

(See "RATINGS" and "BOND INSURANCE" herein)

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

\$31,435,000
CITY OF EL PASO DE ROBLES
2007 GENERAL OBLIGATION REFUNDING BONDS

Dated: Date of Delivery

Due: August 1, as shown below

The City of El Paso de Robles 2007 General Obligation Refunding Bonds (the "Bonds") are general obligations of the City of El Paso de Robles, California (the "City"). The City has the power and is obligated to annually levy or cause to be levied ad valorem taxes upon all property within the City subject to taxation by the City, without limit as to rate or amount, for the payment of the Bonds and the interest thereon all as more fully described herein under "THE BONDS — Security and Sources of Payment."

Interest on the Bonds is payable on each February 1 and August 1, commencing February 1, 2008.

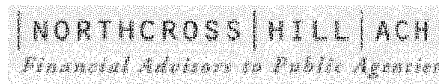
The Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and the Bonds, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Bonds as described herein.

The Bonds are subject to redemption as described herein.

Payment of the principal of, and interest on, the Bonds will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.



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



MATURITY SCHEDULE

Maturity (August 1)	Principal	Interest Rate	Price or Yield	CUSIP [●] (283659)	Maturity (August 1)	Principal	Interest Rate	Price or Yield	CUSIP [●] (283659)
2008	\$1,240,000	4.500%	3.380%	EF3	2019	\$1,595,000	5.000%	3.860% ^d	ES5
2009	1,075,000	4.000	3.380	EG1	2020	1,675,000	4.250	4.090c	ET3
2010	1,120,000	3.500	3.380	EH9	2021	745,000	4.000	4.160	EU0
2011	1,150,000	4.000	3.420	EJ5	2021	1,000,000	4.250	4.160c	EV8
2012	1,200,000	4.250	3.450	EK2	2022	1,820,000	4.500	4.170c	EW6
2013	1,250,000	4.250	3.470	EL0	2023	1,900,000	5.000	4.090c	EX4
2014	1,300,000	4.250	3.500	EM8	2024	1,995,000	5.000	4.140c	EY2
2015	1,360,000	4.000	3.550	EN6	2025	2,090,000	5.000	4.190c	EZ9
2016	1,410,000	4.500	3.620	EP1	2026	2,195,000	5.000	4.220c	FA3
2017	1,475,000	4.000	3.700	EQ9	2027	2,305,000	5.000	4.250c	FBI
2018	1,535,000	4.000	3.820c	ER7					

c denotes pricing to August 1, 2017, par call date
 d denotes pricing to August 1, 2015, call date

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Robert M. Haight, Scotts Valley, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney and by Nixon Peabody LLP, Disclosure Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery to DTC on or about September 27, 2007

Dated: September 12, 2007

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

Certain statements included or incorporated by reference in this Official Statement are “forward-looking statements”. Such statements are generally identifiable by terminology used, such as “plan”, “expect”, “estimate”, “budget” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or updates or revisions to those forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The City and other apparently reliable sources have provided information for this Official Statement, with the goal of providing disclosure to investors which meets legal requirements. This issue is the result of a complex team effort. Some of the people who prepared, compiled or reviewed this information had specific functions in the issue which covered some areas but not others. The City believes that the information provided herein is accurate and complete; however, it makes no guarantee.

The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering price stated on the cover page hereof and said public offering price may be changed from time to time by the Underwriter.

CITY OF EL PASO DE ROBLES

CITY COUNCIL

Frank R. Mecham
Mayor

Gary Nemeth
Mayor Pro Tem

Duane Picanco
Councilmember

John Hamon
Councilmember

Fred Strong
Councilmember

CITY OFFICIALS

James L. App
City Manager

Dennis Fansler
City Clerk

Michael J. Compton
City Treasure and Director
of Administrative Services

PROFESSIONAL SERVICES

Bond Counsel

Robert M. Haight
Scotts Valley, California

Financial Advisor

Northcross, Hill & Ach, Inc.
San Rafael, California

Disclosure Counsel

Nixon Peabody LLP
San Francisco, California

Paying Agent and Escrow Bank

Union Bank of California, N.A.
San Francisco, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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\$31,435,000
CITY OF EL PASO DE ROBLES
2007 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used herein and not otherwise defined have the meanings set forth in the Resolution described below.

This Official Statement, which includes the cover page, table of contents and appendices hereto, is provided to furnish information in connection with the sale of City of El Paso de Robles 2007 General Obligation Refunding Bonds (the “Bonds”), as more fully described below.

The City

The City of El Paso de Robles, California (the “City”), commonly known as Paso Robles, is located in San Luis Obispo County (the “County”) in the State of California (the “State”) approximately 150 miles south of San Jose and 220 miles north of Los Angeles. The City, as of January 1, 2006, had a total estimated population of 28,969. The City was originally incorporated in 1889 and is a general law city of the State. See “**CITY OF EL PASO DE ROBLES GENERAL INFORMATION**” herein.

Purpose of the Bonds

The proceeds of the Bonds will, in addition to cash, be used to (a) fund an escrow fund (the “Escrow Fund”) to defease and redeem the City’s outstanding 1999 General Obligation Bonds (Election of 1998) Series A and 2002 General Obligation Bonds (Election of 1998) Series C and (b) pay the costs of issuance of the Bonds. See “**THE BONDS — Purpose of the Bonds**” herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the Constitution and the laws of the State and Resolution No. 07-103, as subsequently amended, authorizing the issuance and sale of the Bonds adopted by the City Council on May 15, 2007 (the “Resolution”). The City received authorization at a general election held on June 2, 1998, to issue \$38 million of general obligation bonds. The City issued Series A of the authorized general obligation bonds in 1999 in the denominational (principal) amount of \$22,999,597.80; issued Series B in 2001 in the denominational (principal) amount of \$6,999,602.25 and issued Series C in 2002 in the principal amount of \$8,000,000. See “**THE BONDS — Authority for Issuance**” herein.

Sources of Payment for the Bonds

The Bonds are general obligations of the City. The City has the power and is obligated to annually levy or cause to be levied ad valorem taxes upon all property within the City subject to

taxation by the City, without limit as to rate or amount, for the payment of the Bonds and the interest thereon. See “**THE BONDS — Security and Sources of Payment**” herein.

Description of the Bonds

Payments. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal is payable on August 1 in each year as set forth on the cover page of this Official Statement.

Denominations. The Bonds will be issued in denominations of \$5,000 each, or any integral multiple thereof.

Redemption. The Bonds are subject to redemption as described herein under “**THE BONDS — Redemption.**”

Registration. The Bonds will be issued in fully registered form without coupons initially in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. No physical distribution of securities will be made to the public under this arrangement. See “**THE BONDS — Book-Entry System**” herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by Robert M. Haight, Scotts Valley, California, Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through DTC in New York, New York, on or about September 27, 2007.

