurs during May, and public hearings are conducted in June to obtain citizen comments. The preliminary budget is legally adopted prior to July 1 with the final budget adopted after the State adopts its annual budget in August of each year.

In each year total expenditures of any fund may not exceed total appropriations for that fund. However, the City Council may legally amend the budget at any time during the fiscal year by the adoption of supplemental appropriations and transfers within the programs.

Rates

In 2010, the City raised its sewer service charges to reflect significant increases in costs such as wastewater treatment costs, inflation, improvement and replacement of aging infrastructure, and compliance with more stringent environmental regulations. The sewer service charges imposed a fixed charge on each single-family residential customer, regardless of the amount of wastewater discharged by such customer. The City currently charges all single-family residential customers the same amount for their sewer service, regardless of household size, but charges all other customers based on their estimated wastewater flow (hundred cubic feet of estimated annual Marin Municipal Water District water usage). The sewer service charge adopted for single-family customers for fiscal year 2012/13 is $677 per dwelling unit.

At its April 2, 2012 meeting, the City Council reviewed a staff proposal to revise the City's sewer service charges. The proposed charge for a single-family residential customer was based on the estimated volume and flow-composition of wastewater discharged by such customer, which means that a customer's charge will vary each year in proportion to each year's estimated wastewater flow. The proposed charges for all other customers would simplify and update the current rate structure, which is already based on those customers' estimated wastewater flow. Under the revised rate structure, the City will begin to charge all sewer customers based on their estimated wastewater flow. The sewer service rate (dollars per hundred cubic feet) for each customer's class (e.g. single family residence, restaurant, or retail store) has been recently established based on the cost of service to treat each customer's distinct wastewater strength.

On June 18, 2012, the City Council conducted a Proposition 218 protest hearing to consider adoption of the proposed sewer service charges and the modification of the existing sewer service rate structure. The City Council heard and considered all oral and written testimony concerning the proposed sewer service charges. At the end of the hearing, the City Clerk had not received written protests submitted by owners of a majority of the parcels subject to the proposed sewer service charges. Therefore, the proposed sewer service charges, which are unique in the County in the method of computation, were adopted. On that date, the City Council conducted a first reading of the ordinance approving the proposed sewer service charges. On July 19, 2012, the City Council adopted the ordinance approving the proposed sewer service charges, which became effective on August 19, 2012.

The new sewer service charge is an annual charge determined by multiplying a customer's estimated annual wastewater flow by a sewer service rate for the customer's class of wastewater flow-composition. For example, the fiscal year 2012/13 sewer charge for a single-family home, with an estimated flow of 82 hundred cubic feet (HCF) is as follows:

82 HCF x $7.82 per HCF = $641.24

Single-family, Multi-family Residential and All Commercial Customers Except Bars, Hotels & Restaurants: Each year the City will estimate wastewater flow based on winter water-use data provided by Marin Municipal Water District. (Winter water use is a proxy for wastewater discharge because irrigation use is lowest during this time of year.) 82 HCF was the average single-family residential flow using data from the winter of 2010/11. Two-thirds of City's single-family customers use less than the average flow.

Commercial Customers: Bars, Hotels & Restaurants: Each year wastewater flow will be estimated based on water use data for one summer and one winter billing period to account for seasonal business patterns, which has been the City's prior practice.

Minimum Charge: The City will impose an annual minimum charge that assumes all customers produce at least 24 HCF of wastewater flow per year per parcel.

The following table shows the schedule of maximum rates that the City Council adopted for each customer class for fiscal years 2012/13 through 2016/17. The rate structure includes a 5% rate stabilization factor beginning in the third year. This factor will allow revenue needs to be met considering the year-to-year fluctuation of water consumption and wastewater production. Generally, the rates applied in a given year will not utilize the stabilization factor and will be less than the maximum rate listed in this notice.

	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Residential Rates ($/HCF[1])					
Single Family	$7.82	$8.84	$9.81	$10.59	$11.55
Multi-Family	$6.74	$7.62	$8.46	$9.14	$9.96
Non Residential Rates ($/HCF)					
Store/Retail	$7.35	$8.30	$9.21	$9.95	$10.85
Laundromat	$6.15	$6.95	$7.72	$8.34	$9.09
Car Wash	$5.26	$5.95	$6.60	$7.13	$7.77
Hospital/Convalescent	$6.03	$6.81	$7.56	$8.17	$8.90
Professional Offices	$5.90	$6.67	$7.40	$7.99	$8.71
Bar w/o Restaurant	$6.51	$7.35	$8.16	$8.82	$9.61
Schools	$6.47	$7.32	$8.12	$8.77	$9.56
Hotel w/o Dining	$6.45	$7.29	$8.10	$8.74	$9.53
Laundry - Commercial	$8.14	$9.20	$10.21	$11.02	$12.02
Repair Shop/Service Stn.	$7.24	$8.18	$9.08	$9.80	$10.68
Restaurant/Bakery	$12.63	$14.27	$15.84	$17.10	$18.64
Mkt w/grinder	$12.71	$14.36	$15.94	$17.22	$18.77
Hotel w/Dining	$10.16	$11.48	$12.74	$13.76	$15.00

(1) HCF = one hundred cubic feet or 748 gallons

Comparison to Nearby Agencies. The following table presents a comparison of the City's annual sewer service charges for fiscal year 2012-13 as compared with other nearby communities.

Sewer System
Comparative Rate Table
2012-13 Sewer Service Charges

Agency	Annual Charge
City of Belvedere	$1,836.00
City of Sausalito	$1,104.00
City of Larkspur	$1,100.00
Tamalpais Community Services District	$1,013.00
Ross Valley	$874.00
Town of Tiburon	$825.00
City of Marin City	$732.00
Las Gallinas Valley Sanitary District	$662.00
City of Mill Valley	**$641.00**
San Rafael Sanitary District	$637.50
Homestead Valley Sanitary District	$575.00
Alto Sanitary District	$500.00
Town of Corte Madera	$500.00
Novato Sanitary District	$491.84
Almonte Sanitary District	$400.00
Richardson Bay Sanitary District	$246.00

Source: City of Mill Valley.

Collection of Sewer Charges—Teeter Plan

Sewer service charges are billed to customers on their property tax bills and are payable semi-annually in the same manner and according to the same procedures as is applicable to its property taxes. For entities whose property is tax-exempt, the City bills and collects sewer service charges directly from such entities.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to the payment of delinquent sewer charges.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured roll in that agency. The Board of Supervisors has never elected to exercise this right.

Capital Improvement Program

In 2009, the City undertook a sewer pipeline inspection and evaluation using the Pipeline Assessment and Certification Program. Based on the results of the program in addition to the plans to repair and replace sewer pipelines under certain planned street rehabilitation projects, the City has identified an approximately $9.1 million capital improvement program over the next four years, approximately $5,000,000 of which will be funded from the proceeds of the Certificates and the remainder to be funded from excess revenues and fund balances.

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, due to the costs of available coverage, participates as a member in joint powers insurance authorities as follows:

Workers Compensation Insurance. The City was a member of the Marin County Risk Management Authority. Under the arrangement, the risk of loss below $100,000 was not transferred to the Authority. The Authority maintained separate accounts for each participant, and each participant is responsible for paying its own claim liabilities. Claims exceeding the City's $100,000 self-insured limit are covered by the Authority's insurance policies provided by outside insurance carriers up to the statutory limit. The City accounts for its insurance activities in its general fund. Effective in fiscal year 2004, the Authority was dissolved and related assets were transferred to the Bay Cities Joint Powers Insurance Authority which now provides coverage to the City for workers compensation insurance. The City is fully responsible for all prior claims at the date of transfer of related assets. Under the new arrangement, the City is self-insured for the first $100,000 of each claim with the Authority responsible for losses above that amount.

Liability and Properly Insurance. The City is a member of the Bay Cities Joint Powers Insurance Authority. The City through the Authority participates in group purchased property, earthquake, flood, boiler and machinery, and general liability insurance coverages. The risk of loss is transferred to the Authority except for the first $100,000 of general liability claims for which the City is self-insured and retains the risk of loss. The Authority is self-insured for the first $1 million per claim less each members self-insured limit. The Authority participates in an excess pool, California Affiliated Risk Management Authorities, which provides general liability coverages for $14 million in excess of the above stated $1 million. Each participant is insured for the replacement cost of property. The all risk property coverage provided by the Authority has a $1 billion limit per occurrence for all members in the aggregate.

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.

See APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Employee Retirement Plans

Plan Description. The City contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. The PERS issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the City are established by and may be amended by PERS. Regular plan members are required to contribute 7.0 percent of their annual covered salary, and safety plan members are required to contribute 9.0 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate for regular employees is 11.245 percent of covered payroll and 15.99 weighted average percent of covered payroll for safety employees.

See APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Post Employment Health Care Plans

Plan Description. The City administers the City of Mill Valley Retired Employees Health Care Plan, a single-employer defined benefit healthcare plan. The City issues a publicly available financial report for the Retired Employees Health Care Plan that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by writing to the City, 26 Corte Madera Avenue, Mill Valley, CA 94941.

Summary of Significant Accounting Policies. The financial statements of the City of Mill Valley Retired Employees Health Care Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used To Value Investments. Investments of the Plan are reported at fair value which for the Plan is determined by bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the City with the assistance of a valuation service.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the City. For the fiscal year ended June 30, 2011, the City contributed $511,630 to the plan for current year premiums (100% of total premiums) and $250,000 to prefund benefits. Plan members receiving benefits contributed zero of the total premiums.

Annual OPEB Costs and Net OPEB Obligation. The City's annual other post employment benefit (OPEB) costs (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Funding Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, the Plan was 13.1 percent funded. The actuarial accrued liability for benefits was $23,326,000, and the actuarial value of Plan assets was $3,044,000, resulting in an unfunded actuarial accrued liability (UAAL) of $20,282,000. The covered payroll (the annual payroll of active employees covered by the Plan) was $9,479,000, and the ratio of the UAAL to the covered payroll was 214 percent.

See APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Financial Information

The City's audited financial statements dated June 30, 2011, for the fiscal year ended June 30, 2011, which include the financial results of the Sewer System, are attached hereto as APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Historical Revenues, Expenditures and Debt Service Coverage

The following table presents a five year historical summary of the revenues, expenses and net income of the Sewer System.

HISTORICAL SUMMARY OF REVENUES, EXPENSES AND TRANSFERS AND CHANGES IN FUND BALANCE
Fiscal Years Ended June 30,

	2008	2009	2010	2011
Revenues				
Sewer Service Charge	$2,094,839	$2,104,129	$2,086,401	$2,095,786
Sewer Connection Fees	46,250	27,900	109,100	16,322
Other	61,230	32,981	21,541	8,209
Total Revenues	2,202,319	2,165,010	2,217,042	2,120,318
Expenses				
Operating Expenses				
Salaries	159,716	175,336	202,788	215,314
Benefits	95,790	99,100	114,148	120,421
Supplies	1,103	2,518	535	1,681
Clothing	1,641	2,361	2,446	3,388
Communication	1,904	2,592	3,038	3,096
Water	257	279	274	261
Electricity	7,138	8,554	5,101	4,970
Gas	355	261	179	231
Maintenance Materials	11,305	6,586	12,564	4,016
Equip Maintenance	18,164	46,718	11,282	16,745
Specialized Services	40,886	80,492	67,470	71,386
Training	—	266	190	—
Other Expenses	683	695	722	—
Vehicle Maintenance & Fuel	18,690	15,351	26,929	22,458
Equipment Replacement	18,398	19,470	14,259	—
Engineering & Admin Charge	227,565	244,490	250,140	241,297
Total	603,595	705,069	712,065	705,263
SASM Treatment Fee	1,106,668	1,271,687	1,264,633	1,459,377
Total Operating Expenses	1,710,263	1,976,756	1,976,698	2,164,640
Net Revenues (1)	492,056	188,254	240,344	(44,322)

Source: City of Mill Valley Audited Financial Statements.
(1) Beginning in fiscal year 2011-12, the sewer rates were increased by 102%, reversing the negative Net Revenues. See table below.

Projection of Revenues, Expenditures and Debt Service Coverage

The following table presents a projection of Sewer System revenues and expenditures for each of the five fiscal years ending June 30, 2012, through 2016, including debt coverage.

PROJECTION OF REVENUES, EXPENDITURES AND DEBT SERVICE COVERAGE
Fiscal Years Ending June 30,

	2012	2013	2014	2015	2016
Revenues					
Sewer Service Charge (1)	$4,039,000	$4,434,497	$5,169,851	$5,640,471	$6,091,709
Sewer Connection Fees	16,500	16,500	16,500	16,500	16,500
Other	9,539	8,000	8,000	8,000	8,000
Total Revenues	4,065,039	4,458,997	5,194,351	5,664,971	6,116,209
Expenses (2)					
Operating Expenses					
Salaries	220,295	217,970	222,149	226,592	231,124
Benefits	131,623	136,774	143,047	145,908	148,826
Supplies	4,425	2,425	2,425	2,474	2,523
Clothing	3,906	3,647	3,647	3,720	3,794
Communication	2,600	1,947	1,947	1,986	2,026
Water	350	350	350	357	364
Electricity	7,800	5,500	5,665	5,778	5,894
Gas	370	300	300	306	312
Maintenance Materials	11,125	13,125	13,125	13,388	13,655
Equip Maintenance	21,065	21,065	21,065	21,486	21,916
Specialized Services	79,156	127,356	127,356	129,903	132,501
Training	1,125	5,023	5,423	5,531	5,642
Other Expenses	1,226	—	—	—	—
Vehicle Maintenance & Fuel	17,681	28,421	29,621	30,213	30,818
Equipment Replacement	-	14,740	14,740	14,740	14,740
Engineering & Admin Charge	285,366	330,516	342,746	349,601	356,593
Total	788,113	909,159	933,606	951,983	970,728
SASM Treatment Fee	1,683,027	1,815,993	2,009,410	2,221,251	2,290,537
Total Operating Expenses	2,471,140	2,725,152	2,943,016	3,173,234	3,261,265
Net Revenues Available for Debt Service	1,593,899	1,733,845	2,251,335	2,491,737	2,854,944
Debt Service					
SASM Payments (3)	—	119,489	119,619	120,681	121,653
Certificates (4)	—	292,256	297,400	293,800	295,200
Total Debt Service (4)	—	411,745	417,019	414,481	416,853
Debt Service Coverage (4)	—	4.21x	5.40x	6.01x	6.85x

Source: City of Mill Valley Audited Financial Statements.

(1) Revenues in fiscal year 2011-12 reflect the 102% rate increase approved in 2010. Revenues in fiscal years 2012-13, 2013-145, 2014-15 and 2015-16, reflect the 16%, 13%, 11% and 8% rate increases approved by the City on June 21, 2012.

(2) Expenses are based upon budgeted amounts through fiscal year 2013-14 and assume a 2% annual increase thereafter.

(3) Preliminary, subject to change. Represents the City's 50.1% portion of the debt service on the SASM Bonds.

(4) Preliminary, subject to change.

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

City Financial Management Policies

The City Council has adopted a comprehensive set of financial management policies to provide for: (i) establishing targeted general fund reserves; (ii) the prudent investment of City funds; and (iii) establishing parameters for issuing and managing debt supported by the general fund, Enterprise Funds and any other related funding entity of the City.

Investment Policy. The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, approved annually (the "Investment Policy"), and section 53601 *et seq*. of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Trust Agreement are invested at the direction of the City in Permitted Investments, as defined in the Trust Agreement, and are subject to certain limitations contained therein. See APPENDIX C—CITY INVESTMENT POLICY and APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—Investments.

Current Investments

The assets of the City's investment portfolio, as of May 31, 2012, are shown in the following table:

City of Mill Valley
Investment Portfolio
(As of May 31, 2012)

Type	Par Value
California Local Agency Inv. Fund (LAIF)	$12,406,906
FDIC-insured Certificates of Deposit	4,616,000
U.S. Government Agencies	1,243,737
Cash with Fiscal Agents	510,625
Total cash and investments	$18,777,268

Source: City of Mill Valley.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

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

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

Article XIIIA

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

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

Article XIIIB

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

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

Proposition 218

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

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

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

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

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

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

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

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

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

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

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

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

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

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

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

Proposition 26

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

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City's ability to make debt service payments with respect to the Certificates.

The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

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

RISK FACTORS RELATING TO THE CERTIFICATES

The following section describes certain special considerations and risk factors affecting the risk of nonpayment or the security for the Certificates. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of the Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the Certificates, together with all other information in this Official Statement, in order to make an informed investment decision with respect to the Certificates. There can be no assurance that other risk factors are not or will not become material in the future.

General

The payment of principal and interest with respect to the Certificates is secured by a pledge by the City of the Net Revenues and certain funds under the Installment Sale Agreement. 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 sewer services to its users, and the ability of the City to establish and maintain sewer fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City.

Limited Obligations

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

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

Maintenance and Operation Costs

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

Environmental Regulation

The kind and degree of sewer treatment which is effected through the Sewer System is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Sewer System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Sewer System, the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Limited Recourse on Default

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

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments and, therefore, of principal and interest with respect to the Certificates, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Certificates upon the occurrence of an event of default under the Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Initiatives

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

Bankruptcy

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

Rate Process

The passage of Proposition 218 by the California electorate potentially 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 under Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218" and "—Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies."

Insurance

The Installment Sale Agreement obligates the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Sewer System in the event of damage or destruction to such portion of the Sewer System. The City expects to self-insure a portion of the risk of loss as permitted by the Installment Sale Agreement. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Sewer System. Significant damage to the Sewer System could result in a lack of the ability to generate sufficient Net Revenues to repay the Certificates. The City does not, and does not expect to, maintain earthquake insurance on the Sewer System.