Continuing Disclosure

In order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities Exchange Commission, the City has covenanted to provide certain financial information and operating data and notices of certain material events. See “**CONTINUING DISCLOSURE**” herein

Professionals Involved in the Offering

Northcross, Hill & Ach, Inc., San Rafael, California, is the City’s financial advisor with respect to the Bonds. All proceedings in connection with the issuance of the Bonds are subject to the approval of Robert M. Haight, Scotts Valley, California, Bond Counsel to the City. Nixon Peabody LLP is Disclosure Counsel to the City. Certain legal matters will be passed upon for the City by the City Attorney. Union Bank of California, N.A. is the paying agent, registrar and transfer agent (the “Paying Agent”) with respect to the Bonds. Union Bank of California, N.A. is also the Escrow Bank (the “Escrow Bank”). Northcross, Hill & Ach, Inc., Robert M. Haight, Nixon Peabody LLP and Union Bank of California, N.A. will receive compensation from the City contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Copies of documents referred to herein and information concerning the Bonds are available from the Director of Administrative Services, City of El Paso de Robles, 1000 Spring Street, Paso Robles, California 93446; telephone: (805) 237-3999. The City may impose a charge for copying, mailing and handling.

END OF INTRODUCTION.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will be issued as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof.

The Bonds, in the principal amount of \$31,435,000, will pay interest on each February 1 and August 1, commencing February 1, 2008 (each, an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal will be payable on August 1 in each of the designated years and in the amounts shown on the cover page hereof.

Initially, the Bonds will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, references to the Bondholders or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Paying Agent to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. See "**THE BONDS — Book Entry System**" and "**Discontinuation of Book Entry System**" herein.

Authority for Issuance

The City received authorization at the general election of June 2, 1998, to issue \$38 million of general obligation bonds (the "Authorization"). The first series issued under the Authorization, the Series A Bonds, was issued in 1999 in the denominational (principal) amount of \$22,999,597.80. The second series, the Series B Bonds, was issued in 2001 in the denominational (principal) amount of \$6,999,602.65. The third and final series, the Series C Bonds, were issued in 2002 in the principal amount of \$8,000,000.

The Bonds, issued to defease and redeem the Series A Bonds and the Series C Bonds, are issued under the Constitution of the State and Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code and pursuant to the Resolution.

Purpose of the Bonds

The proceeds of the Bonds will be used (a) to fund, in addition to cash from prior tax collections, the Escrow Fund in the amount required to defease and to redeem the Series A Bonds and the Series C Bonds (together, the "Prior Bonds") and (b) to pay for the costs of issuance of the Bonds. See "**THE REFUNDING PLAN AND VERIFICATION**" herein.

Estimated Sources and Uses of Funds

The proceeds of the Bonds are expected to be applied as follows (excluding accrued interest):

Sources of Funds	
Principal Amount of Bonds.....	\$31,435,000.00
Cash from Tax Collections.....	989,000.00
Net Premium	<u>1,291,883.25</u>
Total Sources.....	\$33,715,883.25
Uses of Funds	
Escrow Fund.....	\$33,387,101.83
Costs of Issuance Fund ⁽¹⁾	234,476.42
Underwriter’s Discount	<u>94,305.00</u>
Total Uses.....	\$33,715,883.25

⁽¹⁾ Costs of issuance include the financial advisor fee, bond counsel fee, disclosure counsel fee, bond insurance premium, rating fees, paying agent and escrow bank fees, printing fees and costs, bond insurance premium and other closing costs.

Security and Sources of Payment

The Bonds are general obligations of the City payable from ad valorem taxes. The City has the power and is obligated to annually levy or cause to be levied ad valorem taxes upon all property within the City subject to taxation by the City, without limit as to rate or amount, for the payment of the Bonds and the interest thereon. Pursuant to the Resolution, the City directs the County of San Luis Obispo to levy on all taxable property in the City, in addition to all other taxes, a continuing direct and ad valorem tax annually during the period the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited in the Debt Service Fund (the “Debt Service Fund”) which is held by the City and pledged for the payment of principal of and interest on the Bonds when due.

The principal of and interest and premium (if any) on the Bonds shall not constitute a debt of the County, the State of California, or any of its political subdivisions other than the City, or any of the officers, agents or employees thereof, and neither the County, the State of California, any of its political subdivisions nor any of the officers, agents and employees thereof shall be liable thereon. In no event shall the principal of and interest and premium (if any) on the Bonds be payable out of any funds or properties of the City other than ad valorem taxes levied upon all taxable property in the City.

For further information regarding the City’s tax base, tax rates, overlapping debt and other matters concerning taxation, see “**CITY OF EL PASO DE ROBLES PROPERTY TAX INFORMATION**” herein.

Redemption

Optional Redemption. Bonds maturing on or before August 1, 2015, are not subject to optional redemption. Bonds maturing on or after August 1, 2016, are subject to redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, in whole or in part (in such maturities as are designated by the City and by lot within such maturities) on any business day prior to their respective maturities, on or after August 1, 2015, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds called for redemption), together with interest accrued thereon to the date of redemption.

<u>Redemption Date</u>	<u>Redemption Price</u>
August 1, 2015, through July 31, 2016	102%
August 1, 2016, through July 31, 2017	101
August 1, 2017 and thereafter	100

Redemption Notice. The Paying Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to (a) one or more of the Information Services, and (b) to the respective owners of any Bonds designed for redemption, at their addresses appearing on the Registration Books; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of accrual and compounding of interest thereon from and after the redemption date. In addition, notice of redemption shall be given by telecopy or certified, registered or overnight mail to each of the Securities Depositories at least two days prior to such mailing to the Bond Owners.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the serial numbers of Bonds to be redeemed by giving the individual number of each Bond or by stating that all of the Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and shall require that such Bonds be then surrendered at the Principal Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Debt Service Schedule

Annual aggregate debt service obligations for the Bonds and for the Series B Bonds, assuming no optional redemptions are made, are as follows:

Year Ending (August 1)	Principal <u>Amount</u>	<u>Interest</u>	<u>Total</u>	Series B <u>Bonds</u>	Total, <u>All Bonds</u>
2008	\$ 240,000	\$ 191,521.67	\$ 431,521.67	\$520,000	\$ 951,521.67
2009	1,075,000	1,355,212.50	2,430,212.50	520,000	2,950,212.50
2010	1,120,000	1,312,212.50	2,432,212.50	520,000	2,952,212.50
2011	1,150,000	1,273,012.50	2,423,012.50	525,000	2,948,012.50
2012	1,200,000	1,227,012.50	2,427,012.50	525,000	2,952,012.50
2013	1,250,000	1,176,012.50	2,426,012.50	525,000	2,951,012.50
2014	1,300,000	1,122,887.50	2,422,887.50	525,000	2,947,887.50
2015	1,360,000	1,067,637.50	2,427,637.50	525,000	2,952,637.50
2016	1,410,000	1,013,237.50	2,423,237.50	525,000	2,948,237.50
2017	1,475,000	949,787.50	2,424,787.50	525,000	2,949,787.50
2018	1,535,000	890,787.50	2,425,787.50	525,000	2,950,787.50
2019	1,595,000	829,387.50	2,424,387.50	525,000	2,949,387.50
2020	1,675,000	749,637.50	2,424,637.50	525,000	2,949,637.50
2021	1,745,000	678,450.00	2,423,450.00	525,000	2,948,450.00
2022	1,820,000	606,150.00	2,426,150.00	525,000	2,951,150.00
2023	1,900,000	524,250.00	2,424,250.00	525,000	2,949,250.00
2024	1,995,000	429,250.00	2,424,250.00	525,000	2,949,250.00
2025	2,090,000	329,500.00	2,419,500.00	530,000	2,949,500.00
2026	2,195,000	225,000.00	2,420,000.00	530,000	2,950,000.00
2027	2,305,000	115,250.00	2,420,250.00	530,000	2,950,250.00

Book-Entry System

Information concerning DTC and DTC's book-entry system is contained in **APPENDIX E – BOOK-ENTRY SYSTEM.**

Discontinuation of Book-Entry System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the Bonds.