Tax Exemption

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

Parity Debt

As described in "SECURITY FOR THE CERTIFICATES—Parity Debt" above, the Installment Sale Agreement permits the City to issue or incur Parity Debt which would be payable from Net Revenues on a parity with the payment of the Installment Payments and the SASM Payments. In the event of a decline in Net Revenues, the existence of Parity Debt could adversely affect the City's ability to pay the Installment Payments.

Seismic Considerations

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

Secondary Market

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

APPROVAL OF LEGAL PROCEEDINGS

All legal matters in connection with the execution and delivery of the Certificates are subject to the approval of Quint & Thimmig LLP, San Francisco, California, Special Counsel. Special Counsel's opinion with respect to the Certificates will be substantially in the form set forth in APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, as Disclosure Counsel, and for the City by Richards, Watson & Gershon, City Attorney. The fees and expenses of Special Counsel and Disclosure Counsel are contingent upon the execution and delivery of the Certificates.

ABSENCE OF LITIGATION

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

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the rating of "AA" to the Certificates. Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P at 55 Water Street, New York, NY 10041. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

FINANCIAL ADVISOR

The City has retained Wulff, Hansen & Co., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the execution and delivery of the

Certificates. The Financial Advisor has assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Certificates. The Financial Advisor has not audited, authenticated or otherwise independently verified any of the data contained herein. The Financial Advisor has not conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of disclosure information contained in this Official Statement. Due to its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein and offers no guaranty, warranty or other representation respecting the accuracy and completeness of this Official Statement. The fees of the Financial Advisor are contingent upon the sale and delivery of the Certificates.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Certificate Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the Sewer System by not later than nine months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2011, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to provide Annual Reports or notices of material events as required by the Municipal Securities Rulemaking Board.

TAX MATTERS

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

Subject to the City's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Special Counsel, interest with respect to the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

Subject to the City's compliance with certain covenants, in the opinion of Special Counsel, the Certificates are "qualified tax exempt obligations" under the small issuer exception provided under section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

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

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest with respect to the Certificates.

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

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

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

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

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

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

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Certificates. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Certificateholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Certificates, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Certificate owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Certificate owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes.

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

The complete text of the final opinion that Special Counsel expects to deliver upon the delivery of the Certificates is set forth in APPENDIX E—FORM OF OPINION OF SPECIAL COUNSEL.

UNDERWRITING

The Certificates will be purchased by __________, as underwriter (the "Underwriter"), at an aggregate purchase price of $________ (consisting of the $________ aggregate principal amount of the Certificates, plus $________ of net original issue premium, less $_______ of Underwriter's discount).

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

OTHER INFORMATION

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

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

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

MISCELLANEOUS

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

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

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2011, are contained in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

Quotations from and summaries and explanations of the Certificates, the Trust Agreement and the Installment Sale Agreement, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

The execution and delivery of the Official Statement by the City have been duly authorized by the City Council on behalf of the City.

CITY OF MILL VALLEY

By ______________________________

Finance and Human Resources Director

APPENDIX A

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

The information in this section of the Official Statement is presented as general background data. The Certificates are payable solely from the revenues of the City's Sewer Fund and other sources as described in the Official Statement. The taxing power of the City, the State of California, or any political subdivision thereof is not pledged to the payment of the Certificates.

Population

With an area of 606 square miles (including 201 square miles of public lands and 86 square miles of water/wetlands), and a January 1, 2011, population of approximately 254,692, the County's population is one of the most stable in the Bay Area.

Population figures for the City, the County and the State for the last five years are shown in the following table.

CITY OF MILL VALLEY, COUNTY OF MARIN, STATE OF CALIFORNIA
Population Estimates

Year	City	County	State
2007	13,496	248,025	36,399,676
2008	13,624	249,546	36,704,375
2009	13,742	250,760	36,966,713
2010	13,870	252,279	37,223,900
2011	14,064	254,692	37,510,766

Source: State of California Department of Finance estimates (as of January 1), Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts. Sacramento, California, September 2011.

Employment

The County's unemployment rate has consistently been one of the lowest in California, and continues to be among the lowest level of all Bay Area Counties at 6.7% as of January 2012, compared to the State unemployment level of 11.3% during the same month. The table below illustrates unemployment levels in the County compared to State and national unemployment levels for the past five years.

CITY OF MILL VALLEY, COUNTY OF MARIN, STATE OF CALIFORNIA AND UNITED STATES CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT ANNUAL AVERAGES [(1)]

Year	Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2007	City	7,300	7,100	200	2.7
	County	132,700	127,900	4,800	3.6
	State	17,970,800	17,011,000	959,800	5.3
	United States	153,124,000	146,047,000	7,078,000	4.6
2008	City	7,300	7,000	300	3.5
	County	133,000	126,800	6,200	4.7
	State	18,251,600	16,938,300	1,313,200	7.2
	United States	154,287,000	145,362,000	8,924,000	5.8
2009	City	7,200	6,800	400	5.8
	County	132,100	121,700	10,300	7.8
	State	18,250,200	16,163,900	2,086,200	11.4
	United States	154,142,000	139,877,000	14,265,000	9.3
2010	City	7,100	6,700	400	6.2
	County	131,400	120,600	10,800	8.3
	State	18,176,200	15,916,300	2,259,900	12.4
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	City	7,400	7,000	400	5.5
	County	135,300	125,400	10,000	7.4
	State	18,384,900	16,226,600	2,158,300	11.7
	United States	153,616,667	139,869,250	13,747,417	8.9

Source: California Employment Development Department for County and State figures (Benchmark March 2011). United States Bureau of Labor Statistics for United States figures (Benchmark 2010).

Personal Income

The County enjoys one of the highest levels of effective buying income in the Bay Area and in the entire United States. The table below compares the City effective income with that of the County, the State and the United States.

**CITY OF MILL VALLEY, COUNTY OF MARIN,
STATE OF CALIFORNIA AND UNITED STATES
EFFECTIVE BUYING INCOME**

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2007	City	800,812	83,703
	County	10,585,120	67,799
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City	811,097	85,186
	County	10,769,315	68,816
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City	758,787	87,357
	County	10,508,733	71,591
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City	757,017	82,875
	County	10,453,585	68,688
	California	801,393,027	47,177
	United States	6,365,020,076	41,368
2011	City	772,008	83,506
	County	10,592,305	68,667
	California	814,578,458	47,062
	United States	6,438,704,664	41,253

Source: Nielsen Claritas, Inc.

Major Employers Within the County

The table below demonstrates the scope and diversity of the County's 25 largest employers.

COUNTY OF MARIN TWENTY FIVE LARGEST EMPLOYERS

Entity	Location	Type of Business
Autodesk Inc.	San Rafael	Computer Software-Manufacturers
Bay Area Sea Kayakers	San Rafael	Membership Sports & Recreation Clubs
Bradley Real Estate	Tiburon	Real Estate
Cagwin & Dorward Landscape	Novato	Landscape Contractors
California Alpine Club	Mill Valley	Wedding Chapels
College of Marin	Kentfield	Schools-Universities & Colleges Academic
Corrections Dept	San Quentin	State Govt-Correctional Institutions
Dominican University of California	San Rafael	Schools-Universities & Colleges Academic
Fireman's Fund Insurance Co	Novato	Insurance
Golden Gate Bridge	San Rafael	Bridge & Tunnel Operating Companies
Kaiser Permanente Medical Ctr	San Rafael	Hospitals
Leon's Bar B'Q Inc	Mill Valley	Food Products-Retail
Macy's	Corte Madera	Department Stores
Managed Health Network Inc.	San Rafael	Health Plans
Marin Community College	Kentfield	Schools-Universities & Colleges Academic
Marin County Health & Human	San Rafael	County Government-Social/Human Resources
Marin County Sheriff's Dept	San Rafael	Sheriff
Marin General Hospital	Greenbrae	Hospitals
Marin Group	Sausalito	Product Development & Marketing
Marin Independent Journal	Novato	Newspapers (Publishers/Mfrs)
Novato Community Hospital	Novato	Hospitals
San Rafael Human Resources	San Rafael	Government Offices-City, Village & Twp
Sonnen Motorcars-Audi-VW	San Rafael	Automobile Dealers-New Cars
Township Building Svc Co	Novato	Janitor Service
YMCA	San Rafael	Youth Organizations & Centers

Source: America's Labor Market Information System (ALMIS) Employer Database, 2012 1st Edition. Employer information is provided by info USA, Omaha, NE, 800/555-5211. Copyright 2011.

Employment by Industry

Over the past several decades, the County has evolved from a bedroom community for San Francisco businesses to a more self-sufficient, diversified business community. The County has developed a community of small entrepreneur businesses that are service, professional, technical and scientific in operation.

The tables below illustrates the continued growth of the County's employment base and the contribution of the key economic sectors.

COUNTY OF MARIN
WAGE AND SALARY EMPLOYMENT BY INDUSTRY
ANNUAL AVERAGE

	2005	2006	2007	2008	2009	2010[1]
Total, All Industries	108,800	108,700	109,000	109,300	102,400	101,000
Total Farm	600	700	500	500	500	500
Total Nonfarm	108,200	108,000	108,500	108,800	101,900	100,500
Goods Producing	11,000	10,400	10,500	10,100	8,200	7,800
Manufacturing	2,500	2,400	2,100	2,100	2,000	2,100
Durable Goods	1,200	1,200	900	900	800	800
Nondurable Goods	1,300	1,200	1,200	1,200	1,200	1,300
Service Providing	97,200	97,600	97,900	98,700	93,700	92,700
Trade, Transportation & Utilities	18,800	18,300	18,500	18,200	16,500	16,800
Wholesale Trade	2,600	2,700	2,700	2,700	2,300	2,400
Retail Trade	14,900	14,300	14,600	14,400	13,100	13,200
Transportation, Warehousing & Utilities	1,400	1,300	1,200	1,200	1,100	1,200
Information	3,100	2,200	2,400	2,200	2,000	1,900
Financial Activities	9,300	9,200	8,800	8,200	7,500	6,800
Finance & Insurance	6,500	6,400	6,100	5,500	5,000	4,700
Real Estate & Rental & Leasing	2,800	2,800	2,600	2,700	2,500	2,100
Professional & Business Services	18,500	19,600	19,500	20,300	18,500	18,900
Professional, Scientific & Technical Services	10,700	11,200	11,100	11,700	10,700	10,900
Management of Companies & Enterprises	2,200	2,300	2,200	2,100	1,900	1,900
Administrative & Support & Waste Services	5,600	6,100	6,300	6,500	5,800	6,100
Educational & Health Services	15,600	15,800	15,700	16,100	16,900	16,300
Educational Services	3,200	3,100	3,300	3,400	3,400	3,300
Health Care & Social Assistance	12,400	12,600	12,400	12,800	13,400	13,000
Leisure & Hospitality	12,600	12,700	13,000	13,400	12,700	12,100
Arts, Entertainment & Recreation	2,600	2,500	2,800	2,900	2,800	2,500
Accommodation & Food Services	10,000	10,200	10,300	10,500	9,900	9,600
Other Services	4,600	4,800	5,000	4,900	4,700	5,000
Government	14,700	15,000	15,100	15,500	15,000	14,900
Federal Government	900	900	700	900	1,000	1,000
State Government	1,800	1,800	1,900	2,100	2,200	2,100
Local Government	12,000	12,300	12,400	12,500	11,900	11,800

Source: California Employment Development Department.
[1] Most recent annual data available. March 2011 Benchmark.

Construction Activity

The level of construction activity in the City and the County as measured by total building permit valuations and the annual unit total of new residential and nonresidential permits since 2006 are shown below.

CITY OF MILL VALLEY BUILDING PERMIT ACTIVITY
Building Permit Valuations
For Years 2006 through 2010
(000s)

	2006	2007	2008	2009	2010
Valuation (in thousands)					
Residential	$33,170	$35,333	$29,199	$24,108	$26,575
Non-residential	5,662	5,454	5,050	12,583	4,512
Total Valuation [1]	$38,832	$40,787	$34,249	$36,691	$31,087
New Dwelling Units:					
Single Family	11	17	28	10	17
Multiple Family	2	—	9	—	—
Total Units	13	17	37	10	17

Source: Construction Industry Research Board
(1) Totals may not add up due to independent rounding.

COUNTY OF MARIN BUILDING PERMIT ACTIVITY
Building Permit Valuations
For Years 2006 through 2010
(000s)

	2006	2007	2008	2009	2010
Valuation (in thousands)					
Residential	$242,107	$279,505	$220,553	$200,127	$203,801
Non-residential	95,262	112,539	202,481	115,501	93,279
Total Valuation [1]	$337,369	$392,044	$423,035	$315,627	$297,080
New Dwelling Units:					
Single Family	155	151	147	65	75
Multiple Family	51	10	25	97	0
Total Units	206	161	172	162	75

Source: Construction Industry Research Board
(1) Totals may not add up due to independent rounding.

Commercial Activity

The following table presents retail and total taxable transactions for the City and the County from 2005 through 2010.

CITY OF MILL VALLEY
TAXABLE TRANSACTIONS BY SECTOR
(Amount in Thousands)

	2005	2006	2007	2008
Apparel Stores	14,668	14,838	13,583	10,822
General Merchandise Stores	10,895	11,043	11,574	11,262
Specialty Stores [1]	—	—	—	—
Food Stores	22,766	20,509	20,067	20,292
Eating and Drinking Places	29,606	28,718	29,635	28,782
Home Furnishings and Appliances	8,316	8,105	4,103	2,855
Building Materials	15,065	15,615	15,908	15,381
Automotive	—	—	—	—
Service Stations [2]	36,480	39,986	46,197	50,161
Other Retail Stores	44,973	47,783	52,520	48,400
Total Retail Stores	182,769	186,597	193,587	187,955
All Other Outlets	28,324	36,923	35,471	34,073
Total All Outlets [3]	211,093	223,520	229,058	222,028

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Starting 2007, Specialty Stores Group is included in "Other Retail Stores" Group.
(2) Starting 2007, Service Stations is reported separately from "Automotive."
(3) Totals may not add up due to independent rounding.

	2009 (1)	2010
Retail and Food Service	$155,694	161,453
Total Outlets	180,545	187,038

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Starting in 2009, categories were revised from prior years. Most recent annual data available.

COUNTY OF MARIN
TAXABLE TRANSACTIONS BY SECTOR
(Amount in Thousands)

	2005	2006	2007	2008
Apparel Stores	$ 155,305	$ 156,944	$ 163,447	$ 201,280
General Merchandise Stores	446,920	461,184	460,821	402,168
Specialty Stores [1]	479,661	490,874	—	—
Food Stores	195,817	201,870	209,609	213,437
Eating and Drinking Places	395,421	409,938	435,046	442,979
Home Furnishings and Appliances	209,690	202,529	199,860	206,525
Building Materials	337,508	338,773	329,500	277,548
Automotive	864,068	896,243	608,934	486,808
Service Stations (2)	—	—	308,446	337,412
Other Retail Stores	81,353	86,441	585,804	505,997
Total Retail Stores	$3,165,743	$3,244,796	$3,301,467	$3,074,694
Business and Personal Services	191,287	180,523	184,488	199,636
All Other Outlets	814,414	859,945	911,226	884,569
Total All Outlets [4]	$4,171,444	$4,285,264	$4,397,181	$4,158,899

	2009 [3]	2010
Retail Store and Food Services		
Motor Vehicle and Parts Dealers	$ 434,910	$ 485,061
Furniture and Home Furnishings	106,960	109,379
Electronic and Appliance	129,928	123,308
Bldg. Matrl. and Garden Equip. and Supplies	246,690	237,664
Food and Beverage	246,161	259,294
Health and Personal Care	109,301	114,342
Gasoline Stations	258,624	301,124
Clothing and Clothing Accessories	243,655	263,834
Sporting Goods, Hobby, Book and Music	128,490	131,892
General Merchandise	261,529	265,063
Miscellaneous Store Retailers	157,795	175,970
Nonstore Retailers	26,001	25,596
Food Service and Drinking Places	418,831	422,951
Retail and Food Services Totals	2,768,875	2,915,477
All Other Outlets	891,160	918,692
Total All Outlets [4]	$3,660,036	$3,834,169

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Starting 2007, Specialty Stores Group is included in All Other Retail Stores Group.
(2) Starting 2007, Service Stations are reported separately from "Automotive."
(3) Starting in 2009, categories were revised from prior years. Most recent annual data available.
(4) Totals may not add up due to independent rounding.

Education

The number of public schools in the County are provided in the table below. For the 2011-12 academic year, approximately 31,106 students were enrolled in grades K through 12 in the public schools in the County.

COUNTY OF MARIN NUMBER OF PUBLIC SCHOOLS

Level	No. of Schools
Elementary Schools (K-8)	45
Middle/Junior High Schools (6-8)	11
High Schools (9-12)	9
Continuation Schools	2
Alternative Education, Independent Study	6
Charter Schools	2
Total	75

Source: Marin County Office of Education and the California Department of Education.