The principal amount of the Bonds and any premium upon the redemption thereof prior to maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the Principal Office of the Paying Agent.

Any Bond 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 duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument, duly executed in a form approved by the Paying Agent. The Paying Agent shall not be obligated to make any transfer of the Bonds during the period established by the Paying Agent for the selection of the Bonds during the period established by the Paying Agent for the selection of the Bonds for redemption, or with respect to any Bond selected for redemption.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Paying Agent shall authenticate and deliver to the transferee a new Bond or Bonds of like maturity.

The Bonds may be exchanged at the Principal Office of the Paying Agent for a like original principal amount of the Bonds of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange (except in the exchange of temporary Bonds for definitive Bonds). No exchanges of the Bonds shall be required to be made during the period established by the Paying Agent for the selection of the Bonds for redemption or with respect to any Bonds selected for redemption.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA’s policy [(the “Policy”)].

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “**BOND INSURANCE.**” Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. (“MBIA Mexico”), through which it intends to write financial guarantee insurance in Mexico beginning in 2007.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (audited), total liabilities of \$6.9 billion (audited), and total capital and surplus of \$4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of \$10.8 billion (unaudited), total liabilities of \$6.8 billion (unaudited), and total capital and surplus of \$4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE REFUNDING PLAN AND VERIFICATION

Net proceeds of the Bonds will be used to establish an irrevocable escrow (the "Escrow Fund") to be held by Union Bank of California, N.A. (the "Escrow Bank") on behalf of the City and for the benefit of the owners of the Prior Bonds. Moneys in the Escrow Fund will be invested in Federal Securities and applied to the payment of principal and interest on the Prior Bonds to August 1, 2009, and to then redeem the Prior Bonds at the redemption price of 102% of the principal amount thereof. Upon the establishment of the Escrow Fund as described above, the Prior Bonds will be defeased and the owners thereof will have rights of payment exclusively from the Escrow Fund.

The adequacy and sufficiency of the Escrow Fund to fully defease and redeem the Prior Bonds will be verified in a Verification Report to be prepared by Grant Thornton LLP certified public accountants.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

Article XIII A of the State Constitution limits the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-

76 tax roll 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, subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, and (b) as a result of an amendment approved by California voters on June 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

Since the beginning of the 1981-82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value. All taxable property is now shown at “full cash value” on the tax rolls.

Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable values (unless noted differently), and all tax rates reflect the \$1 per \$100 of taxable value.

Unitary Property

California Assembly Bill 454 (Chapter 921, Statutes of 1987) (“A.B. 454”) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 fiscal year, will be allocated as follows: (a) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (b) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary

Property except railroads whose valuation will continue to be allocated to individual tax rate areas.

The provisions of A.B. 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, A.B. 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Article XIII B of the California Constitution

Article XIII B of the State Constitution, as amended by Proposition 111 approved by the voters on June 5, 1990, 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, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit was originally the 1978-79 fiscal year. Following the approval of Proposition 111, for fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended by Proposition 111.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any fiscal year and the fiscal year immediately following it, exceed the amounts that may be appropriated in that fiscal year and the fiscal year immediately following it, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

CITY OF EL PASO DE ROBLES Appropriations Limit and Appropriations Subject to Limitation Fiscal Year 2006-07

Appropriations Limit	\$34,479,431
Appropriations Subject to Limit	\$20,571,000

Source: City of El Paso de Robles

Proposition 62

A statutory initiative (“Proposition 62”) was adopted by the voters at the November 4, 1986, general election which (i) requires that any taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (ii) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on

the tax, (iii) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (iv) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (v) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (vi) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 18, 1988.

No taxes imposed by the City of El Paso de Robles are, or were, subject to Proposition 62.

Proposition 218

On November 5, 1996, California voters approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the California Constitution, imposing certain voting requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Article XIII A of the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings.

Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal and State constitutional principles relating to the impairment of contracts.

Proposition 218 also provides that any general tax imposed, extended or increased without voter approval on or after January 1, 1995, and prior to the effective date of Proposition 218 shall continue to be imposed only if approved by a majority vote of the voters in an election held by November, 1998. The City did not impose, extend or increase any general tax within the January 1, 1995 to November 6, 1996, time period.

Proposition 218 is likely to undergo both judicial and legislative scrutiny before its full impact on the City and its obligations can be determined. Certain provisions of Proposition 218

may be examined by the courts for their constitutionality under both State and federal constitutional law. The City is not able to predict the outcome of any such examination.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard.

Because the issuance of the Bonds has been approved by more than two-thirds of the voters, the levy of ad valorem property taxes to pay debt service on the Bonds is not limited by Proposition 218.

Future Initiatives

Article XIII A, Article XIII B and Propositions 62 and 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

CITY OF EL PASO DE ROBLES PROPERTY TAX INFORMATION

Ad Valorem Property Taxation

City property taxes are assessed and collected by the County at the same time and on the same rolls as the County and special district property taxes.

The valuation of secured property is established as of January 1 and is subsequently equalized in August, and is payable in two installments of taxes due November 1 and February 1, respectively. Taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquency for each respective installment. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate.

State law exempts \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies because the State reimburses local agencies for the value of the exemptions.

Assessed Valuation

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemption from ad valorem property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIII A will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For assessment and collection purposes, property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the “unsecured roll.”

The passage of A.B. 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a state-mandated local program by requiring the assignment of the assessed value of all unitary and operating nonunitary property in each county of each state assessee other than a regulated railway company. The legislation established formulas for the computation of applicable countywide tax rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each county to issue each state assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. A supplemental roll, developed when property changes hands, produces additional revenue.

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for recording in the County Recorder’s office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The County levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within the County’s taxing boundaries.

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 State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including cities, levying property taxes in a county receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited 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. However, although a local agency receives the total levy for its property taxes without regard to actual collections, funded from a reserve established and held by its county for this purpose, the basic legal liability for property tax deficiencies at all times remains with the local agency. 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, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the county. A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in its county.

The following is a table summarizing the historical and current assessed valuations of the City.

CITY OF EL PASO DE ROBLES
Assessed Valuations of Taxable Property

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Redevelopment Increment</u>
2002-03	\$1,675,945,313	\$341,167	\$108,117,503	\$1,784,403,983
2003-04	1,926,737,011	369,804	114,310,291	2,041,417,106
2004-05	2,208,794,176	426,665	116,769,665	2,325,990,506
2005-06	2,601,722,860	407,526	120,324,144	2,722,454,530
2006-07	3,076,657,042	494,973	127,044,894	3,204,196,909

Source: California Municipal Statistics, Inc.

Secured property tax charges (general fund apportionment) and delinquencies for taxable properties within the City for fiscal years 2001-02 through 2005-06 are shown in the following table. Under the Teeter Plan, the County credits to the City 100% of uncollected property taxes. The County, in return, receives and retains all delinquent payments, penalties and interest. The net result is that, so long as the Teeter Plan remains in effect, uncollected taxes and delinquency rates are of significance only to the County, and the City's effective collection rate is 100%.

CITY OF EL PASO DE ROBLES
Secured Tax Charges and Delinquencies

<u>Fiscal Year</u>	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent June 30⁽²⁾</u>	<u>Percentage Delinquent June 30</u>
2001-02	\$2,599,275.41	\$39,084.87	1.50%
2002-03	2,927,983.19	40,162.57	1.37
2003-04	3,304,147.77	46,732.52	1.41
2004-05	3,746,402.35	51,057.51	1.36
2005-06	4,377,550.74	75,695.20	1.73

⁽¹⁾ 1% General Fund apportionment.

⁽²⁾ Because of the Teeter Plan, the County credits to the City all uncollected taxes; the City therefor receives all taxes levied.

Source: California Municipal Statistics, Inc.

Tax Rates

The table below shows property tax rates for fiscal years 2002-03 through 2006-07 within a representative tax rate area (“TRA 2-000”) within the City.

CITY OF EL PASO DE ROBLES
Property Tax Rates Per \$100 of Assessed Valuation

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
General	1.00000	1.00000	1.00000	1.00000	1.00000
City of Paso Robles Bond	0.17750	0.17750	0.17750	0.10820	0.09520
State Water Project	<u>0.00230</u>	<u>0.00230</u>	<u>0.00223</u>	<u>0.00222</u>	<u>0.00221</u>
Total	1.17980	1.17980	1.17973	1.11042	1.09741

Source: California Municipal Statistics, Inc.

Principal Taxpayers

The twenty largest taxpayers in the City, as shown on the 2006-07 secured tax roll, and the amounts of their respective assessed valuations within the City, are shown below. Assessed valuations for the twenty largest taxpayers amounted to \$238,530,801 or approximately 7.75% of the City's total \$3,076,657,042 local secured tax roll.

CITY OF EL PASO DE ROBLES
Largest Twenty Local Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2006-07 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	Paso Robles Partners LLC	Residential Development	\$23,503,054	0.76%
2/	Paso Robles Ventures LLC	Shopping Center	21,681,730	0.70
3.	Centex Homes	Residential Development	21,466,958	0.70
4.	Dry Creek Apartments	Apartments	19,129,405	0.62
5.	Estrella Communities LLC	Residential/Golf Course	13,394,984	0.44
6.	Harrods Inc.	Residential Development	13,040,018	0.42
7.	Tri-W Enterprises Inc.	Shopping Center	12,110,523	0.39
8.	Kohl's Department Stores Inc.	Shopping Center	10,985,531	0.36
9.	Martin Resorts Inc.	Hotel	10,975,611	0.36
10.	Wal-Mart Stores Inc.	Shopping Center	10,846,505	0.35
11.	Health Care REIT Inc.	Senior Retirement Housing	10,702,100	0.35
12.	East Village Associates LLC	Commercial	10,046,424	0.33
13.	River Oaks II LLC	Residential/Agriculture	9,601,045	0.31
14.	Fallingstar Homes Inc.	Residential Development	9,239,565	0.30
15.	France E. Raine	Light Manufacturing	7,592,200	0.25
16.	Alan Little Custom Homes Inc.	Residential	7,344,000	0.24
17.	Golden Hill Business Park LLC	Commercial	7,000,000	0.23
18.	Marshall Field Stores Inc.	Shopping Center	6,695,220	0.22
19.	Zurn Industries Inc. Wilkins Regulator Division	Light Manufacturing	6,660,041	0.22
20.	John Stephenson	Unknown Use	<u>6,515,887</u>	<u>0.21</u>
			\$238,530,801	7.75%

⁽¹⁾ 2006-07 Local Secured Assessed Valuation: \$3,076,657,042.

Source: California Municipal Statistics, Inc.

CITY OF EL PASO DE ROBLES GENERAL INFORMATION

Introduction

The City of El Paso De Robles is located on U.S. Highway 101 in San Luis Obispo County approximately 150 miles south of San Jose and 220 miles north of Los Angeles. San Luis Obispo County is located in the central coast area of California. It is bordered on the north by Monterey County and on the south by Santa Barbara County. The City of San Luis Obispo is the seat of the county government and the largest city in the County. Paso Robles is the second largest city in population in San Luis Obispo County. The City includes approximately 17 square miles of land within its boundaries and is the commercial center for northern San Luis Obispo County and southern Monterey County.

Government

The City was incorporated in 1889 and is a general law city with a council manager form of government. The City Council consists of the Mayor elected at large for a two year term and four members elected at large for four-year terms. Council Members appoint the City Manager who is responsible for administration of the City.

City Services

As of June 30, 2006, the City employed 184 full time equivalent employees. In addition to providing administrative, public works and community services, the City provides police and fire protection services. The City owns and operates the municipal water system serving over 10,000 customers and the municipal sewer system.

Population Trends

The following table presents population statistics for the City and the County for the years 2002 through 2007.

CITY OF EL PASO DE ROBLES AND COUNTY OF SAN LUIS OBISPO POPULATIONS 2002 through 2007

<u>Year</u> ⁽¹⁾	<u>El Paso de Robles</u>	<u>San Luis Obispo County</u>
2002	25,790	253,344
2003	26,782	255,559
2004	27,239	258,421
2005	28,030	261,310
2006	28,896	262,594
2007	29,514	264,900

⁽¹⁾ As of January 1.

Source: State Department of Finance.