Community colleges in California are locally operated and administered. They offer Associate of Arts and Associate of Science degrees and have extensive vocational curricula. There is one community college district in the County, the Marin Community College District, known as the College of Marin, with an enrollment of approximately 9,000 credit and noncredit students at two campuses in the cities of Kentfield and Novato. The Dominican University of California, a four year private university with more than 2,000 undergraduate and graduate students, is located in the City of San Rafael, in the County.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The Auditor was not requested to consent to the inclusion of its report in this Appendix B and it has not undertaken to update financial statements included in this Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

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CITY OF MILL VALLEY, CALIFORNIA
BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

CITY OF MILL VALLEY, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2011
Table of Contents

TK

Terry E. Krieg, CPA

Certified Public Accountant

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Mill Valley
Mill Valley, California

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mill Valley, California, as of and for the year ended June 30, 2011 which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Mill Valley's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mill Valley, California, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 11 and pages 36 through 38 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 or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mill Valley's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The City in fiscal year 2011, implemented the provisions of Governmental Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions which implementation resulted in the reporting of fund balances of governmental-type funds into certain categories as discussed in Note 1D-8 and 5G to these financial statements.

In accordance with Government Auditing Standards, I have also issued my report dated, January 31, 2012, on my consideration of the City of Mill Valley'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 and should be considered in assessing the results of my audit.

Terry E. Krieg

Certified Public Accountant
January 31, 2012

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P: 707-544-5684 E: Kriegcpa@msn.com

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS,

BASIC FINANCIAL STATEMENTS
AND
NOTES TO THE FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the *City of Mill Valley's* annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the City's audited financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets decreased by about \$3,066,000 over the course of this year's operations after conducting all City operations and programs. The fiscal 2011 decrease was about 17.0% less than the 2010 decrease.

- Overall City-wide revenues from all governmental activities increased by about 1.0% in fiscal 2011 to \$29.5 million, about \$254,000 more than fiscal 2010 total revenues.

- The City's total costs of all programs in fiscal 2011 increased by about \$996,000 compared to the 2010 fiscal year. This increase of 3.3% was the result of a net change among different City functions.

- The general fund reported a fund balance of \$7.98 million at the end of the 2011 year. This was about a \$1.18 million decrease over fiscal 2010 ending balances.

- The City also ended the fiscal year with \$4.32 million reported in the major capital asset improvement and replacement funds. The City's other non-major governmental funds ended 2011 with about \$2.08 million available for special purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – a *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information,* and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include one kind of statements that present different views of the City:

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

- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like public safety, recreation, library, public works were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*; however, the City has no activities that are reported as business-type activities where the primary focus is the recovery of costs from user charges or fees.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor funds, each of which are added together and presented in single columns in the basic financial statements.

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 City of Mill Valley's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements: Governmental Funds	Fund Statements: Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the City does not report any programs using the reporting model similar to that used for private for -profit businesses.
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net assets • Statement of revenues expenses, and changes in net assets • 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 used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	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 year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *position*.

Government-Wide Financial Statements (Continued)

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

  The government-wide financial statements of the City are reported in one category:

  - *Governmental activities* – All of the City's basic services are included here, such as the police, fire, public works, park maintenance, sanitary sewer, library, recreation, community center activities and programs and general administration. Property taxes, sales taxes, transient occupancy taxes, special and other taxes, user charges and fees and state, local and federal grants finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law such as the State Gas Tax Fund.

- The City Council establishes other funds to control and manage money for particular purposes (such as the City's capital asset improvement and replacement funds).

- Some funds are maintained to demonstrate that the City is properly using certain specific taxes for their intended purpose (such as the City's municipal services tax fund).

- Other funds are maintained for similar purposes but in addition demonstrate the City's ability to repay its long-term debt obligations such as the revenue bonds and certificates of participation.

  The City has one kind of funds:

- *Governmental funds* – The City's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out 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 you 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, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's *combined* net assets decreased between fiscal years 2010 and 2011 by about $3,066,000. (See Table A-1.) This is $629,000 less than the decline in 2010; and is primarily due to about $2.6 million in depreciation expense recorded against capital assets, an additional $250,000 expense for prefunding of OPEB obligations, and increases in actuarially determined self-insurance claim liabilities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)

Net Assets (Continued)

Table A-1
City of Mill Valley's Net Assets
(Rounded to Nearest Thousand)

	Governmental Activities		Total Percentage Change
	2011	2010	2010-2011
Current and other assets	$ 17,121,000	$ 18,306,000	-6.5%
Capital assets	39,732,000	40,586,000	-2.1%
Total assets	**56,853,000**	**59,892,000**	**-5.1%**
Long-term liabilities	22,967,000	22,091,000	4.0%
Other liabilities	2,612,000	2,461,000	6.1%
Total liabilities	**25,579,000**	**24,552,000**	**4.2%**
Net assets			
Invested in capital assets net of related debt	30,941,000	32,261,000	-4.1%
Restricted	2,359,000	2,157,000	9.4%
Unrestricted	(2,026,000)	(78,000)	-269.7%
Total net assets	**$ 31,274,000**	**$ 34,340,000**	**-8.9%**

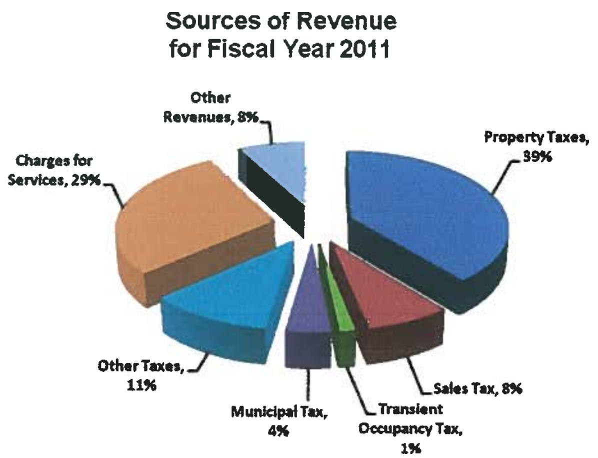
Net assets of the City's governmental activities decreased to about $31.27 million. About 99 % of the net assets relating to governmental activities are represented by the City's net investment in its capital assets such as streets, bridges, sewer lines, buildings, land, equipment and facilities. The remaining 1% is essentially represented by cash and investments. About 90% of the City's total liabilities are represented by long-term obligations including revenue bonds, certificates, employee compensated absences, and self-insured portion of claims.

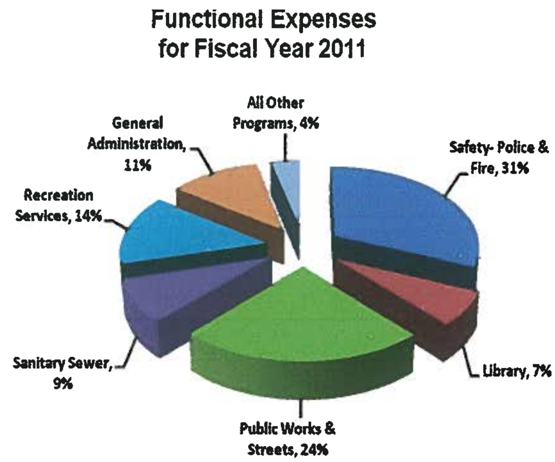
Changes in Net Assets. The City's 2011 total revenues of about $29.5 million were about $254,000 more than the City recognized in fiscal 2010. (See Table A-2.) Approximately 63% of the City's revenue comes from some type of taxes including property, sales, and other taxes. The rest comes from fees charged for services, state, local and federal aid, and contributions.

The total cost of all programs and services in 2011 was about $32.6 million and includes a wide range of services such as police and fire protection, streets, public works, and recreation related services such as the City Golf Course, Community Center, Aquatic Facilities, Instructional programs, and other related services.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The Sources of the City's major types of revenue and the areas where such resources are used is shown below in summary graphic form:





Governmental Activities

Revenues from all activities in fiscal 2011 increased by about $254,000 compared to fiscal 2010 while expenses of all City programs decreased by about $376,000.

As the above graph shows, the City's primary sources of revenue come from some kind of tax. Charges for services account for only about one third of the City's total revenue stream. These charges for services are derived from sewer service fees, community center fees; aquatic, recreation, and golf course fees; and from general government fees such as permits and planning fees.

The fiscal year 2011 continued to involve revenue shifts to the State and from the State related to the State's fiscal condition. Sales tax revenues of $1,702,000 allocated from the State increased by $69,000 in fiscal 2011, although this was supplemented by $560,000 in sales tax in-lieu payments from the County, the in-lieu payments increased by $169,000 from the prior year. Secured property tax revenues of $11,579,000 actually decreased by about $265,000 in fiscal 2011; this was supplemented by $1,086,000 from the County for VLF in lieu revenues, a decrease of $17,000.

Close to a third of the City's operating expenses are incurred to provide police protection and fire protection services with these two departments accounting for about 31 percent of the City's total 2011 operating expenses. Another 21 percent of the City's 2011 operating expenses were incurred to provide a variety of cultural and recreation services including operation of the City's community center, recreation programs, golf course and City library. General administration costs accounted for another 11 percent of total operating expenses. The remaining 37 percent was spent on public works, streets, sewer services and other programs.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

TABLE A-2
Changes in the City of Mill Valley's Net Assets
(Rounded to Nearest Thousand)

	Governmental -Type Activities		Total Percentage Change
	2011	2010	2010-2011
Revenues			
Program revenues			
Charges for services	$ 8,501,000	$ 8,498,000	0.0%
Grants and contributions	2,186,000	2,132,000	2.5%
General revenues			
Property taxes	11,579,000	11,844,000	-2.2%
Other taxes	7,127,000	6,666,000	6.9%
Other	150,000	149,000	0.7%
Total revenues	**29,543,000**	**29,289,000**	**0.9%**
Expenses			
General government	3,699,000	3,265,000	13.3%
Public safety	10,196,000	10,233,000	- 0.4%
Sanitary sewer	2,886,000	2,805,000	2.9%
Public works	7,735,000	8,897,000	-13.1%
Library	2,265,000	2,247,000	0.8%
Recreation/Culture	4,639,000	4,461,000	4.0%
Parking	330,000	312,000	5.8%
Other	859,000	765,000	12.3%
Total expenses	**32,609,000**	**32,985,000**	**-1.1%**
Increase (decrease) in net assets	**$ (3,066,000)**	**$ (3,696,000)**	**17.1%**
Net assets beginning of year	34,339,000	38,035,000	
Net assets end of year	**$31,274,000**	**$34,339,000**	**-8.9%**

Table A-3 presents the cost of each of the City's four largest programs – administration or general government, public safety, public works, and community recreation programs--

- The cost of all *governmental* activities this year was $32.61 million, compared to $32.99 million in fiscal 2010.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- While users and contributors funded about $10.69 million of the costs of city programs through related program revenues and grants, the City still had to make up the difference from general revenues such as taxes in the amount of $21.92 million. Major sources of the $10.69 million in program revenues were:
  - Those who directly benefited from or used the programs ($8.50 million), and
  - Other governments and organizations that subsidized certain programs with grants and contributions ($2.19 million).
- The City paid for the $21.92 million "public benefit" portion by using all of its fiscal 2011 property taxes, sales taxes, other general revenues and by using some $3.07 million in net assets from the preceding fiscal year.

Table A-3
Cost of City of Mill Valley's Governmental Activities
(Rounded to Nearest Thousand)

	Total Cost of Services		Percentage Change
	2011	2010	2010-2011
General Government	$3,699,000	$3,265,000	13.3%
Public Safety	10,196,000	10,233,000	-0.4%
Recreation services	4,639,000	4,461,000	4.0%
Public Works	7,735,000	8,897,000	-13.1%
Library	2,265,000	2,247,000	0.8%
All other	4,075,000	3,882,000	5.0%
Total	**$32,609,000**	**32,985,000**	**-1.1%**

Overall, spending in total decreased in fiscal 2011 by about $376,000; a decrease of 1.1% compared to expenses incurred in fiscal 2010.

The most significant functional cost changes in fiscal 2011 were the $434,000 increase in General Government, a $1,162,000 decrease in Public Works expenditures and a $178,000 increase in Recreation Services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of $14.38 million, about $1,304,000 less than at the end of fiscal 2010. The City's General Fund operations generated about $529,000 less in revenues than was spent on governmental activities. In addition, the City transferred a total of $650,000 out of the General Fund and into other funds. Some of this went to the pay debt service on the certificates of participation ($347,000) and Marin Emergency Radio Authority bonds ($78,000). Most of the remaining $225,000 was transferred out to the City's Capital Asset equipment replacement and Capital

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)

Improvement funds to provide cash for planned acquisitions and capital projects. At year end, the City's General Fund had a fund balance of about $7.98 million. Of this, about $5.06 million was restricted or committed for specific uses and unanticipated emergencies.

The City has two capital asset improvement and replacement funds which ended the fiscal year with a combined fund balance of $4.32 million. These monies have been set aside for future capital asset replacements and improvements. In addition, the City's nonmajor governmental funds ended the 2011 fiscal year with a combined fund balance of $2.08 million. Of this $2.08 million, about $716,000 is in debt service funds used to pay principal and interest on the revenue bonds and certificates.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories: changes made at the midyear budget review for unanticipated revenues and costs and Increases in appropriations to prevent budget overruns. Even with these adjustments, total general fund expenditures and outflows were about $699,000 less than the final budget. Major budget changes were primarily for capital projects. Revenues and other inflows were $218,000 less than the revised budget primarily because property tax revenues and allocations from other governments were less than amounts anticipated by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had invested $39.73 million (net of accumulated depreciation) in a broad range of capital assets, including equipment, vehicles, buildings, park facilities, community center, library, streets, roads, bridges, and other assets (See Table A-4). This amount represents a net decrease (including additions and deductions) of about $854,000, or 2.1 percent, less than last year. The decrease was primarily the result of current year depreciation expense of about $2.59 million exceeding asset additions of about $1.78 million.

TABLE A-4
City of Mill Valley Capital Assets
(Rounded to Nearest Thousand, net of accumulated depreciation)

	Governmental Activities		Total Percentage Change
	2011	2010	2010-2011
Land	$ 6,318,000	$ 6,318,000	0.0%
Buildings	12,016,000	12,904,000	-6.9%
Machinery and equipment	1,021,000	1,115,000	-8.4%
Vehicles	600,000	882,000	-32.0%
Infrastructure and systems	19,777,000	19,368,000	2.1%
Construction in progress	-	-	-
Total	**$ 39,732,000**	**$ 40,586,000**	**-2.1%**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Although $1,782,000 million was added to capital assets in fiscal 2011, this addition, on a net basis, was offset by current year depreciation expense of $2,590,000 and net asset disposals of $46,000; which is why the net change in total capital assets is a decrease of about $854,000 for fiscal 2011. The primary additions to capital assets were the photovoltaic power array built behind the Public Safety Building, $703,000, using interest free Clean Renewable Energy Bonds and the construction of multiple steps, lanes and paths, $949,000, under a Federal Non-motorized Pilot Grant More information about capital assets can be found on page 27 of the notes to the financial statements.

Long - Term Debt

At the end of fiscal 2011, the City had $3,490,000 in 2006 revenue bonds, $4,385,000 in certificates of participation (the community center project) and $6,135,000 in the 2008 pension obligation bonds outstanding. The City has made all required payments when and as required. Debt service on the 2006 revenue bonds is funded by a special voter-approved tax and transfers from the general fund are made each year to fund debt service on the certificates and pension bonds.

As the City is self-insured for the first $150,000 for each workers compensation claim and $100,000 for each general liability claim, the statement of net assets also shows a liability of about $1.35 million for estimated claim obligations. The City's general fund pays all insurance related costs.

In addition, as a result of implementing the new financial reporting standards for other post employment benefit (OPEB) obligations, the City has reported a long-term obligation payable of $4.89 million for retiree medical benefits. The City intends to reduce this obligation in future years as financial and economic conditions provide sufficient resources to permit such reductions.

Additional information about the City's debt obligations can be found starting on page 28 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2012 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- Overall City wide revenues are projected to increase by a net 5.4 percent over fiscal year 2011 actual amounts primarily due to increases in sewer service fees and local transportation sales tax grants for street rehabilitation.

- The originally adopted fiscal year 2012 budget provided for a balanced City wide budget of about $31.2 million in operating and capital expenditures with $31.2 million in budgeted City wide revenues.

2012 budgeted operating expenditures are expected to be about 2.1 percent less than the 2011 budgeted operating expenditures

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Director of Finance, City of Mill Valley, 26 Corte Madera Avenue, Mill Valley, California 94941.

CITY OF MILL VALLEY
Statement of Net Assets
June 30, 2011

	Governmental Type Activities 2011
ASSETS	
Current assets:	
Cash and investments	$ 14,613,639
Net receivables	1,895,586
Prepayments	145,562
Inventories	143,374
Total current assets	16,798,161
Noncurrent assets:	
Bond issuance costs, net	323,407
Capital assets not being depreciated	6,317,826
Net capital assets being depreciated	33,413,972
Total noncurrent assets	40,055,205
Total assets	$ 56,853,366
LIABILITIES	
Current liabilities:	
Accounts payable	$ 1,075,009
Accrued liabilities	480,563
Claims	411,849
Compensated absences	868,843
Deposits	367,630
Deferred revenue	499,560
Accrued interest payable	189,314
Capital lease obligation due in one year	92,584
Agreements and notes due in one year	16,000
Bonds and certificates due in one year	550,000
Total current liabilities	4,551,352
Noncurrent liabilities:	
Compensated absences	612,284
Claims and judgments	935,158
Capital lease due in more than one year	1,108,527
Bonds and certificates due in more than one year	13,460,000
Agreements and notes due in more than one year	19,320
Net other post employment benefit obligation	4,892,895
Total noncurrent liabilities	21,028,184
Total liabilities	25,579,536
NET ASSETS	
Invested in capital assets, net of related debt	30,941,774
Restricted for:	
Streets	1,036,101
Debt service	716,000
Public safety	138,736
Sanitation	193,190
Other purposes	274,897
Unrestricted	(2,026,868)
Total net assets	31,273,830
Total liabilities and net assets	$ 56,853,366

See accompanying notes to the basic financial statements

CITY OF MILL VALLEY
Statement of Activities
For the Fiscal Year Ended June 30, 2011

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
					Total City Government
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
City government					
Governmental activities:					
General government	$ 3,699,310	$1,478,433	$ -	$ -	$ (2,220,877)
Public safety:					
Police protection	5,311,458	192,109	106,592	-	(5,012,757)
Fire protection	4,884,660	5,294	-	-	(4,879,366)
Public works:					
Administration	1,583,596	-	-	-	(1,583,596)
Streets	4,248,899	673,891	892,278	1,041,900	(1,640,830)
Park maintenance	1,902,114	81,856	-	-	(1,820,258)
Santitary sewers	2,885,883	2,278,795	-	-	(607,088)
Library	2,264,671	69,670	145,542	-	(2,049,459)
Parking	329,763	405,865	-	-	76,102
Recreation and Culture:					
Community center	1,423,839	746,290	-	-	(677,549)
Aquatic and fitness	1,390,178	1,287,521	-	-	(102,657)
Golf course	542,474	315,939	-	-	(226,535)
Seniors and fee programs	1,282,685	964,956	-	-	(317,729)
Interest on long-term debt	859,165	-	-	-	(859,165)
Total governmental activities	32,608,695	8,500,619	1,144,412	1,041,900	(21,921,764)
Total City government	$ 32,608,695	$8,500,619	$ 1,144,412	$ 1,041,900	(21,921,764)

General revenues:	
Taxes:	
Property taxes	$ 11,579,121
Sales taxes	2,261,672
Franchise taxes	1,157,647
Municipal services tax	1,176,729
Taxes for special bonds	325,407
Transient occupancy taxes	413,984
Business license taxes	435,011
Other taxes	206,325
Motor vehicle in lieu fees not restricted to a specific program	1,150,481
Unrestricted investment earnings	149,569
Total general revenues and special item	18,855,946
Change in net assets	(3,065,818)
Net assets, beginning	34,339,648
Net assets, ending	$ 31,273,830

See accompanying notes to the basic financial statements

CITY OF MILL VALLEY
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Asset Improvement Fund	Capital Asset Equipment Replacement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 8,090,725	$ 1,111,268	$ 3,156,375	$ 2,255,271	$ 14,613,639
Taxes receivable	436,602	-	-	-	436,602
Accounts receivable	187,512	-	58,282	-	245,794
Due from other governments	979,960	-	-	214,551	1,194,511
Accrued interest receivable	18,679	-	-	-	18,679
Prepayments	145,562	-	-	-	145,562
Inventories	143,374	-	-	-	143,374
Total assets	$ 10,002,414	$ 1,111,268	$ 3,214,657	$ 2,469,822	$ 16,798,161
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 674,310	$ 5,186	$ 2,700	$ 392,813	$ 1,075,009
Accrued payables	480,508	-	-	55	480,563
Deposits	367,630	-	-	-	367,630
Deferred revenue	499,560	-	-	-	499,560
Total liabilities	2,022,008	5,186	2,700	392,868	2,422,762
Nonspendable	288,936	-	-	-	288,936
Restricted for public parking	9,300	-	-	13,528	22,828
Restricted for sanitation	-	-	-	193,170	193,170
Restircted for streets	-	-	-	1,036,101	1,036,101
Restricted for public safety	20,581	-	-	118,155	138,736
Restricted for debt service	-	-	-	716,000	716,000
Restricted for library	58,234	-	-	-	58,234
Restricted for parks	5,560	-	-	-	5,560
Restricted for affordable housing	32,146	-	-	-	32,146
Restricted for building technology	156,149	-	-	-	156,149
Committed for employee benefits	539,434	-	-	-	539,434
Committed for public improvements	-	1,106,082	3,211,957	-	4,318,039
Committed for self-insurance	200,000	-	-	-	200,000
Committed for contingencies	3,367,672	-	-	-	3,367,672
Committed for budget carryovers	245,658	-	-	-	245,658
Committed for special purposes	136,404	-	-	-	136,404
Unassigned	2,920,332	-	-	-	2,920,332
Total fund balances	7,980,406	1,106,082	3,211,957	2,076,954	14,375,399
Total liabilities and fund balances	$ 10,002,414	$ 1,111,268	$ 3,214,657	$ 2,469,822	$ 16,798,161

Total Governmental Fund Balances	$ 14,375,399
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	39,731,798
Bond issuance costs are not current financial resources and are therefore not reported in the funds	323,407
Net other postemployment benefit obligations that are not due and payable in the current period are not reported in the funds	(4,892,895)
Some liabilities, including bonds, certificates, compensated absences, claims, and accrued interest are not due and payable in the current period and are therefore not reported in the funds	(18,263,879)
Net Assets of Governmental Activities	$ 31,273,830

See accompanying notes to the basic financial statements

CITY OF MILL VALLEY
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General Fund	Capital Asset Improvement Fund	Capital Asset Equipment Replacement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	$11,579,122	$ -	$ -	$ 325,407	$ 11,904,529
Sales taxes	2,261,672	-	-		2,261,672
Transient occupancy taxes	395,984	-	-		395,984
Other taxes	1,737,244	-	-	1,176,729	2,913,973
Licenses and permits	557,751	-	-	80,428	638,179
Fines and forfeits	170,029	-	-	-	170,029
Intergovernmental	2,760,312	-	-	856,948	3,617,260
Interest and rents	657,605	-	55,178	23,853	736,636
Charges for services	3,606,565	-	-	3,079,827	6,686,392
Miscellaneous	218,224	-	-	-	218,224
Total revenues	23,944,508	-	55,178	5,543,192	29,542,878
EXPENDITURES					
Current:					
General government	3,430,419	-	-	-	3,430,419
Public safety	9,128,999	-	-	111,577	9,240,576
Public works and streets	2,295,783	-	-	1,185,921	3,481,704
Parks and recreation	5,316,497	-	-	-	5,316,497
Library	1,891,649	-	-	-	1,891,649
Parking	-	-	-	292,124	292,124
Sanitation	-	-	-	689,835	689,835
Intergovernmental	-	-	-	1,538,337	1,538,337
Debt service:					
Principal	307,727	-	-	308,513	616,240
Interest	368,064	-	-	419,765	787,829
Capital outlay	1,734,245	257,007	81,415	1,488,701	3,561,368
Total expenditures	24,473,383	257,007	81,415	6,034,773	30,846,578
Excess (deficiency) of revenues over (under) expenditures	(528,875)	(257,007)	(26,237)	(491,581)	(1,303,700)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	222,420	15,768	426,318	664,506
Transfers out	(649,823)	-	-	(14,683)	(664,506)
Total other financing sources(uses)	(649,823)	222,420	15,768	411,635	-
Net change in fund balances	(1,178,698)	(34,587)	(10,469)	(79,946)	(1,303,700)
Fund balances, July 1	9,159,104	1,140,669	3,222,426	2,156,900	15,679,099
Fund balances, June 30	$ 7,980,406	$ 1,106,082	$ 3,211,957	$ 2,076,954	$ 14,375,399

See accompanying notes to the basic financial statements

CITY OF MILL VALLEY
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, 2011

Net Change in Fund Balances - Total Governmental Funds	$ (1,303,700)
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 ($1,782,273) exceed depreciation ($2,589,787) in the current period.	(807,514)
Losses and gains on disposals of capital assets do not result in the outflow of current financial resources and are therefore not reported in the funds	(46,511)
The long-term portion of other postemployment benefit obligations does not require the use of current financial resources and is therefore not reported in the fund statements	(1,486,950)
Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets.	616,240
Debt issuance costs are expenditures in the funds, but are capitalized in the statement of net assets and are amortized to expense in the statement of activities	(39,043)
Some expenses in the statement of activities for noncurrent liabilities such as long-term compensated absences do not require the use of or provide current financial resources and are therefore not reported as expenditures or revenues in the governmental funds.	124,049
Some expenses in the statement of activities for accrued interest do not require the use of current financial resources and are not reported as expenditures in the governmental funds	7,623
Some expenses in the statement of activities for noncurrent liabilities such as cliams and judgments do not require the use of current financial resources and are not reported in the funds	(130,012)
Net differences	(1,762,118)
Change in Net Assets of Governmental Activities	$ (3,065,818)

See accompanying notes to the basic financial statements

City of Mill Valley
Statement of Fiduciary Net Assets
June 30, 2011

	Retired Employees Health Care Plan	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 2,558,486
Investments at fair value:		
Vantage Point - Balanced Model Port Savings Fund	3,518,908	-
Total assets	$ 3,518,908	$ 2,558,486
LIABILITIES		
Accounts payable	$ -	$ -
Due to other governmental agencies	-	2,558,486
Total liabilities	$ -	$ 2,558,486
NET ASSETS		
Held in trust for other postemployment benefits	$ 3,518,908	

See accompanying notes to the basic financial statements

City of Mill Valley
Statement of Changes in Fiduciary Net Assets
Retired Employees Health Care Plan Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Retired Employees Health Care Plan
Additions:	
Contributions:	
Employer	$ 665,069
Investment income:	
Net appreciation in fair value of investments	313,163
Total additions	978,232
Deductions:	
Benefits	415,069
Total deductions	415,069
Net increase	563,163
Net assets held in trust for other post employment benefits:	
Beginning of year	2,955,745
End of year	3,518,908

See accompanying notes to the basic financial statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Mill Valley 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 government is considered to be financially accountable. The Mill Valley Facilities Financing Corporation is a legally separate Corporate Entity for which the City is financially accountable and it is governed by the elected City Council. The Corporation was formed to provide a method of financing public improvements. The financial activities of the Corporation are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City. A facility and site lease receivable of the Authority and a corresponding lease payable of the City have been eliminated from the accompanying financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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 City has no business-type activities for which it reports financial activity. Assets held by the City as an agent for other governmental agencies and other fiduciary funds are excluded from the City's statement of net assets.

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 each fund category; governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, 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 *Capital Asset Improvement Fund and Capital Asset Equipment Replacement Fund* account for the resources accumulated in funds designated to be used only for capital asset replacement, renewal, rehabilitation and acquisitions

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 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, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, and time deposits and savings and demand accounts. The City's investment policy specifically prohibits investments in other instruments authorized by the State Legislature unless approved in advance by the City Council. The California Government Code authorizes the City to invest in any form of prudent investment the fiduciary funds applicable to the retired employee's health care plan.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operate in accordance with appropriate state laws and regulations. The reported value of the pool 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."

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.

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 Marin 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 used or consumed.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $ 1,000 ($5,000 for infrastructure type assets) and 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. The City, as a Phase 2 entity under Governmental Accounting Standards Board guidelines, completed an inventory of the City's major infrastructure capital assets, assigned estimated costs to those assets, and recorded major infrastructure capital assets net of accumulated depreciation in its financial statements for fiscal year ended June 30, 2007. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Library collections are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are 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	3 - 90
Vehicles and equipment	3 - 10

5. Compensated Absences

It is the government'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 and applicable sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

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

7. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

Note 1. Summary of Significant Accounting Policies (Continued)

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

8. *Fund Balances – Governmental Fund Types*

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 such as inventories, prepayments, and long-term receivables not offset by deferred revenue accounts. Restricted amounts include those where constraints placed on the uses of resources are externally imposed by grantors, contributors, other governments, or by laws and regulations. Committed amounts are those that can only be used for specific purposes 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 Manager and Finance Director. Assigned amounts can be redeployed for other uses by the direction of the City Manager or Finance Director. Unassigned fund balance amounts are the residual amounts reported only in the general fund.

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 Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this $39,731,798 difference are as follows:

Capital assets	$ 102,376,818
Less: Accumulated depreciation	(62,645,020)
Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 39,731,798

2. Reconciliation of Government-Wide and Fund Financial Statements (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 $18,263,879 difference are as follows:

Long-Term Debt Obligations and Related Interest:		
Revenue bonds	$	3,490,000
Certificates of participation		4,385,000
Pension obligation bonds		6,135,000
Compensated absences		1,481,127
Accrued interest on bonds and certificates		189,314
Agreement payable		35,320
Capital lease obligations		1,201,111
Claims covered by self-insurance		1,347,007
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	$	(18,263,879)

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 reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets 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 ($1,762,118) difference and other significant components of the difference are as follows:

Capital outlay	$ 1,782,273
Depreciation expense	(2,589,787)
Unfunded retiree medical annual required contribution	(1,486,950)
Repayment of long-term debt principal	616,240
Other items primarily insurance claims	(83,894)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (1,762,118)

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. Appropriations, except for those applicable to capital projects, lapse at fiscal year end. The City adopted a two-year budget for the 2009 and 2010 fiscal years. The appropriated budget is prepared by fund, function, and department. 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 several supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the general fund were material. The general fund's expenditures (excluding transfers out) were $457,755 less than the final budget amounts.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2011 consisted of the following:

Pooled demand deposits	$ 4,605,678
Pooled investments (including $2,558,486 in fiduciary funds)	12,164,847
Fiduciary funds held in separate irrevocable trust	3,518,908
Investments with trustees	401,600
Total deposits and investments	$20,691,033

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 shall be insured by the FDIC, and if more than $100,000 is placed in any one institution they shall be collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2011, $5,038,872 of the City's bank balances of $5,288,872 was insured and not exposed to custodial credit risk.

Investments - At June 30, 2011, the City had the following investments.

Investment	Maturity	Fair Value
Local Agency Investment Fund(LAIF)	Average 203 days	$ 10,001,061
Federal Agency securities, FHLB, FFCB, FHLMC	Average 2.97 years	2,518,328
Mutual fund –Federated Treasury	Average 60 days	47,058
Vantage Point Model Port Savings Fund	Not Applicable	3,518,908
Totals		$ 16,085,355

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities prescribed in Sections 53600 through 53609 of the California Government Code; which for City purposes is five years.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated AAA and the federal agency securities were rated Aaa and AAA by Moodys and Standard and Poors, respectively.. The State Investment Pool and the Vantage Point Fund were unrated. The Vantage Point fund is a fiduciary fund held for employee retiree health benefits and is not subject to the security ratings requirements.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible. The City's investment in the State Pool and the Federated Treasury Fund are not subject to custodial credit risk because these investments are not evidenced by specific securities.

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	Equipment and Capital Asset Funds	Nonmajor Funds	Total
Receivables:				
Taxes	$ 436,602	$ -	$ -	$ 436,602
Other governments	979,960	-	214,551	1,194,511
Accounts	187,512	58,282	-	245,794
Interest	18,679	-	-	18,679
Net total receivables	$ 1,622,753	$ 58,282	$ 214,551	$ 1,895,586

C. Interfund Transfers

1. The composition of interfund transfers of June 30, 2011, is as follows:

Operating transfers in:

Transfers out:	Capital Asset Equipment	General Fund	Nonmajor Funds	Capital Asset Improvement	Total
General fund	$ 15,768	$ -	$ 411,635	$ 222,420	$ 649,823
Nonmajor funds	-	-	14,683	-	14,683
Total transfers in:	$ 15,768	$ -	$ 426,318	$ 222,420	$ 664,506

The transfers out of the general fund were $426,318 to fund debt service requirements, and $223,505 to fund future equipment replacements and capital projects, respectively.