Employment and Industry

The City is part of the San Luis Obispo County Metropolitan Statistical Area. The distribution of employment in this labor market area for calendar years 2002 through 2006 is as follows:

SAN LUIS OBISPO COUNTY Employment By Industry 2002 Through 2006

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Civilian Labor Force	N/A	N/A	N/A	N/A	133,900
Civilian Unemployment	N/A	N/A	N/A	N/A	5,300
Unemployment Rate	N/A	N/A	N/A	N/A	4.0%
Construction & Natural Resources	6,800	6,900	7,200	7,800	8,100
Manufacturing	6,900	6,500	6,400	6,400	6,400
Wholesale Trade	2,300	2,200	2,500	2,500	2,600
Retail Trade	13,300	13,300	13,500	13,900	14,300
Transportation & Utilities	3,300	3,500	3,700	3,600	3,800
Information Services	1,500	1,400	1,500	1,600	1,600
Financial Activities	4,300	4,400	4,700	4,800	4,900
Professional & Business Services	8,900	8,500	8,800	8,900	9,500
Education & Health Services	10,000	10,300	10,500	10,800	10,700
Leisure & Hospitality	13,800	14,300	14,400	14,900	14,900
Other Services	4,400	4,300	4,100	4,300	4,300
Government	23,000	22,400	22,000	21,800	22,200
Farm	4,600	3,900	4,000	4,300	4,300

Source: California Employment Development Department.

The major employers located within Paso Robles are shown in the following table:

**CITY OF PASO ROBLES AREA
Major Employers
As of June 30, 2006**

<u>Company</u>	<u>No. of Employees</u>	<u>Product/Service</u>
Paso Robles Public Schools	776	Public School System
WalMart	286	Retail Department Store
California Youth Authority	279	Correctional Facility
Joslyn-Sunbank Corporation	240	Electrical Connectors/Flexible Conduit
Specialty Silicone Fabricators	211	Medical Instruments
Applied Technologies	200	High Tech Manufacturing
Paris Precision Products	190	Manufacturing
City of Palo Robles	184	City Government
Zurn Industries	170	Plumbing Supplies Manufacturing
Albertsons	170	Retail

Source: UCSB Economic Forecast Project (2006) and City of El Paso de Robles Comprehensive Annual Financial Report (2006).

Construction Activity

The following table presents the total construction valuation of all building permits issued in the City for calendar years 2002 through 2006:

**CITY OF EL PASO DE ROBLES
Building Permit Valuations
Calendar Years 2002 through 2006
(\$'s in thousands)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Valuations	\$68,635	\$100,358	\$131,741	\$104,143	\$85,877

Source: City of El Paso de Robles Community Development Department.

TAX MATTERS

In the opinion of Robert M. Haight, Scotts Valley, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied

subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

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

For the complete text of Bond Counsel's opinion concerning tax matters see **APPENDIX A** hereto.

CERTAIN LEGAL MATTERS

Robert M. Haight, Scotts Valley, California, Bond Counsel, will render its opinion approving the validity of the Bonds, the form of which opinion is set forth in **APPENDIX A** hereto. Copies of such approving opinion will be provided to the original purchasers upon delivery of the Bonds. Certain legal matters will be passed upon for the City by the City Attorney and by Nixon Peabody LLP, Disclosure Counsel.

Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the execution and delivery of the Bonds.

ABSENCE OF LITIGATION

There is no litigation pending or, to the City's knowledge, threatened in any way to restrain or enjoin the delivery of the Bonds, to contest the validity of the Bonds, or any proceeding of the City with respect thereto.

RATINGS

Standard & Poor's Ratings Group and Fitch Ratings have assigned ratings of "AAA" and "AAA," respectively, to the Bonds based upon the issuance of the Financial Guaranty Insurance Policy simultaneously with the delivery of the Bonds. Standard & Poor's Ratings Group and Fitch Ratings have assigned underlying ratings of "A+" and "AA-," respectively, to the Bonds which underlying ratings do not take into account such insurance.

Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Standard & Poor's Ratings Group and Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such organizations if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Pursuant to the terms of a bond purchase agreement dated September 11, 2007, E.J. De La Rosa & Co., Inc., as Underwriter, has contracted to purchase the Bonds from the City at the purchase price of \$32,632,578.25.

The Underwriter of the Bonds is obligated to take and pay for all of the Bonds if any are purchased.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") by not later than March 31 of each year commencing with the report for the 2006-07 Fiscal Year and to provide notices of the occurrence of certain enumerated events, if material. The City will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The City will file, or cause to be filed, the notices of material events with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any), the specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "**APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE.**" These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. The City has never failed to comply, in all material respects, with an undertaking pursuant to the Rule.

ADDITIONAL INFORMATION

The summaries or references to the Resolution and other documents, agreements and statutes referred to herein, and the description of the Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute.

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

During the initial offering period for the Bonds, copies of the Resolution may be obtained, upon written request, from the City.

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

CITY OF EL PASO DE ROBLES

By: s/ Michael J. Compton
City Treasurer and Director of
Administrative Services

APPENDIX A

FORM OF LEGAL OPINION

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Law Office of
ROBERT M. HAIGHT
ATTORNEY AT LAW
Municipal Bond Counsel

September 27, 2007

City Council
City of El Paso de Robles
1000 Spring Street
PO Box 307
Paso Robles, California 93446

OPINION: \$31,435,000
 CITY OF EL PASO DE ROBLES
 2007 GENERAL OBLIGATION REFUNDING
 BONDS

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of El Paso de Robles (the "City") of its \$31,435,000 principal amount of City of El Paso de Robles 2007 General Obligation Refunding Bonds, dated September 27, 2007 (the "Bonds"). The Bonds have been issued by the City pursuant to the Constitution and laws of the State of California and a resolution adopted by the City Council of the City on May 15, 2007 (the "Resolution"), as amended. 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 Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

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

The City is duly organized and validly existing as a general law City and municipal corporation under the Constitution and laws of the State of California, with the power to adopt the Resolution, perform the agreements on its part contained therein and issue the Bonds.

The Bonds are valid and binding general obligations of the City.

The City has the power, is obligated and in the Resolution has covenanted to levy ad valorem taxes upon all property within the City which is subject to taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon.

Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinion set forth in the proceeding sentence is subject to the condition that the City comply with all requirements of the Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Resolution and in other instruments relating to the Bonds to comply with each of such requirements; and the City has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

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

Respectfully submitted,

ROBERT M. HAIGHT

APPENDIX B

**EXCERPTS FROM 2005/2006
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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Comprehensive Annual Financial Report

For The

Fiscal Year Ended June 30, 2006

City of El Paso de Robles

California

Frank Mechem, Mayor
Jim Heggarty, Mayor Pro Tempore
Gary Nemeth, Councilmember
Duane Picanca, Councilmember
Fred Strong, Councilmember

James L. App, City Manager

Prepared by Department of Administrative Services
Michael J. Compton, Director of Administrative Services
Jennifer Sorenson, Finance Manager
Jody Dauth, Administrative Coordinator