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 6,317,826	$ -	$ -	$ 6,317,826
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	6,317,826	-	-	6,317,826
Capital assets, being depreciated:				
Buildings	24,653,840	-	-	24,653,840
Machinery and equipment	4,703,936	77,962	(137,894)	4,644,004
Vehicles	3,573,950	52,625	(45,688)	3,580,887
Infrastructure-street and sewer systems	61,528,575	1,651,686	-	63,180,261
Total capital assets being depreciated	94,460,301	1,782,273	(183,582)	96,058,992
Less accumulated depreciation for:				
Buildings	(11,749,676)	(888,005)	-	(12,637,681)
Machinery and equipment	(3,589,083)	(170,776)	137,071	(3,622,788)
Vehicles	(2,692,361)	(289,196)	-	(2,981,557)
Infrastructure-street and sewer systems	(42,161,184)	(1,241,810)		(43,402,994)
Total accumulated depreciation	(60,192,304)	(2,589,787)	137,071	(62,645,020)
Total capital assets, being depreciated, net	34,267,997	(807,514)	(46,511)	33,413,972
Governmental activities capital assets, net	$ 40,585,823	$ (807,514)	$ (46,511)	$ 39,731,798

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

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

Governmental activities:		
General government	$	26,838
Police		98,808
Fire		149,933
Parking		15,026
Public works administration		43,327
Streets and related infrastructure		1,073,356
Library		250,019
Community center		578,441
Park maintenance		65,266
Golf course		38,735
Sanitary sewers		250,043
Total depreciation expense-governmental activities	$	2,589,787

E. Long-Term Debt

Local Agency Revenue Bonds (Public Library Project) 2006 Series A

The City of Mill Valley Public Financing Authority, on July 26, 2006, issued $ 4,000,000 in local agency revenue bonds with interest rates of 4.2 to 4.5 percent to provide funds primarily for the advance refunding and purchasing of the City of Mill Valley Community Facilities District 1996-1 Series 1997 Special Tax Bonds (Library Renovation and Expansion Project). The 1997 special tax bonds are secured by a voter-approved special tax levy on dwelling units of no more than $64 per dwelling unit per annum. Under the arrangement, the 1997 bonds are considered to have been defeased and refunded, and the liability for the 1997 bonds has been removed from the accompanying financial statements. The arrangement provides that the now advance refunded 1997 bonds will be held by the trustee as security for repayment of the 2006 Revenue Bonds using the special tax levies approved for repayment of the 1997 bonds. The obligation of the City to its Financing Authority for payments on the 1997 bonds and the 1997 bonds held by the City's Financing as security for the 2006 bonds have been eliminated from these financial statements. Future debt service is as follows:

Fiscal Year	Principal	Interest	Totals
2012	$ 140,000	$ 148,835	$ 288,835
2013	150,000	142,745	292,745
2014	155,000	136,340	291,340
2015	165,000	129,620	294,620
2016	165,000	122,690	287,690
2017-2021	955,000	498,672	1,453,672
2022-2026	1,195,000	265,923	1,460,923
2027-2028	565,000	25,763	590,763
Totals	$ 3,490,000	$ 1,470,588	$ 4,960,588

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Certificates of Participation

The City in 1999 entered into a site and project lease arrangement with the Mill Valley Facilities Financing Corporation, a blended component unity of the City, to enable the Corporation to issue $6,360,000 of Certificates of Participation to provide funds for the construction of the City's new Community Center. Interest on the certificates is payable each February 1 and August 1 through 2035. Principal is due each August 1, and the certificates bear interest at rates of 3.75 to 5.30 percent. The debt service on the certificates is secured by the lease payments to be made by the City to the City's component unit Financing Corporation. The City funds the debt service from its general fund.Future debt service on the certificates is:

Fiscal Year	Principal	Interest	Total
2012	$ 120,000	$ 223,386	$ 343,386
2013	130,000	217,137	347,137
2014	135,000	210,513	345,513
2015	145,000	203,511	348,511
2016	150,000	196,137	346,137
2017-2021	875,000	860,854	1,735,854
2022-2026	1,115,000	608,885	1,723,885
2027-2031	1,215,000	275,940	1,490,940
2032-2036	500,000	68,860	568,860
Totals	$ 4,385,000	$ 2,865,223	$ 7,250,233

Capital Lease Obligations

The City entered into a lease purchase arrangement for the purchase of a parcel of land in an original amount of $652,500 and construction of solar power facilities in an original amount of $843,537. Under the arrangements, the city is obligated to appropriate in its annual budget sufficient amounts to provide for the lease payments. The parcel of land was recorded as a capital asset of the City in the amount of $652,500. The solar facilities lease arrangement is payable in annual installments with zero interest. The land parcel lease bears interest at 4.6 percent per annum. Future minimum annual lease payments are as follows:

Fiscal Year	Solar Facilities`	Land Parcel
2012	$ 52,727	$ 60,699
2013	52,727	60,699
2014	52,727	60,699
2015	52,727	60,699
2016	52,727	60,699
2017-2021	263,637	273,146
2022-2025	210,909	-
Total minimum future lease payments	738,183	576,641
Less amount representing interest	-	(113,713)
Net present value of future minimum lease payments	$ 738,183	$ 462,928

4. Detailed Notes on All Funds (Continued)
E. Long-Term Debt (Continued)

Agreement Payable

The City has an agreement with the Sewerage Agency of Southern Marin to reimburse the Agency for capital improvements made for the City by the Agency. The original amount was for $207,312 and is repayable annually from reclaimed water payments made to the Agency by the City with approximately 57 percent of such payments being applied against the City's obligation. The balance owing at June 30, 2011 is $35,320.

Pension Obligation Bonds

On May 7, 2008, the City of Mill Valley issued $6,775,000 of taxable Pension Obligation Bonds, Series 2008, for the purpose of obtaining financing to refund and pay down the unfunded actuarial accrued liability to the State of California Public Employees Retirement System (PERS) applicable to the Police and Fire employee groups and the non-safety employee group. The pension obligation bonds bear interest at the rate of 5.76 percent per annum compared to the 7.75 percent rate on the unfunded actuarial accrued liability. The bonds mature each June 1 through 2033; and the bonds are not subject to optional redemption prior to their maturity. The bonds are not an obligation for which the City is obligated to levy or pledge any form of taxation. The City has agreed to pay the debt service on these bonds, but it has not pledged any specific source of revenue or funds for such repayments. Future debt service is.

Fiscal Year	Principal	Interest	Total
2012	$ 290,000	$ 353,376	$ 643,376
2013	330,000	336,672	666,672
2014	370,000	317,664	687,664
2015	415,000	296,352	711,352
2016	465,000	272,448	737,448
2017-2021	1,350,000	996,192	2,346,192
2022-2026	775,000	761,760	1,536,760
2027-2031	1,370,000	474,912	1,844,912
2032-2033	770,000	67,680	837,680
Totals	$ 6,135,000	$ 3,877,056	$ 10,012,056

Changes in Long-term liabilities

Long-term debt activity for the 2011 fiscal year was as follows:

Governmental activities:	Balance Beginning	Additions	Deletions	Balance Ending	Due In One Year
Certificates	$ 4,505,000	$ -	$ 120,000	$ 4,385,000	$120,000
2006 Revenue bonds	3,625,000	-	135,000	3,490,000	140,000
Compensated absences	1,605,176	909,066	1,033,115	1,481,127	868,843
Agreement SASM	50,747	-	15,420	35,320	16,000
Capital lease- solar	790,910	-	52,727	738,183	52,727
Capital lease - land	501,013	-	38,086	462,928	39,857
Pension obligation bonds	6,390,000	-	255,000	6,135,000	290,000
Claims and judgments	1,216,995	330,012	200,000	1,347,007	411,849
	$ 18,684,841	$1,239,078	$ 1,849,348	$ 18,074,565	$1,939,276

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, due to the costs of available coverage, participates as a member in joint powers insurance authorities as follows:

Workers Compensation Insurance - The City was a member of the Marin County Risk Management Authority. Under the arrangement, the risk of loss below $100,000 was not transferred to the Authority. The Authority maintained separate accounts for each participant, and each participant is responsible for paying its own claim liabilities. Claims exceeding the City's $100,000 self-insured limit are covered by the Authority's insurance policies provided by outside insurance carriers up to the statutory limit. The City accounts for its insurance activities in its general fund. Effective in fiscal year 2004, the Authority was dissolved and related assets were transferred to the Bay Cities Joint Powers Insurance Authority which now provides coverage to the City for workers compensation insurance. The City is fully responsible for all prior claims at the date of transfer of related assets. Under the new arrangement, the City is self-insured for the first $100,000 of each claim with the Authority responsible for losses above that amount.

Liability and Property Insurance - The City is a member of the Bay Cities Joint Powers Insurance Authority. The City through the Authority participates in group purchased property, earthquake, flood, boiler and machinery, and general liability insurance coverages. The risk of loss is transferred to the Authority except for the first $100,000 of general liability claims for which the City is self-insured and retains the risk of loss. The Authority is self-insured for the first $ 1 million per claim less each members self-insured limit. The Authority participates in an excess pool, California Affiliated Risk Management Authorities, which provides general liability coverages for $14 million in excess of the above stated $ 1 million. Each participant is insured for the replacement cost of property. The all risk property coverage provided by the Authority has a $ 1 billion limit per occurrence for all members in the aggregate.

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.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 6/30/2011	Year Ended 6/30/2010
Unpaid claims, beginning of fiscal year	$ 1,216,995	$ 1,385,189
Incurred claims (including IBNRs)	533,362	-
Claim payments	(403,350)	(168,194)
Unpaid claims, end of fiscal year	$ 1,347,007	$ 1,216,995

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.

Commitments. Under the City's arrangement with the Marin Emergency Radio Authority, the City is obligated to make annual payments to the Authority for the use of the Authority's system and facilities. This obligation is used by the Authority as security for repayments of the Authority's revenue bonds and is unconditional. The City's obligation over the next twenty years is about $1.7 million payable annually in annual installments of about $90,000.

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 other than the insurance authorities described in the preceding notes:

Marin Telecommunications Agency. This Agency was established for the purpose of regulating rates for cable television systems and is governed by representatives from member governments. The City's financial responsibility is to pay a proportionate share of the Agency's budget based upon the City's relative number of subscribers.

Marin Central Services Authority. This authority was formed for the purpose of acquiring street lighting facilities owned by PG & E. The Authority is governed by one member from Marin County, and certain cities and special districts within Marin County. The City's financial responsibility is limited to a percentage share of the purchase cost of acquired facilities.

Sewerage Agency of Southern Marin. This agency was formed for the purpose of providing sanitary sewerage treatment facilities to governments in Southern Marin County. Members include the City of Mill Valley, four sanitation districts, and one community services district. The City maintains the accounting records and acts as the fiscal agent for this Agency. The City's obligation under this arrangement is to pay a substantial prorata share of the Agency's operating and capital costs. In fiscal year 2011, the City paid $1,459,377 to the Agency

Southern Marin Emergency Medical Paramedic System. The system was formed for the purpose of providing emergency medical paramedic care within Southern Marin County. The System is governed by representatives from three cities, three fire protection districts and the County. The City maintains the accounting records for the System and serves as the System's fiscal agent. The City's obligation under the arrangement is to provide manpower to assist in operating the System. The System each fiscal year makes distributions to members as payments for services rendered. In fiscal 2011, the City received a $ 158,478 payment from the System.

Marin Emergency Radio Authority. The Authority was formed by the County, the City of Mill Valley and 24 other governmental agencies for the purpose of financing and operating a County-Wide public safety and emergency radio system. To accomplish this purpose, the Authority in 1999 issued $27 million in revenue bonds. The City's financial responsibility under the arrangement is to make service payments to the Authority for a prorate share of the use of the Authority's system. In fiscal 2011, the City paid $ 78,960 to the Authority.

5. Other Information (Continued)

D. Public Employees Retirement System

Plan Description. The City of Mill Valley contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. The PERS issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the City are established by and may be amended by PERS. Regular plan members are required to contribute 7.0 percent of their annual covered salary, and safety plan members are required to contribute 9 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate for regular employees is 11.245 percent of covered payroll and 15.99 weighted average percent of covered payroll for safety employees. The City's annual pension cost for the most recent three- year period is as follows:

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
Regular employees	6/30/09	$ 723,957	100%	$ -
	6/30/10	$ 742,918	100%	$ -
	6/30/11	$ 739,156	100%	$ -
Safety employees	6/30/09	$ 633,064	100%	$ -
	6/30/10	$ 613,586	100%	$ -
	6/30/11	$ 671,925	100%	$ -

E. Restricted Net Assets and Nonspendable Fund Balances

The $ 2,358,924 restricted amount in the governmental activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments. Most of the restricted amount is related to debt service funds, police grants, sanitation funds, state gas tax funds and other funds with formal restrictions on their use. Nonspendable amounts were as follows:

Nonspendable Amounts	General Fund
Inventories	$ 143,374
Prepayments	145,562
	$ 288,936

5. Other Information (Continued)

F. Postemployment Health Care Plans

Plan Description. The City of Mill Valley administers the City of Mill Valley Retired Employees Health Care Plan, a single-employer defined benefit healthcare plan. The City of Mill Valley Issues a publicly available financial report for the Retired Employees Health Care Plan that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by writing to the City of Mill Valley, 26 Corte Madera Avenue, Mill Valley, California 94941.

Summary of Significant Accounting Policies. The financial statements of the City of Mill Valley Retired Employees Health Care Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used To Value Investments. Investments of the Plan are reported at fair value which for the Plan is determined by bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the City of Mill Valley with the assistance of a valuation service.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the City. For the fiscal year ended June 30, 2011, the City contributed $511,630 to the plan for current year premiums (100% of total premiums) and $250,000 to prefund benefits. Plan members receiving benefits contributed zero of the total premiums.

Annual OPEB Costs and Net OPEB Obligation. The City's annual other post employment benefit (OPEB) costs (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan:

Annual required contribution (ARC)	$ 2,250,633
Interest on net OPEB obligation	147,206
Adjustment to annual required Contribution (ARC)	(149,259)
Annual OPEB cost (expense)	2,248,580
Contributions made	(761,630)
Increase in net OPEB Obligation	1,486,950
Net OPEB obligation, beginning of year	3,405,945
Net OPEB obligation, end of year	$ 4,892,895

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30,2011	$2,248,580	33.87%	$4,892,895

5. Other Information (Continued)

F. Postemployment Health Care Plans (Continued)

Funding Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, the Plan was 13.1 percent funded. The actuarial accrued liability for benefits was $23,326,000, and the actuarial value of Plan assets was $3,044,000, resulting in an unfunded actuarial accrued liability (UAAL) of $20,282,000. The covered payroll (the annual payroll of active employees covered by the Plan) was $9,479,000, and the ratio of the UAAL to the covered payroll was 214 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eight years. The actuarial value of assets was determined using techniques that spread the effects of short term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll over 28 years; the remaining amortization period at June 30, 2011.

G. Change in Accounting Principle

As required by Governmental Accounting Standards Board Statement 54, titled, Fund Balance Reporting and Governmental Fund Type Definitions, the City in fiscal 2010-2011, implemented the provisions that require the classification of governmental fund type fund balances into various categories. This change had no impact on the beginning of year fund balances of the City's governmental fund types.

H. Subsequent Event

On December 21, 2011, the City issued $4,115,000 in Certificates of Participation, 2011 Community Center Refinancing Project, for the purpose of refunding the City's 1999 Certificates of Participation previously issued to provide financing for the City's Community Center.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

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Required Supplementary Information
CITY OF MILL VALLEY
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Fund Balance, July 1	6,925,464	$ 9,159,104	$ 9,159,104	$ -
Resources (inflows):				
Property taxes	11,902,026	11,902,026	11,579,122	(322,904)
Other taxes	3,957,463	3,957,463	4,394,900	437,437
License permits	456,500	456,500	557,751	101,251
Fines and forfeits	246,750	246,750	170,029	(76,721)
Interest and rents	651,956	651,956	657,605	5,649
Intergovernmental	3,333,977	3,333,977	2,760,312	(573,665)
Charges for services	3,463,990	3,463,990	3,606,565	142,575
Miscellaneous	100,472	150,200	218,224	68,024
Amounts available for charges to appropriations	31,038,598	33,321,966	33,103,612	(218,354)
Charges to appropriations:				
General government:				
City council	74,386	74,386	64,292	10,094
City manager	441,910	471,200	504,294	(33,094)
City clerk	145,876	147,016	142,337	4,679
Finance	555,388	555,388	543,204	12,184
City attorney	175,860	175,860	130,922	44,938
Planning	753,748	816,143	656,999	159,144
Tech services	-	-	(1,085)	1,085
Nondepartmental	1,467,967	1,467,967	1,389,456	78,511
Public safety:				
Police	4,770,956	4,779,818	4,713,620	66,198
Fire services	4,445,927	4,457,372	4,415,379	41,993
Public works:				
Buildings	956,834	958,999	1,057,081	(98,082)
Engineering	469,188	472,995	347,089	125,906
Street maintenance	870,303	870,303	870,472	(169)
General government buildings	-	-	-	-
Vehicle maintenance	9,000	9,000	21,141	(12,141)
Library	1,882,977	1,953,277	1,891,649	61,628
Parks and recreation				
Recreation	436,849	436,849	449,479	(12,630)
Park maintenance	1,176,452	1,183,215	1,190,465	(7,250)
Senior citizen	212,844	217,444	205,411	12,033
Golf course	478,559	480,700	469,327	11,373
Fee programs	916,174	918,652	1,001,225	(82,573)
Aqua fitness	1,313,890	1,315,129	1,294,920	20,209
Community center	718,949	743,436	705,670	37,766
Capital outlay	1,008,623	2,427,074	1,734,245	692,829
Debt service	-	-	675,791	(675,791)
Transfers out	890,231	890,231	649,823	240,408
Total charges to appropriations	24,172,891	25,822,454	25,123,206	699,248
Fund Balance, June 30	$ 6,865,707	$ 7,499,512	$ 7,980,406	$ 480,894

CITY OF MILL VALLEY

Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2011

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:	$ 33,103,612
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(9,159,104)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 23,944,508
Uses/outflows of resources:	
Actual amounts "total charges to appropriations" from the budgetary comparison schedule	$ 25,123,206
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(649,823)
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 24,473,383

Required Supplementary Information
CITY OF MILL VALLEY
Retired Employees Health Care Plan
Schedule of Funding Progress
June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2006	$ 600,094	$ 23,482,000	$ 22,881,906	2.6%	$ 8,521,000	268.5%
6/30/2009	$ 3,044,000	$ 23,326,000	$ 20,282,000	13.1%	$ 9,479,000	214.0%

OPTIONAL SUPPLEMENTARY INFORMATION

NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS

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CITY OF MILL VALLEY
Combining Balance Sheet
Nonmajor Funds
June 30, 2011