CITY OF EL PASO DE ROBLES



INTRODUCTORY SECTION

CITY OF EL PASO DE ROBLES
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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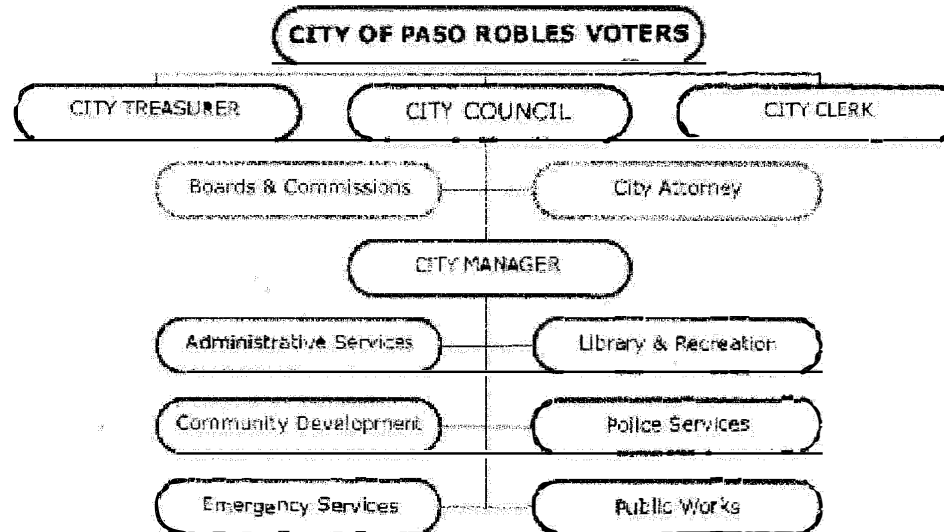
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CITY OF EL PASO DE ROBLES
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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CITY OF EL PASO DE ROBLES
ORGANIZATION OF CITY GOVERNMENT



California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of El Paso de Robles



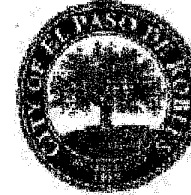
This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflects a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 24, 2006

William A. Thomas

RR Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



December 1, 2006

TO: Honorable Mayor and City Council
City of El Paso de Robles

FROM: Michael J. Compton, Director of Administrative Services

SUBJECT: Comprehensive Annual Financial Report for Fiscal Year 2005-06

INTRODUCTION

The City of El Paso de Robles' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006 is hereby presented as prepared by the City's Administrative Services Department. Responsibility for the accuracy of the presented data, the completeness, and fairness of the presentation rests with this department. The report has been prepared in conformance with the accounting principles generally accepted in the United States of America and the principles and standards as prescribed by Governmental Accounting Standards Board (GASB). Staff believes that the data, as presented, is accurate in all material respects; that its presentation fairly reflects the financial position and the results of the City's operations as measured by the financial activity of its various funds; and that all pertinent disclosures contained herein will provide the reader with a complete understanding of the City's financial affairs.

FINANCIAL REPORTING and FORMATS

This report is prepared using the reporting requirements as prescribed by GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Government-wide financial statements are included in order to provide the reader with a clear picture of the City as a single, unified reporting entity. Government-wide statements are intended to complement rather than replace the traditional fund-based financial statements. GASB Statement No. 34 also requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of "Management's Discussion & Analysis" (MD&A).

This letter of transmittal is intended to compliment the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

GASB Statement Nos. 43 and 45 addresses the requirement for governmental financial statements to provide information relating to other post employment benefits. The requirement becomes effective for Paso Robles for the fiscal period ending June 30, 2009 but it is the City's intention to implement early. The actuarial study necessary to determine the value of other post employment benefits is currently underway.

The City's CAFR is divided into the following sections:

The Introductory Section includes this transmittal letter, information about the organizational structure of the City including elected and appointed officials, and other general information to provide the reader with a general understanding of the City.

The Financial Section is prepared in accordance with GASB Statement No. 34 requirements by including the MD&A, the Basic Financial Statements including notes, and Supplemental Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations, and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental and fiduciary funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules as prepared by Moss, Levy & Hartzheim. Their report contained herein provides an "unqualified" opinion that the financial statements contained herein are fairly presented in conformity with accounting principles generally accepted in the United States of America.

Additionally, the Federal Single Audit Act of 1996 requires the City to undergo an annual "single audit" in conformity with the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Government Auditing Standards, issued by the Comptroller General of the United States. The "single audit" report is issued under separate cover and includes a schedule of federal financial assistance, findings and recommendations, and independent auditors' report on the internal control structure and compliance with applicable laws and regulations.

The Statistical Section includes various tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that is of interest to potential investors and other readers. The data is generally presented on a multi-year basis.

THE REPORTING ENTITY

The City was incorporated in 1889 and operates under the Council-Manager form of local government. Four councilmen are elected on a non-partisan basis, at large for four-year terms with two councilmen elected every two years. The Mayor is elected at large every two years. The Council appoints the City Attorney and City Manager. The City Clerk and City Treasurer are both elected at large for four-year terms. The City provides a full range of services including police and fire protection, library and recreation services, public works including maintenance of all City facilities, streets, parks, airport, and utility operations (sewer, water, and landfill), transit, and development and planning services.

This CAFR includes the financial activities of the primary government, the City, and all the City's component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same governing board as the City or provide services entirely to the City. For reporting purposes, operations of the Redevelopment Agency and the Joint Powers Financing Authority are blended with the City.

PASO ROBLES ECONOMY AND OUTLOOK

Paso Robles is strategically located at the confluence of State Highway 101 and State Highway 46 and continues to be the fastest growing city within San Luis Obispo County and has become the second largest city with 28,969 residents. Travelers from the Central Valley on their way to central coast beaches or local lakes must pass through Paso Robles. The local lakes and other community events attract a significant number of travelers from southern and northern California areas as well. The Highway 101/Highway 46/Nacimiento Road corridor has been a major contributor to the City's sales tax revenues.

Paso Robles is home to a number of special events that attract visitors from all over the state. Such events include the Wine Festival, Paderewski Festival, West Coast Custom Car Show (now held twice annually), Pioneer Day, Vine Street Christmas Showcase, Western Region Bicycle Rally, Concerts in the Park, Mid State Fair, and two highly successful farmers markets. The City is host of a championship level 10 K run that attracts world-class runners from all over the world. The operations of the state fairgrounds and its related facilities attract events nearly every weekend during the course of the year. The local wine industry has received considerable recognition for its premium wines. There are over 40 wineries and approximately 300 vineyards in the Paso Robles area. During the spring and summer months, many of the wineries and tasting rooms hold weekend concerts that attract numerous visitors. The Paso Robles Event Center (formally known as the Mid State Fair) recently announced they will be sponsoring the 2007-09 Pacific Coast Cutting Horse Association Futurity - a 12 day cutting horse event that attracts top competitors from across the country, the 2nd largest show in the nation.

Given the above events and attractions, tourism has become an important industry in Paso Robles. Transient occupancy tax collections, viewed as an indicator of tourism success, increased by 11.6% over the prior fiscal year. The owners of the Hampton Inn have begun construction for a new 61 room upscale hotel called "La Bella Sara" and 70 room La Quinta Inn will open Fall 2006. Currently under construction are the Marriott Hotel, a 130 room hotel and "The Inn at the Stables", a 16 room hotel with retail space. There are a number of other hotel/resort projects in the pending and development stage including approved applications for Paso Robles Hot Springs to construct a 223 room resort hotel and conference facility, a French architecture 80 room resort hotel/spa, and another 80 room resort hotel as well as a yet unnamed project with another 80 rooms and the Black Ranch development which proposes 280 rooms and cottages with golf course.

Continued new residential home construction in conjunction with population growth and tourism success, provided for a 14% increase in sales tax revenue collections. Opening their doors for business this last year at Woodland Plaza II were The Dollar Store, Subway, Baskin Robbins and a music store. The Target Center will see the completion of El Pollo Loco, Chili's Restaurant, Applebee's Bar and Grill, Taco Express and various retail stores. In the downtown core, there were new restaurant/specialty shops that opened in 2006. While most new retail developments were not major retailers, the large number of small retail and dining establishments contribute to a sound, growing sales tax base that, on a per capita basis, puts Paso Robles among the top sales tax producers in the State.

Kennedy Nautilus Health Center is currently under construction and includes a 41,000 square foot fitness center with 6,100 square feet of retail space; relocation of Idler's Appliance from the downtown core to a 27,500 square foot facility on Theatre Drive near the Target Center; a McDonald's and Chevron Service Station with car wash on Ramada across from the Target Center; the Eagle Energy project on Hwy 46E has rebuilt the existing gas and convenience store and added a fast food restaurant and car wash; a car wash at the intersection of Golden Hill and Union Roads; Firestone Winery is under construction for a 10,000 square foot winery and visitor center on Hwy 46E; Big Brand Tires constructed a new facility on South River Road near the Albertson's Center; and Paso Robles Ford will be relocating to a new 36,000 square foot facility on Hwy 46E.

Office space development is also on the rise. The Gateway Business Park added 35,500 square feet including 8,500 square feet for restaurant use. Heritage Oaks Bank constructed a 6,800 square foot administrative office building. The old "moving and storage" business on Pine Street has been converted to office space; a small office project was constructed on 2nd Street; Mee Memorial Hospital 26,600 square foot oncology center is under construction at 4th and Spring Streets; and the 10,000 square foot custom meat processing plant is under construction on north Riverside Avenue. One of the two Mastagni buildings, both demolished to the San Simeon Quake, is complete and ready for occupancy. The other replacement building is under construction. Both will be three stories in height.

Given the recent and continuing successes in both the retail and manufacturing areas, the economic outlook for Paso Robles continues to look optimistic. The local housing construction market has slowed with this last year. During calendar year 2005, Paso Robles issued 287 residential building permits representing 371 new units with a total valuation of \$66.9 million. The demand for housing remains strong. The median home price of a home in the County in 2006 was \$538,700 up 18.5% from a year ago. Existing home sales and new residential home construction has resulted in significant increases in property tax collections. Property tax collections for all categories rose 21% last year, \$4,952,400 versus \$4,076,000 after adjusting out for ERAF backfill for sales tax and motor vehicle license revenue reductions.

While the passage of Proposition 1A generally eliminates State raids on local government revenues, the State continues to experience chronic budget deficits. In spite of record levels of tax collections and phenomenal statewide prosperity, the State legislature has failed to address its chronic budget deficit of \$4 to \$6 billion and attempts by the Governor to address the structural budget imbalance by legislation and voter initiative have also failed.

MAJOR ACHIEVEMENTS AND INITIATIVES

The City's General Fund is the primary source of funding for most municipal services such as police & fire protection, library & recreation services, parks, streets, maintenance & operation of governmental buildings/facilities, planning & building services, and other governmental activities such as city council, city manager, and administrative services. The City prides itself on fiscal responsibility and control that has resulted in positive reoccurring General Fund results. With the exception of fiscal year 2004 due to the San Simeon Quake and continued development of the City's General Plan, every fiscal year since 1998, the City has had positive results (excess revenues and other sources over expenditures and other uses). Fiscal year 2006 results also reflect positive year end results. In fact, the positive year end result is the second highest achieved since 1998 (1998 being the highest). However, the Comprehensive Annual Financial Report will indicate that positive results for the General Fund were \$806,422 due to the post year-end adjustments to transfer out \$1,400,000 to other special funds to be used during subsequent fiscal years.

The Council just adopted newly revised AB 1600 development impact fees to reflect changes in the General Plan. The newly updated General Plan also calls for "fiscal neutrality" relating to new development. A fiscal impact model has been developed to measure the fiscal impact upon City services of new development. It is no surprise that the model clearly illustrates that new residential development does not generate sufficient revenues to offset the cost of services provided. Thus, new development is required to annex to a community services district. The community services district will assess an annual levy equal to the difference between the revenues generated on the cost to provide City services. This amount has been determined to be \$657 per unit.

Water and sewer development impact fees (connection fees) are currently under study and expected to increase due to ongoing new development needs.

The City Council has authorized the City's participation in the Nacimiento Water Project which will assure a safe, secure source of water for the City. User fee increases, phased in over time, have already been approved by the City Council to fund our participation in this landmark project whose ultimate cost is estimated at \$180 million. Fifty percent of the project costs will be born by new development through the City's water impact fees.

Specific plans are underway on three major developable properties. As these three areas develop, in addition to specific plan fees, these properties will pay normal City development fees and will be required to participate in the community services district noted previously.

OTHER FINANCIAL INFORMATION

Internal Controls - In developing and evaluating the City's accounting system, internal accounting controls are of utmost importance. However, internal controls should be designed to provide reasonable, but not absolute, assurances regarding the safeguarding of assets against loss from unauthorized use or disposition and reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable recognizes that the cost of the control should not exceed the benefits derived and that the evaluation of costs and benefits requires estimates and judgments by management. Management believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Budgetary Controls - The budget is a plan for the use of City resources consistent with specific objectives developed and approved by the Council. The budget is adopted by resolution by the Council and may be modified from time to time as the Council sees fit or administratively by staff in accordance with the Council's approved Fiscal Policy. Except for the capital improvement projects budget, all appropriations lapse at fiscal year-end. Given the multi-year nature of the capital improvement projects, unspent appropriations are automatically carried forward. Requests for carry-over of operating budget appropriations are generally restricted to operating capital and special one-time appropriations, usually studies by third party consultants. Carry-over appropriations are approved by resolution by the Council and added to the following fiscal year's budget. Budgetary control is maintained at the department level. Line item variances within any given department/division are allowed so long as the total departmental budget does not exceed total appropriations for the department/division except that supplies and services savings may not be used to hire staff without specific City Manager approval. The City Manager's office and Administrative Services maintains a watchful eye for variances between actual and budgeted expenditures.