	Special Revenue Funds											
	Parking	Sanitation	Gas Tax	Road Impact Fee	Congestion Relief	Proposition 1B	Clean Stormwater	Measure A	Supplemental Law Enforcement Services	Municipal Services	Debt Service Fund	Totals
Assets												
Cash and investments	$ 16,575	$ 196,622	$ 227,954	$ 349,226	$ -	$ 31,898	$ 40,274	$ 105,195	$ 102,280	$ 475,883	$ 709,364	$ 2,255,271
Receivables (net of allowance for uncollectibles):												
Intergovernmental	-	41,292	44,393	33,750	-	-	1,985	37,775	25,000	23,720	6,636	214,551
Total assets	$ 16,575	$ 237,914	$ 272,347	$ 382,976	$ -	$ 31,898	$ 42,259	$ 142,970	$ 127,280	$ 499,603	$ 716,000	$ 2,469,822
Liabilities and Fund Fund Balances												
Liabilities:												
Accounts payable	$ 2,992	$ 44,744	$ 43,860	$ 68,364	$ -	$ -	$ 34,007	$ 44,846	$ 9,125	$ 144,875	$ -	$ 392,813
Accrued liabilities		-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	55	-	-	-	-	-	-	-	-	-	-	55
Total liabilities	3,047	44,744	43,860	68,364	-	-	34,007	44,846	9,125	144,875	-	392,868
Fund balances:												
Restricted for public parking	13,528	-	-	-	-	-	-	-	-	-	-	13,528
Restricted for sanitation	-	193,170	-	-	-	-	-	-	-	-	-	193,170
Restricted for streets	-	-	228,487	314,612	-	31,898	8,252	98,124	-	354,728	-	1,036,101
Restricted for pubic safety	-	-	-	-	-	-	-	-	118,155	-	-	118,155
Restricted for debt service	-	-	-	-	-	-	-	-	-	-	716,000	716,000
Total fund balances	13,528	193,170	228,487	314,612	-	31,898	8,252	98,124	118,155	354,728	716,000	2,076,954
Total liabilities and fund balances	$ 16,575	$ 237,914	$ 272,347	$ 382,976	$ -	$ 31,898	$ 42,259	$ 142,970	$ 127,280	$ 499,603	$ 716,000	$ 2,469,822

CITY OF MILL VALLEY
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Funds
For the Fiscal Year Ended June 30, 2011

	Special Revenue Funds											
	Parking	Sanitation	Gas Tax	Road Imapct Fee	Congestion Relief	Proposition 1B	Clean Stormwater	Measure A	Supplemental Law Enforcement Services	Municipal Services	Debt Service Fund	Totals
Revenues:												
Municipal services tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,176,729	$ -	$ 1,176,729
Property taxes	-	-	-	-	-	-	-	-	-	-	325,407	325,407
Interest	90	8,209	386	4,890	1,062	-	198	-	1,993	2,683	4,342	23,853
Intergovernmental	-	-	364,545	-	-	-	-	392,403	100,000	-	-	856,948
Charges for services	325,347	2,112,108	-	547,912	-	-	94,460	-	-	-	-	3,079,827
Licenses and permits	80,428	-	-	-	-	-	-	-	-	-	-	80,428
Total revenues	405,865	2,120,317	364,931	552,802	1,062	-	94,658	392,403	101,993	1,179,412	329,749	5,543,192
Expenditures:												
Current:												
Public safety	-	-	-	-	-	-	-	-	111,577	-	-	111,577
Streets	-	-	-	-	-	-	116,581	-	-	1,069,340	-	1,185,921
Parking	292,124	-	-	-	-	-	-	-	-	-	-	292,124
Sanitation	-	689,835	-	-	-	-	-	-	-	-	-	689,835
Intergovernmental	-	1,459,377	-	-	-	-	-	-	-	-	78,960	1,538,337
Debt service:												
Principal	38,086	15,427	-	-	-	-	-	-	-	-	255,000	308,513
Interest	22,613	-	-	-	-	-	-	-	-	-	397,152	419,765
Capital outlay	-	486,628	176,801	435,990	50,808	-	-	338,474	-	-	-	1,488,701
Total expenditures	352,823	2,651,267	176,801	435,990	50,808	-	116,581	338,474	111,577	1,069,340	731,112	6,034,773
Excess(deficiency) of revenues over (under) expenditures	53,042	(530,950)	188,130	116,812	(49,746)	-	(21,923)	53,929	(9,584)	110,072	(401,363)	(491,581)
Other financing sources (uses):												
Transfers in	-	-	-	-	-	-	-	-	-	-	426,318	426,318
Transfers out	(14,683)	-	-	-	-	-	-	-	-	-	-	(14,683)
Total other financing sources(uses)	(14,683)	-	-	-	-	-	-	-	-	-	426,318	411,635
Net change in fund balances	38,359	(530,950)	188,130	116,812	(49,746)	-	(21,923)	53,929	(9,584)	110,072	24,955	(79,946)
Fund balances, July 1	(24,831)	724,120	40,357	197,800	49,746	31,898	30,175	44,195	127,739	244,656	691,045	2,156,900
Fund balances, June 30	$ 13,528	$ 193,170	$ 228,487	$ 314,612	$ -	$ 31,898	$ 8,252	$ 98,124	$ 118,155	$ 354,728	$ 716,000	$ 2,076,954

APPENDIX C

INVESTMENT POLICY OF THE CITY

I. INTRODUCTION

The purpose of this policy is to assure a prudent and systematic investment program and to organize and formalize investment-related activities.

All funds shall be invested in accordance with this Annual Investment Policy. The Annual Investment Policy is based on the California Government Code Section 53601 et seq. (herein after referred to as the "Code") related to the investment of public funds and prudent money management.

II. SCOPE

It is intended that this Annual Investment Policy cover all funds and investment activities under the direction of the City.

III. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard, which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of public trust. The City shall recognize that no investment is totally riskless and that the investment activities of the City are a matter of public record. Investment officers acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

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

1) *Safety*. Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2) *Liquidity*. The City's investment portfolio shall remain sufficiently liquid to enable the City to meet its cash flow requirements.

3) *Total Return On Investment*. The City's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

Safety of principal is the primary objective of the City. Each investment transaction shall seek to ensure that large capital losses are avoided from securities or broker-dealer default. The City shall seek to ensure that capital losses are minimized from the erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only permitted investments and by diversifying the investment portfolio according to this Annual Investment Policy.

Market risk, the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by matching maturity dates, to the extent possible, with the City's expected cash flow draws. It is explicitly recognized herein, however that, in a diversified portfolio, occasional losses is inevitable and must be considered within the context of the overall investment return.

V. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the City Manager who shall monitor and review all investments for consistency with this investment policy. The City Manager may delegate responsibility for day-to-day management of the portfolio. No person may engage in an investment transaction except as provided under the limits of this policy. The City Manager may also delegate the investment decision-making and execution authority to an investment advisor. The advisor shall follow the policy, which has been approved by the Council and such other written instructions as are provided.

VI. ETHICS AND CONFLICT OF INTEREST

Employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. City employees involved in the investment process shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

VII. INTERNAL CONTROLS

The City Manager or his designee shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentations by third parties and imprudent actions by employees of the City. The internal controls shall be reviewed with the Finance and Human Resources Director/Treasurer and the independent external auditor. The Finance and Human Resources Director/Treasurer shall perform a review of the internal controls at least on an annual basis.

VIII. PERMITTED INVESTMENT INSTRUMENTS

The City's policy is to invest only in instruments as permitted by the Code, subject to the limitations of this Annual Investment Policy. Permitted investments in the portfolio shall provide sufficient liquidity to enable the City to meet its cash flow requirements and shall not exceed a maximum stated term of up to three (3) years. The Council must grant express written authority to make an investment or to establish an investment program of a term longer than three (3) years.

Maturity shall mean the stated final maturity of the security, or the unconditional put option date if the security contains such provision. Term or tenure shall mean the remaining time to maturity when purchased.

Permitted investments shall include:

1. *U.S. Treasury Obligations*: United States Treasury notes, bonds, bills or certificates of indebtedness, or those obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. *Obligations of Federal Agencies and U.S. Government Sponsored Enterprises*: Obligations issued by Banks for Cooperatives, Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participation's, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participation's, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise, or such agencies or enterprises which may be created.

3. *State of California Obligations*: Registered state warrants, treasury notes or bonds of the State of California, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of this State.

4. *Local Agency Obligations*: Bonds, notes, warrants or other evidences of indebtedness of any local agency of the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by a local agency or by a department, board, agency or authority of a local agency. Such obligations must be rated A-1/P-1, or equivalent or better short-term; or Aa/AA or better long term by two national rating agencies.

5. *Bankers' Acceptances*: Bills of exchange or time drafts drawn on and accepted by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest letter and numerical rating (A-1/P-1) by Moody's Investors Services and by Standard & Poor's Corporation. Purchases of Banker's Acceptances may not exceed 270 days maturity. No more than five percent of the City's portfolio may be invested in the Banker's Acceptances of any one commercial bank.

6. *Corporate Notes*: Medium-term corporate notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Notes eligible for investment shall be rated in a category "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term corporate notes shall be limited to five percent in any one issuer.

7. *Insured Savings/Money Market Accounts*: Federal Deposit Insurance Corporation (FDIC)-insured savings accounts or Securities and Exchange (SEC)¬-registered money funds.

8. *Negotiable Certificates of Deposit or Deposit Notes*: Issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. Such obligations must have long-term ratings of Aa/AA or better by two national rating agencies.

Purchases of negotiable certificates of deposit shall be limited to five percent in any one issuer. (Deposit notes and bank notes shall be included with negotiable certificates of deposit in calculating allowable maximum percentages.)

9. *Mortgage and Asset-Backed Obligations*: Any mortgage pass-through security collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-backed bond of a maximum of five years maturity. Such obligations must be rated Aa/AA or better long term by two national rating agencies and the issuer of such obligations must be rated Aa/AA or better by two national rating agencies. Purchases of securities authorized by this section shall be limited to five percent in any one non-governmental issuer.

10. *State of California's Local Agency Investment Fund (LAIF)*: In accordance with Section 16429.1 of the California Government Code, the Agency may invest up to the maximum amount permitted by law in LAIF. The LAIF portfolio, including its average maturity, credit quality and Investment Policy shall be reviewed annually.

11. *Commercial Paper*: Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating (A-1/P-1) as provided by Moody's Investors Service, Inc. and Standard & Poor's Corporation; provided that the issuing corporation is organized and operating within the United States, has total assets in excess of $500 million and has an "A" or higher rating for its long-term debt, if any, as provided by Moody's or Standard & Poor's.

Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 25 percent of the City's portfolio. No more than five percent of City's portfolio may be invested in Commercial Paper of any one corporation pursuant to this section.

Credit criteria listed in this section refer to the credit of the security or the issuing organization at the time the security is purchased.

IX. INELIGIBLE INVESTMENTS

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are prohibited include,

(a) Inverse floaters, range notes, dual index notes, leveraged or de-leveraged floating ¬rate notes, or interest-only strips that are derived from a pool of mortgages.

(b) Any security that could result in zero interest accrual if held to maturity.

(c) Any security with an unusually high degree of interest rate sensitivity or credit risk.

(d) Any security that is foreign currency denominated.

X. RATING DOWNGRADES

The City may from time to time be invested in a security whose rating is downgraded. In the event of a downgrade, the City Manager or his designee shall report the downgrade to the Council at the next scheduled presentation of the portfolio. In the event of a downgrade below the minimum credit rating criteria permitted by this investment policy, the designated investment manager shall immediately report the downgrade to the City Manager. The City Manager or his designee shall report to the Council, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

XI. DIVERSIFICATION

Investments shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, specific issue, or specific class of securities. Diversification limits ensure the portfolio is not unduly concentrated in the securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

INSTRUMENTS	Maximum % of Portfolio at Time Of Purchase
A. U.S. Treasuries (including U.S. Treasury Coupon and principal STRIPS	100% (Code)
B. Federal Agencies and U.S. Government Sponsored Enterprises	100% (Code)
C. State of California Obligations	25% (Code 100%)
D. Bankers Acceptances	25% (Code 40%)
E. Negotiable Certificates of Deposit	30% (Code)
F. Corporate Securities/Certificates of Deposit	30% (Code)
G. Mortgage and Asset-backed Securities	30% (Code)
H. Money Market Funds	20% (Code)
I. Commercial Paper	25% (Code)
J. California Local Agency Investment Fund (LAIF)	100% (Code)

Issuer/Counterparty Diversification Guidelines - The percentages specified below shall be adhered to on the basis of the entire portfolio:

i. Any one Federal Agency or Government Sponsored Enterprise (except LAIF) 35%
ii. Any one repurchase agreement counterparty name
If maturity/term is < 7 days 50%
If maturity/term is > 7 days 25%

Issuer/Counterparty Diversification Guidelines for All Other Securities described in Subsections A. - J. in XI. Permitted Investments of this Annual Investment Policy:

Any one corporation, bank, local agency or other corporate name for one or more series of securities, and specifically with respect to special purchase vehicles issuers for mortgage and asset-backed securities, the maximum applies to all such securities backed by the same type of assets of the same issuer. 5%

XII. SALES PRIOR TO MATURITY

In the effort to maximize portfolio performance, the City, may, from time to time, sell securities that it owns in order to better reposition its portfolio assets in accordance with updated cash flow schedules or better market opportunities.

XIII. REPORTING REQUIREMENTS

In accordance with Government Code Sections 53600 through 53609, the City Manager or his designee shall annually render to the Council a statement of investment policy, which the Council shall consider at a public meeting.

The City Manager shall render a monthly investment report to the Council. The report shall be submitted within 30 days following the end of the month. The following shall be included, if applicable.

- Type of investment instrument (i.e. Treasury Bill, medium-term note)
- Issuer names
- Purchase date (trade and settlement date)
- Maturity date
- Par value
- Purchase price
- Coupon rate
- Call/refunding date and price
- Discounts or premiums, if any
- Accrued interest paid at purchase, if any
- Accrued interest to date
- Amortization of premium/discount
- Overall portfolio yield based on cost
- Yield at market
- Book value
- Current market value and the source of the valuation
- Current credit rating of each security other than U.S. Treasuries
- Average maturity or duration
- Unrealized market value gain or loss (i.e., market value-book value)
- Other special features, characteristics, or comments

The report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a statement denoting the ability of the City to meet its cash expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

XIV. SAFEKEEPING AND CUSTODY

All securities owned by the City shall be kept in safekeeping with “perfected interest” in the name of the City by a third-party bank trust department, acting as agent for the City under the terms of a custody agreement executed between the bank and the City. All securities shall be received and delivered using standard delivery versus payment procedures. (Revised 4/06)

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

City Council of the
City of Mill Valley
26 Corte Madera Avenue
Mill Valley, California 94941

OPINION: $5,700,000* Certificates of Participation (2012 Sewer System Financing Project), Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the City of Mill Valley (Marin County, California), As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Mill Valley Public Financing Authority

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Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Mill Valley (the "City"), of its $5,700,000* Installment Sale Agreement, dated as of September 1, 2012, by and between the Mill Valley Public Financing Authority (the "Authority") and the City (the "Installment Sale Agreement"), pursuant to the California Government Code. The Authority has, pursuant to the Assignment Agreement, dated as of September 1, 2012 (the "Assignment Agreement"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), assigned certain of its rights under the Installment Sale Agreement, including its right to receive installment payments made by the City thereunder (the "Installment Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of September 1, 2012, by and among the Trustee, the Authority and the City (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Installment Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Installment Sale Agreement and the Trust Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation and general law city with the power to enter into the Installment Sale Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Installment Sale Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City valid, binding and enforceable against the City in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

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* Preliminary, subject to change.

4. Subject to the terms and provisions of the Installment Sale Agreement, the Installment Payments to be made by the City are payable from a first and prior lien on Net Revenues of the Sewer System (as such terms are defined in the Installment Sale Agreement) on a parity with certain outstanding obligations. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Installment Payments in accordance with the terms and provisions of the Trust Agreement.

5. Subject to the City's compliance with certain covenants, the portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but we express no opinion as to whether the portion of the Installment Payments designated as and comprising interest is taken into account in computing adjusted current earnings which is used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause the portion of the Installment Payments designated as and comprising interest to be includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates. It is also our opinion that the Installment Sale Agreement is a "qualified tax exempt obligation" under section 265(b)(3) of the Code.

6. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

Ownership of the Certificates may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Certificates.

The rights of the owners of the Certificates and the enforceability of the Trust Agreement and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

With respect to the opinions expressed herein, the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition of certain fees and charges by the City related to the Sewer System under Articles XIIIC and XIIID of the California Constitution. In addition, the rights of the owners of the Certificates and the enforceability of the Trust Agreement and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the City and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement prepared for Certificates. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the City and from the Trustee.

DEFINITIONS

"*Assignment Agreement*" means the agreement by that name, dated as of September 1, 2012, by and between the Authority and the Trustee, together with any amendments or supplements thereto.

"*Authority*" means the Mill Valley Public Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State.

"*Authority Representative*" means the Chair, the Executive Director and the Treasurer of the Authority, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the Authority under or with respect to the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement.

"*Business Day*" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

"*Certificate Register*" means the registration books relating to the Certificates maintained by the Trustee in accordance with the Trust Agreement.

"*Certificates*" means the Certificates of Participation executed and delivered pursuant to the Trust Agreement.

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

"*City Representative*" means the Mayor, the City Manager, the Finance and Human Resources Director, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the City under or with respect to the Installment Sale Agreement and the Trust Agreement.

"*Closing Date*" means September 12, 2012, the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase of the Certificates by the Original Purchaser.

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

"*Debt Service*" means the scheduled amount of interest and amortization of principal payable with respect to the Certificates during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning or during such period.

"*Defeasance Obligations*" means:

(a) cash;

(b) non-callable Federal Securities (including State and Local Government Securities);

(c) direct obligations of the United States of America which have been stripped by the Department of the Treasury of the United States of America;

(d) CATS, TIGRS and similar securities;

(e) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America: (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) participation certificates of the General Services Administration; (v) guaranteed Title XI financings of the U.S. Maritime Administration; (vii) New Communities debentures; (vii) U.S. government guaranteed public housing notes and bonds; and (viii) project notes and local authority bonds of the U.S. Department of Housing and Urban Development; and

(f) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; provided, however, pre-refunded municipal bonds rated by S&P only (i.e., no Moody's rating) are acceptable if such pre-refunded municipal bonds were pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipal bonds.

"*Delivery Costs*" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the refinancing and financing of the Project from the proceeds of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges and first year's administration fee of the Trustee, Trustee's counsel fees and expenses, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for execution, transportation and safekeeping of the Certificates and travel expenses.

"*Delivery Costs Fund*" means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*Event of Default*" means an event of default under the Installment Sale Agreement.

"*Fair Market Value*" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) 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 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) or obligations the payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"*Fiscal Year*" means any period of twelve (12) consecutive months established by the City as its fiscal year and shall initially mean the period commencing July 1 of one year and ending on June 30 of the following year.

"*Gross Revenues*" means all gross income and revenue received by the City from the ownership and operation of the Sewer System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Sewer System, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is not limited by or pursuant to the law to the Sewer System, (c) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Sewer System as permitted in the Installment Sale Agreement, and (d) all investment earnings credited by the Trustee under the Trust Agreement to the Installment Payment Fund; *provided, however*, that the term "Gross Revenues" shall not include customers' deposits or any other deposits subject to refund until such deposits have become the property of the City.

"*Independent Counsel*" means an attorney or a firm of attorneys duly admitted to the practice of law before the highest court of the state in which he or such firm maintains an office and who is not an employee of the Authority, the Trustee or the City.

"*Information Services*" means the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org) or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the Certificates.

"*Installment Payment*" means any payment required to be paid by the City to the Authority pursuant to the Installment Sale Agreement.

"*Installment Payment Date*" means the 20th day of each June and December, commencing December 20, 2012.

"*Installment Payment Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Installment Sale Agreement*" means the agreement by that name, dated as of September 1, 2012, by and between the Authority and the City, and any duly authorized and executed amendment or supplement thereto.

"*Insurance and Condemnation Fund*" means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*Interest Payment Date*" means January 1 and July 1 of each year, commencing January 1, 2013.

"*Moody's*" means Moody's Investors Service, New York, New York, or its successors.

"*Net Proceeds*" means any insurance proceeds or condemnation award paid with respect to the Project, remaining after payment therefrom of all expenses incurred in the collection thereof.

"*Net Revenues*" means Gross Revenues less Operation and Maintenance Expenses.

"*Operation and Maintenance Expenses*" means all expenses and costs of management, operation, maintenance and repair of the Sewer System, including operating charges payable to SASM for treatment of wastewater transported to SASM, but excluding (i) debt service or other similar payments on Parity Debt or other obligations, a (ii) depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature; (iii) payments made to SASM which are characterized as "capital costs;" and (iv) any expense classified as discretionary by the City to the operation of the Sewer System.

"*Original Purchaser*" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"*Outstanding*", when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

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

(b) Certificates for the payment or redemption of which funds or eligible securities in the necessary amount, including accrued interest thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"*Owner*" or "*Certificate Owner*" or "*Owner of a Certificate*", or any similar term, means the person in whose name a Certificate shall be registered.

"*Parity Debt*" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues equally and ratably with the Installment Payments. For all purposes of the Installment Sale Agreement, the SASM Financing Agreement and the City's obligations thereunder shall constitute Parity Debt.

"*Permitted Encumbrances*" means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Installment Sale Agreement, permit to remain unpaid; (b) the Installment Sale Agreement and the assignment of the Authority's interests in the Installment Sale Agreement pursuant to the Assignment Agreement; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law and (d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of the Installment Sale Agreement.

"*Permitted Investments*" means any of the following, but only to the extent that the same are acquired at Fair Market Value, provided that the Trustee is entitled to rely upon any investment direction received by it under the Trust Agreement as a certification that such investment constitutes a Permitted Investment under the Trust Agreement:

(a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America or any certificates, receipts, securities or other obligations evidencing ownership or the right to receive a specified portion of payments to be made on any such security;

(b) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Farm Credit Bank, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; or by any agency, department or instrumentality of the United States if such obligations are rated within the top two ratings of a nationally recognized rating service;

(c) bonds of the State or of any county or city or other political subdivision of the State, and other obligations the interest on which is excluded from gross income for federal income tax purposes, for which a nationally recognized rating service is maintaining a rating within the top two ratings of such rating service;

(d) repurchase agreements with banks (including the Trustee), lead banks of parent holding companies, or savings and loan associations, with a combined capital and surplus aggregating at least fifty million dollars ($50,000,000) and the unsecured securities of which are rated by a nationally recognized rating service within the top two ratings of such rating service, or secured by a letter of credit issued by such bank, lead bank or savings and loan association, or the underlying securities of which are obligations described in clause (a) or (b) of this definition provided that such collateral security continuously has a market value (valued at least quarterly) at least equal to the repurchase price from time to time payable with respect thereto, so long as such underlying obligations or securities are in the possession of the Trustee and provided further that, as evidenced by an opinion of counsel, the Trustee shall have a perfected security interest in such collateral security, free and clear of any third-party claims;

(e) interest-bearing banker's acceptances, investment agreements, demand or time deposits (including certificates of deposit) and guaranteed investment contracts in or with banks (including the Trustee), and savings and loan associations, provided such deposits are either (i) secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (a) or (b) of this definition) of a market value of no less than the amount of moneys so invested or (ii), in or with banks (including the Trustee) or savings and loan associations having a combined capital and surplus of at least fifty million dollars ($50,000,000) and whose rating, or the rating of its parent holding company, is within the top two ratings of a nationally recognized rating service or (iii) fully insured by the Federal Deposit Insurance Corporation;

(f) Investment agreements with any nationally or state-chartered bank, financial institution, insurance company, trust company, or any other publicly traded corporation which has long-term debt obligations rated in one of the two highest rating categories of a nationally recognized rating service;

(g) taxable government money market funds rated in the highest rating category by S&P or whose portfolios are restricted to (i) obligations with maturities of one year or less, issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, or consisting of securities designated in clause (b) of this definition, or (ii) such obligations or repurchase agreements fully collateralized by obligations with an average maturity of one year or less issued or guaranteed as to payment of principal by the full faith and credit of the United States of America if, in the case of this clause (f) only, such portfolio is rated in the top rating category of a national rating agency;

(h) obligations the interest on which is excludable from gross income for purposes of federal income taxation and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (a), (b) or (e) of this definition (not callable by the issuer thereof prior to maturity) and the trust or escrow instructions for which cannot be amended to provide for redemption of such obligations prior to the date set forth in the trust or escrow agreement governing such deposit and are rated by each rating agency then rating the Bonds in its highest rating category; and

(i) the Local Agency Investment Fund of the State, created pursuant to section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"*Prepayment*" means any payment applied towards the prepayment of the Installment Payments, in whole or in part, pursuant to the Installment Sale Agreement.

"*Principal Corporate Trust Office*" means the corporate trust office of the Trustee in Los Angeles, California, or at such other address designated by the Trustee by written notice filed with the City and the Authority.

"*Proceeds*," when used with reference to the Certificates, means the face amount of the Certificates, plus accrued interest and premium, if any, less original issue discount, if any.

"*Project*" means the improvements to the Sewer System described in the Installment Sale Agreement.

"*Project Costs*" means the costs of the acquisition, construction, rehabilitation, equipping, improvement or financing of improvements to, or part of, the Sewer System constituting the Project.

"*Project Fund*" means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*Rating Category*" means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody's and/or S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

"*Regular Record Date*" means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

"*S&P*" means Standard & Poor's Ratings Services, New York, New York, or its successors.

"*SASM*" means the Sewerage Agency of Southern Marin, a joint exercise of powers authority, comprised of the City and six other sewer agencies.

"*SASM Financing Agreement*" means the Financing Agreement, dated as of August 1, 2011, by and between SASM and the City, securing, in part, the SASM Bonds.

"*SASM Payments*" means payments made by the City under the SASM Financing Agreement to pay the City's allocable share of the debt service on the SASM Bonds.

"*Securities Depositories*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041 Attention: Call Notification Department; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

"*Sewer System*" means any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the disposal or reuse of sewer, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, including all additions, extensions, expansions, improvements and betterments thereto and equippings thereof.

"*State*" means the State of California.

"*Subordinate Debt*" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues subordinate to the Installment Payments.

"*Term of the Installment Sale Agreement*" means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

"*Trustee*" means The Bank of New York Mellon Trust Company, N.A., or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

"*Trust Agreement*" means the agreement by that name, dated as of September 1, 2012, by and among the Trustee, the Authority and the City, together with any amendments or supplements thereto permitted to be made thereunder.

"*Written Certificate*" of the City means a written certificate signed in the name of the City by a City Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Trust Agreement or the Installment Sale Agreement, each such certificate shall include the statements provided for in the Trust Agreement or the Installment Sale Agreement.

INSTALLMENT SALE AGREEMENT

Sale

Upon the terms and conditions set forth in the Installment Sale Agreement, the Authority sells, bargains and conveys the Project to the City, and the City purchases the Project from the Authority.

Title

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

Term of the Installment Sale Agreement

The Term of the Installment Sale Agreement shall commence as of the Closing Date and shall end on July 1, 2042, unless such term is extended or sooner terminated. If on July 1, 2042, the Trust Agreement shall not be discharged by its terms, then the Term of the Installment Sale Agreement shall be extended until the date on which the Trust Agreement shall be discharged by its terms. If prior to July 1, 2042, the Trust Agreement shall be discharged by its terms, the Term of the Installment Sale Agreement shall thereupon end.

Installment Payments

Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, as the purchase price of the Project, the Installment Payments, consisting of components of principal and interest, on the Installment Payment Dates and in the amounts specified in the Installment Sale Agreement, except such amounts shall be reduced by moneys on deposit in the Installment Payment Fund and credited to the payment of Installment Payments next due. The Installment Payments shall be payable solely from Net Revenues. The first Installment Payment shall be due on December 20, 2012.

Reduction Upon Partial Prepayment. In the event the City prepays less than all of the remaining principal components of the Installment Payments, the amount of such prepayment shall be applied to reduce the principal component of the subsequent remaining Installment Payments in inverse order of Installment Payment Date and the interest component of each subsequent remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates redeemed as a result of such prepayment.

Rate on Overdue Payments. In the event the City should fail to make any of the payments required in Installment Sale Agreement so that there are insufficient moneys on hand in the Installment Payment Fund to pay any Installment Payment in full on an Installment Payment Date, the Installment Payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date thereof at the rate of interest payable with respect to the Certificates.

Assignment. The City understands and agrees that the Authority has assigned its right, title and interest (but not its duties or obligations) in the Installment Sale Agreement to the Trustee pursuant to the Assignment Agreement for the benefit of the Owners and the City assents to such assignment. The Authority directs the City, and the City agrees, to pay to the Trustee at the Trustee's principal corporate trust office or at such other place as the Trustee shall direct in writing, all payments payable by the City pursuant to Installment Sale Agreement.

Special Obligation of the City

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

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

Nothing contained in Installment Sale Agreement shall be construed to release the Authority from the performance of any of the agreements on its part contained in the Installment Sale Agreement, and in the event the Authority shall fail to perform any such agreements on its part, the City may institute such action against the Authority as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the first sentence of the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's right of possession, occupancy and use under the Installment Sale Agreement, and in such event the Authority agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Pledge of Net Revenues; Deposits to Pay Installment Payments; Release from Lien

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

Transfer to Pay Installment Payments. In order to provide for the payment of Installment Payments when due, the City shall, on or before each Installment Payment Date, transfer to the Trustee for deposit into the Installment Payment Fund the amount indicated in the Installment Sale Agreement as required for the next occurring Installment Payment Date. The City shall be obligated to make Installment Payments sufficient to pay all principal and interest due with respect to the Certificates.

Release from Lien. Following the transfer described above with respect to the June 20 Installment Payment Date, Net Revenues in excess of amounts required for the payment of Installment Payments and any Parity Debt in that Fiscal Year shall be released from the lien of the Installment Sale Agreement and shall be available for any lawful purpose of the City.

Limitation on Use of Net Revenues for Capital Improvements. The City agrees that Net Revenues shall not be applied for the payment of capital improvements relating to the Sewer System until such Net Revenues have been released from the lien of the Installment Sale Agreement as described above.

Rate Covenant

The City covenants that it shall prescribe, revise and collect such charges for the services and facilities of the Sewer System which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.25 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt.

If, in any Fiscal Year, charges for the services and facilities of the Sewer System which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues insufficient in each Fiscal Year to provide Net Revenues equal to at least 1.25 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt, the City covenants and agrees notify the Trustee of such fact and to employ an independent consultant to make recommendations as to a revision of the rates, fees and charges of the Sewer System or the methods of operation of the Sewer System that will result in producing Net Revenues equal to at least 1.25 times (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt.

The City covenants and agrees that it shall, promptly upon its receipt of such recommendations from such consultant, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the City Council that such recommendations, in whole or in part, are in the best interests of the City, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. In the event that the City fails to comply with such recommendations, subject to the applicable requirements or restrictions imposed by law and to the determination of the City Council of the City that such recommendations are in the best interests of the City, the Authority, or its assignee, may, in addition to the rights and remedies elsewhere set forth in the Installment Sale Agreement, and shall, upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and being indemnified to its satisfaction therefor, institute and prosecute an action or proceeding in a court of competent jurisdiction to compel the City to comply with the recommendations and requirements of this paragraph (c). If the City complies in all material respects with the reasonable recommendations of the consultant in respect to said rates, fees, charges and methods of operation or collection, the City will be deemed to have complied with the covenants described above notwithstanding that Net Revenues shall be less than the amount required under the Installment Sale Agreement for such Fiscal Year; provided, however, that such rates, fees, charges and methods of operation or collection shall produce Net Revenues equal to at least 100% of (i) the Installment Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Debt,; provided further, that this sentence shall not be construed as in any way excusing the City from taking any action or performing any duty required under the Installment Sale Agreement or be construed as constituting a waiver of any other Event of Default.

Limitations on Future Obligations Secured by Net Revenues

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

Parity Debt. The City further covenants that, except for obligations issued or incurred to prepay the Installment Payments in full pursuant to Installment Sale Agreement, the City shall not issue or incur any Parity Debt unless:

(i) The City is not in default under the terms of the Installment Sale Agreement;

(ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus, at the option of the City, the additional allowance described below, shall have amounted to at least 1.25 times the sum of the maximum Installment Payments coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (ii):

(A) An allowance for revenues from any additions to or improvements or extensions of the Sewer System to be constructed with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 70% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent consultant employed by the City, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (ii).

(B) An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(iii) Interest with respect to such Parity Debt shall be paid on the Interest Payment Dates.

(iv) Principal with respect to such Parity Debt shall be paid on July 1.

Subordinate Debt. The City further covenants that the City shall not issue or incur any Subordinate Debt unless:

(i) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Subordinate Debt is issued or incurred, as shown by the books of the City shall, after deducting all amounts required for the payment of Installment Payments and any Parity Debt, have amounted to at least 1.00 times the sum of the maximum annual debt service on all Subordinate Debt outstanding immediately subsequent to the incurring of such additional obligations. An allowance for earnings arising from any increase in the charges made for service from the Sewer System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, may be added in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(ii) Interest with respect to such Subordinate Debt shall be paid on the Interest Payment Dates.

(iii) Principal with respect to such Subordinate Debt shall be paid on July 1.

State Loans. The City may borrow moneys from the State to finance improvements to the Sewer System (a "State Loan"), which shall constitute Parity Debt, however the City shall not be required to comply with the requirements of clauses (iv) and (v) of paragraph (b) above. The City shall not make a payment on a State Loan with payment dates that precede the Interest Payment Dates if to do so would cause the City to fail to make a timely payment of the Installment Payments or other Parity Debt and, in such case, the City shall make such payment on a State Loan on to the extent that available Net Revenues would be paid with respect to such State Loan, the Installment Payments and payments with respect to other Parity Debt on a pro rata basis.

Additional Payments

In addition to the Installment Payments, the City shall pay, from Net Revenues, when due all costs and expenses incurred by the Authority to comply with the provisions of the Trust Agreement and the Installment Sale Agreement, including, without limitation, compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement and all costs and expenses of attorneys, auditors, engineers and accountants.

Certain Covenants

Maintenance, Utilities, Taxes and Assessments. The City covenants to operate the Sewer System in an efficient and economical manner and operate, maintain and preserve the Sewer System in good repair and working order.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or the City or levied, assessed or charged against the Sewer System or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Installment Sale Agreement as and when the same become due. The City shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by the Authority, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, or the Project or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Modification of Project. The City shall, at its own expense, have the right to remodel the Project or to make additions, modifications and improvements thereto. All such additions, modifications and improvements shall thereafter comprise part of the Project and be subject to the provisions of the Installment Sale Agreement. Such additions, modifications and improvements shall not in any way damage the Project or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Project, upon completion of any additions, modifications and improvements made pursuant to Installment Sale Agreement, shall be of a value which is not substantially less than the value of the Project immediately prior to the making of such additions, modifications and improvements.

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the City, its members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the construction or operation of the Sewer System (but only if such insurance is available at reasonable cost on the open market from reputable insurance companies). Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $250,000 (subject to a deductible clause of not to exceed $300,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. If the City shall maintain self-insurance, it shall supply to the Trustee a statement of sufficiency by an independent insurance consultant or the City's risk manager on an annual basis. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Installment Sale Agreement, insurance against loss or damage to any structures constituting any part of the Sewer System (excluding transmission and distribution pipelines and equipment in public and private rights-of-way) by fire and lightning, with extended coverage insurance. Such insurance shall be in an amount equal to the greater of 100% of the replacement cost of the Project or the then Outstanding principal amount of Certificates. Such insurance may be subject to a deductible clause of not to exceed ten percent of said replacement cost for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the City, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. If the City shall maintain self-insurance, it will supply to the Trustee a statement of sufficiency by an independent insurance consultant or the City's risk manager on an annual basis. The Net Proceeds of such insurance shall be applied as provided below.

Application of Net Proceeds.

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Project by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and, if the City Representative notifies the Trustee in writing of the City's determination that the replacement, repair, restoration, modification or improvement of the Project is not economically feasible or in the best interest of the City, then such Net Proceeds shall be promptly transferred by the Trustee to the Installment Payment Fund to be applied as provided in Installment Sale Agreement. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred shall be applied to the prompt replacement, repair, restoration, modification or improvement of the Project by the City, upon receipt of a requisition, signed by the City Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed shall be transferred to the Installment Payment Fund. The City covenants that it will commence such replacement, repair, restoration, modification or improvement or indicate that such replacement, repair, restoration, modification or improvement is not economically feasible within 180 days of receipt of such Net Proceeds.

From Eminent Domain Award. The Net Proceeds of any eminent domain award shall be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee pursuant to the Trust Agreement.

Operation of the Sewer System. The City covenants to operate, or cause to be operated, the Sewer System in accordance with customary standards and practices applicable to similar facilities.

Tax Covenants.

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

Private Loan Financing Limitation. The City shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Installment Sale Agreement to satisfy the private loan financing test of section 141(c) of the Code.

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

Small Issuer Exemption from Bank Deductibility Restriction. The City designates the Installment Sale Agreement as a "qualified tax-exempt obligation" for the purposes and within the meaning of section 265(b)(3) of the Code. In support of such designation, the City certifies that (i) the Installment Sale Agreement will be at no time a "private activity bond" (as defined in section 141 of the Code); (ii) as of the Closing Date in calendar year 2012, other than the Installment Sale Agreement, no tax-exempt obligations of any kind have been issued (A) by or on behalf of the City, (B) by other issuers, any of the proceeds of which have been or will be used to make any loans to the City, or (C) any portion of which has been allocated to the City for purposes of section 265(b) of the Code; and (iii) not more than $10,000,000 of obligations of any kind (including the Installment Sale Agreement) issued (A) by or on behalf of the City, (B) by other issuers any of the proceeds of which have been or will be used to make any loans to the City, or (C) any portion of which has been allocated to the City for purposes of section 265(b) of the Code during calendar year 2012 will be designated for purposes of section 265(b)(3) of the Code.

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

Assignment, Sale and Amendment

Assignment by the Authority. The Authority's right, title and interest in the Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the City under the Installment Sale Agreement, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the City consents.

Assignment, Sale and Disposition by the City. The Installment Sale Agreement may not be assigned by the City, and the Sewer System may not be sold by the City during the Term of the Installment Sale Agreement.

The City may lease the Project, or any portion thereof, subject to all of the following conditions:

(a) The Installment Sale Agreement and the obligation of the City to make Installment Payments under the Installment Sale Agreement shall remain obligations of the City;

(b) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of the documents accomplishing such lease;

(c) No such lease by the City shall cause the Project to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State; and

(d) No such lease shall cause the interest component of the Installment Payments to become subject to federal or State personal income taxes.

Amendment of Installment Sale Agreement. Without the written consent of the Trustee, the City will not alter, modify or cancel or agree or consent to alter, modify or cancel the Installment Sale Agreement; excepting only as such alteration or modification may be permitted by the Trust Agreement.

Events of Default and Remedies

Events of Default Defined. The following shall be "events of default" under the Installment Sale Agreement and the terms "events of default" and "default" shall mean, whenever they are used in the Installment Sale Agreement, any one or more of the following events:

(a) Failure by the City to pay any Installment Payment by the Installment Payment Date or failure to make any other payment required to be paid under the Installment Sale Agreement at the time specified in the Installment Sale Agreement; or

(b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Installment Sale Agreement or the Trust Agreement, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; *provided, however*, if the failure stated in the notice cannot be corrected within the applicable period, the Authority, the Trustee or such Owners, as applicable, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; or

(c) The filing by the City of a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the City or of the whole or any substantial part of its property; or

(d) An event of default shall have occurred and be continuing with respect to any Parity Debt.

Remedies on Default. Whenever any event of default referred to in Installment Sale Agreement shall have happened and be continuing, the Authority shall have the right, at its option and without any further demand or notice, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest at the rate or rates specified in the respective Outstanding Certificates from the immediately preceding Installment Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable; and

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under the Installment Sale Agreement.

No Remedy Exclusive. No remedy conferred upon or reserved to the Authority in the Installment Sale Agreement is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Security Deposit

Notwithstanding any other provision of the Installment Sale Agreement, the City may, on any date, secure the payment of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement, of:

(a) in the case of a security deposit relating to all Installment Payments, either (i) an amount which, together with amounts on deposit in the Installment Payment Fund, is sufficient to pay all unpaid Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in the Installment Sale Agreement, or (ii) Federal Securities, together with cash, if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Installment Payment Fund, be fully sufficient to pay all unpaid Installment Payments on their Installment Payment Date; or

(b) in the case of a security deposit relating to a portion of the Installment Payments both (i) a certificate executed by a City Representative designating the portion of the Installment Payments to which the deposit pertains, and (ii) cash or Federal Securities , in such amount as will, together with interest to be received thereon, if any, and an allocable portion of amounts on deposit in the Installment Payment Fund, be fully sufficient in the opinion of an independent certified public accountant, to pay the portion of the Installment Payments designated in the aforesaid City Representative's certificate.

In the event of a deposit described above, all obligations of the City under the Installment Sale Agreement pertaining to the portion of the Project for which the deposit has been made shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all Installment Payments, or the portion of Installment Payments to which the deposit pertains, from the deposit made by City. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Installment Sale Agreement. Upon said deposit, the Authority will execute or cause to be executed any and all documents as may be necessary to release the security provided by the Installment Sale Agreement to the extent of such deposit.

ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Authority and the Trustee, pursuant to which the Authority assigns and transfers to the Trustee, for the benefit of the Owners, certain of the rights of the Authority under the Installment Sale Agreement, including the right to receive Installment Payments under the Installment Sale Agreement and the rights and remedies of the Authority under the Installment Sale Agreement to enforce payment of Installment Payments or otherwise to protect and enforce the Installment Sale in the event of default by the City. Certain rights of the Authority to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

TRUST AGREEMENT

Payment of Project Costs

Amounts in the Project Fund shall be disbursed for Project Costs. Disbursements from the Project Fund shall be made by the Trustee upon receipt of a sequentially numbered requisition requesting disbursement executed by a City Representative. Each such requisition shall:

(i) set forth the account within the Project Fund from which such disbursement is to be made;

(ii) set forth the amounts to be disbursed for payment or reimbursement of previous payments of Project Costs and the person or persons to whom said amounts are to be disbursed;

(iii) state that the amounts to be disbursed constitute Project Costs, that said amounts are required to be disbursed pursuant to a contract entered into therefor by or on behalf of the Authority or the City, or were necessarily and reasonably incurred, and that said amounts are not being paid in advance of the time, if any, fixed for payment;

(iv) state that no amount set forth in the requisition was included in any requisition requesting disbursement previously filed with the Trustee pursuant to the Trust Agreement;

(v) state that there has been compliance with the Installment Sale Agreement relating to the private business use limitation and the private loan limitation;

(vi) state that the amount remaining in the Project Fund, together with interest earnings thereon or deposited therein, will, after payment of the amount set forth in the requisition requesting disbursement, be sufficient to pay all remaining Project Costs as then estimated;

(vii) if such requisition relates to disbursement for a construction portion of the Project, state that (A) insofar as such requisition relates to payment for work, materials, equipment or supplies, such work was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the construction of the Project or delivered to the appropriate site for such purpose, or delivered for storage or fabrication at a place approved by the City, and (B) that an identified percentage of the Project has been completed; and

(viii) if such requisition relates to payment to a contractor, state that no liens have been imposed on the Project as a result of said construction except liens that have not yet ripened or that would attach by operation of law.

The Trustee shall be responsible for the safekeeping and investment of the moneys held in the Project Fund and the payment thereof but the Trustee shall not be responsible for such requisitions.

Payment of Delivery Costs

The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay the Delivery Costs. The Trustee shall disburse moneys in the Delivery Costs Fund only upon a receipt of a sequentially numbered requisition, with bills, invoices or statements attached, signed by a City Representative setting forth the amounts to be disbursed for payment or reimbursement of Delivery Costs and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for Delivery Costs properly chargeable to the Delivery Costs Fund.

The Trustee shall be responsible for the safekeeping and investment of the moneys held in the Delivery Costs Fund and the payment thereof but the Trustee shall not be responsible for such requisitions.

Upon written notice from a City Representative that all Delivery Costs have been paid, but in no event later than January 10, 2013, the Trustee shall transfer any moneys then remaining in the Delivery Costs Fund to the Project Fund, the Delivery Costs Fund shall be closed and the Trustee shall no longer be obligated to make payments for Delivery Costs.

Assignment of Rights in Installment Sale Agreement

The Authority has, pursuant to the Assignment Agreement, transferred, assigned and set over to the Trustee all of its rights, title and interest in the Installment Sale Agreement (excepting only certain of its rights therein), including but not limited to all of the Authority's rights to receive and collect all of the Installment Payments, the Prepayments and all other amounts required to be deposited in the Installment Payment Fund pursuant to the Installment Sale Agreement or pursuant to the Trust Agreement. All Installment Payments, Prepayments and such other amounts which the Authority may at any time be entitled to shall be paid directly to the Trustee and all Installment Payments collected or received by the Authority shall be deemed to be held or to have been collected or received by the Authority as agent of the Trustee.

Installment Payment Fund

All moneys at any time deposited by the Trustee in the Installment Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Authority shall have any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

There shall be deposited in the Installment Payment Fund all Installment Payments and Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Installment Sale Agreement, and any other moneys required to be deposited therein pursuant to the Installment Sale Agreement or pursuant to the Trust Agreement.

All amounts in the Installment Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal, interest and redemption premiums (if any) with respect to the Certificates as the same shall become due and payable, in accordance with the provisions of the Trust Agreement.

Any surplus remaining in the Installment Payment Fund, after redemption and payment of all Certificates, including premiums, if any, and accrued interest (if any) and payment of any applicable fees, costs and expenses to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the City for deposit in the Sewer Fund of the City.

Moneys in Funds; Investment

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

Investments Authorized. Moneys held by the Trustee under the Trust Agreement with respect to a City shall, upon written order of a City Representative received by the Trustee at least two (2) Business Days prior to investment, be invested and reinvested by the Trustee in Permitted Investments. If a City Representative shall fail to so direct investments, the Trustee shall invest the affected moneys in Permitted Investments described in paragraph (f) of the definition thereof. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. Investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment. 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 Trust Agreement. The Trustee shall be entitled to rely conclusively upon the written instructions of a City Representative directing investments as to the fact that each investment is permitted by the laws of the State and constitutes a Permitted Investment under the Trust Agreement, and the Trustee shall not be required to make further investigation with respect thereto. To the extent that any of the requirements concerning any Permitted Investment embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion of counsel to such party that such requirement has been met.

Allocation of Earnings. All interest or income received by the Trustee on investment of the Installment Payment Fund shall, prior to completion of the Project, be transferred to the Project Fund and thereafter shall be retained in the Installment Payment Fund and be applied as a credit against Installment Payments. All interest or income in the Project Fund shall be retained in the Project Fund until the Project Fund is closed. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed.

Amendments

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Authority or the City, (2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Installment Sale Agreement and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising under the Trust Agreement or under the Installment Sale Agreement, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Installment Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon its execution and delivery by the parties thereto as the case may be.

The Trust Agreement and the Installment Sale Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

The Trustee may require an opinion of Independent Counsel that any amendment entered into under the Trust Agreement complies with the provisions of the Trust Agreement and the Trustee may rely conclusively on such opinion.

Certain Covenants

Compliance With and Enforcement of Installment Sale Agreement. The City and the Authority covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Sale Agreement and the Trust Agreement.

The City or the Authority, immediately upon receiving or giving any notice or communication or other document in any way relating to or affecting their respective interests in the Project which may or can in any manner affect such interest, will deliver the same, or a copy thereof, to the Trustee.

The City will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement by the Authority thereunder.

Payment of Taxes. The City will, subject to any right of challenge thereof, pay or cause to be paid all taxes, assessments and other governmental charges, if any, that may be levied, assessed or charged upon the Project or any part thereof, promptly as and when the same shall become due and payable; and the City will keep the Trustee advised in writing of such payments. The City will not suffer the Project, or any part thereof, to be sold for any taxes, assessments or other charges whatsoever, or to be forfeited therefor.

Observance of Laws and Regulations. The City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Sewer System by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City with respect to the Sewer System to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits. The City shall promptly, upon request of the Trustee or any Certificate Owner holding at least 25% in principal amount of the Certificates from time to time, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Project, whether now existing or hereafter developing and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificates. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Certificates may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Events of Default and Remedies

Assignment of Rights. Pursuant to the Assignment Agreement, the Authority transfers, assigns and sets over to the Trustee all of the Authority's rights under the Installment Sale Agreement, including without limitation the Authority's rights to exercise such rights and remedies conferred on the Authority pursuant to the Installment Sale Agreement as may be necessary or convenient (i) to enforce payment of the Installment Payments, Prepayments and any other amounts required to be deposited in the Installment Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Authority's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available under the Trust Agreement pursuant to law or granted pursuant to the Installment Sale Agreement.

Upon the occurrence of an Event of Default, the Trustee may, and shall, at the written direction of the Owners of a majority of the principal amount of Certificates then Outstanding, by written notice to the City, declare the principal of the Installment Payments to be immediately due and payable, whereupon that portion of the principal of the Installment Sale Agreement thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Trust Agreement or in the Installment Payments to the contrary notwithstanding.

Remedies shall be cumulative with respect to the Trustee and the Owners. If any remedial action is discontinued or abandoned, the Trustee and the Owners shall be restored to their former positions.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Installment Sale Agreement, shall be applied by the Trustee in the order following upon presentation of the several Certificates and the stamping thereon 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 under the Trust Agreement (including, but not limited to, the fees, costs and expenses of itself and its counsel) and, after such payment to the Trustee, of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel (including the allocated costs of in-house counsel), together with interest on all such amounts advanced as provided in the Trust Agreement;

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at the rate or rates specified in the respective Certificates (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Defeasance

If all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal with respect to and interest with respect to all Certificates Outstanding, 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 amounts then on deposit in the Installment Payment Fund, is fully sufficient to pay all Certificates Outstanding, including all principal and interest;

(c) by irrevocably depositing with the Trustee or an escrow agent (on terms satisfactory to the Trustee), in trust, cash or Defeasance Obligations in such amount as an independent nationally recognized certified public accountant shall determine in a written report delivered to the Trustee or escrow agent will, together with the interest to accrue thereon and moneys then on deposit in the Installment Payment Fund, if required, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates (including all principal and interest) at or before their respective maturity dates; or

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Installment Payments as more particularly described in the Installment Sale Agreement, said security to be held by the Trustee, as agent for City, and to be applied by the Trustee to Installment Payments representing the obligation of the City under the Installment Sale Agreement, as described in the Installment Sale Agreement;

notwithstanding that any Certificates shall not have been surrendered for payment, all rights under the Trust Agreement of the Owners of the Certificates and all obligations of the Authority, the Trustee and the City under the Trust Agreement with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the City from deposits pursuant to paragraphs (b) through (d) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) through (d) above, the Certificates shall continue to represent direct, undivided and fractional interests of the Owners thereof in Installment Payments under the Installment Sale Agreement.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a) through (d) above, which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the City (including attorneys' fees, including those allocated to in-house counsel), shall be paid over to the City.

APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F, concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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 F. 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. Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (as used in this Appendix E, 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 maturity of the Securities, 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 Standard & Poor's highest rating: 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.

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 the 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 shall 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 the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 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 the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF MILL VALLEY (the "City") in connection with the execution and delivery of $5,700,000* City of Mill Valley (Marin County, California) Certificates of Participation (2012 Sewer System Financing Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2012, by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the City and the Mill Valley Public Financing Authority (the "Trust Agreement"). Pursuant to Section 11.08 of the Trust Agreement, the City covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

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

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"*Dissemination Agent*" shall mean NBS Government Finance Group, DBA NBS, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2011-12 Fiscal Year, which is due not later than March 31, 2013, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year*. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance*. If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification*. The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, as follows:

[TO BE DETERMINED]

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Certificates:

(1) Principal and interest payment delinquencies.

(2) Unscheduled draws on debt service reserves reflecting financial difficulties.

(3) Unscheduled draws on credit enhancements reflecting financial difficulties.

(4) Substitution of credit or liquidity providers, or their failure to perform.

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), 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 governmental 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.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Certificates under the Trust Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Certificate owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid reasonable compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all reasonable expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3. The Dissemination Agent shall have no liability of any kind whatsoever to the Authority, or any other person or entity, arising from or related to the failure of the Dissemination Agent to provide such request to the Authority.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or the type of business conducted.

(b) Compliance as of Issue Date. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Certificate owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF MILL VALLEY

By ____________________________________
Authorized Officer

ACKNOWLEDGED:

NBS GOVERNMENT FINANCE GROUP, DBA
NBS, as Dissemination Agent

By ____________________________________
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	City of Mill Valley
Name of Issue:	Certificates of Participation (2012 Sewer System Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the City of Mill Valley (Marin County, California), As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the Mill Valley Public Financing Authority
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by ________________.

Date: ________________

NBS GOVERNMENT FINANCE GROUP, DBA
NBS, Dissemination Agent

By ____
Authorized Officer

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