Cash Management and Investments - The City pools idle cash from all funds for the purpose of its investment activities in order to maximize investment income. Idle funds are invested in accordance with the Council's adopted investment policy which is reviewed annually by both the Council and its investment policy review committee. In compliance with GASB Statement No. 31, the City's investments are stated at fair value, except for highly liquid market investments with

maturities of one year or less, which are stated at amortized cost and unrealized gains or losses less liquid market investments are recorded each June 30. The City generally holds all investments until maturity or until fair values equal or exceeds costs. Additionally, included herein is the revised cash and investment note as recommended by GASB Statement No. 40. Disclosures required by this Statement are intended to provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. These risks include credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Risk Management - The City uses a combination of the purchased insurance and self-insurance to protect the City from property, liability, and workers' compensation risks. For workers' compensation and employer liability, the City is a member of the California Joint Powers Insurance Authority. Under this program, participants risk share losses to \$2 million. From \$2 million to \$5 million, excess coverage is provided by the California Public Entity Insurance Authority and from \$5 million to \$15 million excess insurance is purchased. General liability risks are also covered through the California Joint Powers Insurance Authority. The City is self-insured for the first \$30,000. Losses are shared from \$30,000 to \$750,000 based on each member's percentage of the total losses between \$1 and \$30,000. Losses from \$750,000 to \$5 million are shared based upon percentage of total payroll. Excess coverage is purchased from \$5 million to \$50 million. The City purchases insurance for property damage (including newer fire apparatus equipment), boiler & machinery, airport liability, pollution legal liability, landfill pollution, and public employee dishonesty. The City is fully self-insured for auto damage except as otherwise noted.

INDEPENDENT AUDIT

The accounting firm of Moss, Levy & Hartzheim, certified public accountants, performed the annual independent audit. They also, under separate cover, prepared a report meeting the requirements of the Federal Single Audit Act and related OMB Circular A-133. While the Redevelopment Agency's financial transactions are included in this annual financial report, the auditors also issue an audit report under separate cover. The auditors' opinion letter on the basic financial statements is included in the financial section of this report.

CERTIFICATE OF AWARD

The California Society of Municipal Finance Officers awarded its Certificate for Outstanding Financial Reporting to the City for the 2005 CAFR. This was the seventh consecutive year that the City has achieved this prestigious statewide award. To receive the award, the City must publish an easily readable and efficiently organized CAFR that must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

ACKNOWLEDGMENTS

I would like to express my appreciation to the entire Administrative Services for their work ethic and dedication to "customer service" both internally and externally. Special acknowledgment goes to Jennifer Sorenson, Finance Manager, and Jody Dauth, Administrative Coordinator, who were primarily responsible for the preparation of this CAFR. In addition, I would like to thank Jim App, the City Manager, as well as the City Council for their continued support and interest in planning and conducting the City's financial operations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Michael J. Compton".

Michael J. Compton
Director of Administrative Services
City Treasurer

CITY OF EL PASO DE ROBLES



FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:
ROBERTA MOSS, CPA
RONALDA LEVITCHKA
OSCAR A. HARTZHEIM, CPA
HARLEY HILL, CPA

ROBERTA MOSS
SANTA MARIA, CA 93454
PHONE: (805) 926-2577
FAX: (805) 926-2141
EMAIL: rmo@mlhmbpas.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of El Paso de Robles, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Paso de Robles (City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Paso de Robles as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements, the City of El Paso de Robles adopted Governmental Accounting Standards Board Statement No. 46, *Net Assets Restricted by Enabling Legislation - an Amendment of No. 34* and GASB Statement No. 45, *Economic Condition Reporting: The Statistical Section*, effective July 1, 2005.

The Management's Discussion and Analysis on pages 15 through 23, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of El Paso de Robles' basic financial statements. The combining fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2006, on our consideration of the City of El Paso de Robles' internal control over financial reporting and the 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 our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The introductory section and statistical section, listed in the table of contents, were not audited by us, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion thereon.

MOSS, LEVY & HARTZHEIM L.L.P.

Moss, Levy & Hartzheim

December 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2006

This discussion and analysis of the City of El Paso de Robles' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the 2006 fiscal year by \$227.3 million. Of this amount, \$15.7 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$20.6 million, primarily due to the completion of projects and acquisition of assets from developers.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$34.5 million, compared to \$38.5 million in the prior fiscal year.
- Approximately 92% of the combined fund balances, \$31.7 million, is considered unreserved and is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6.3 million, or 30% of total general fund expenditures.
- The City's total governmental activities debt decreased by \$775,660 during the current fiscal year. This minimal decrease is the result of capital lease proceeds.
- The City's total business-type funds debt decreased by \$522,200 due to normal amortization.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of El Paso de Robles using the Integrated approach as prescribed by GASB Statement No. 34.

Government-wide Financial Statements

The Government-wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF EL PASO DE ROBLES
Management's Discussion and Analysis, continued
Fiscal Year Ended June 30, 2006

These two statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's roads.

In the statement of net assets and the statement of activities, we distinguish the City's functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The activities of these two distinctions are as follows:

Governmental activities—Most of the City's basic services are reported in this category, including general government, public safety, public works, library and recreation, and community development. Property and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities—The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water system, sewer system, airport operations, and transit services are reported in this category.

Fund Financial Statements

The fund financial statements include statements for each of the three categories of activities—governmental, business-type, and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach.

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental funds

CITY OF EL PASO DE ROBLES

Management's Discussion and Analysis, continued
Fiscal Year Ended June 30, 2006

financial statements to those in the government-wide financial statements are explained in a reconciliation schedule following each governmental funds financial statement.

Proprietary funds - When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of revenues, expenses, and changes in fund net assets. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary funds - The City is the trustee, or fiduciary, for certain funds held on behalf of the Senior Advisory Committee, War Memorial Hospital Scholarship, and Customer Deposits. Other activities reported in this category include the receipt of special taxes and assessments used to pay principal and interest on related bonded debt that has no direct City liability. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's other financial statements since the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the net assets for the City as a whole increased 10% from \$206.7 million at June 30, 2005 to \$227.3 million at June 30, 2006. The largest portion of the City's net assets reflects the investment in capital assets such as land, buildings, machinery, and equipment, less any related debt used to acquire those assets still outstanding. These assets are used to provide services to the citizens of the City of El Paso de Robles; therefore, they are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

Consistent with the prior fiscal year, as of the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, for both the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF EL PASO DE ROBLES
 Management's Discussion and Analysis, continued
 Fiscal Year Ended June 30, 2006

	CITY OF EL PASO DE ROBLES' NET ASSETS					
	Governmental activities		Business-type activities		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
Current and other assets	\$ 35,484,750	\$ 41,230,962	\$ 34,813,098	\$ 33,815,604	\$ 74,307,857	\$ 75,046,566
Capital assets	151,759,113	158,429,837	62,972,411	55,001,265	214,731,524	193,431,102
Total assets	187,253,872	199,660,799	97,785,509	88,816,869	289,339,341	288,477,668
Long-term liabilities outstanding	45,025,050	45,932,387	8,256,769	8,991,415	53,381,819	54,943,802
Other liabilities	6,922,431	6,717,324	1,433,766	1,139,906	8,356,257	6,657,290
Total liabilities	51,947,481	51,669,771	9,790,535	10,131,321	61,738,076	61,601,092
Net assets:						
Invested in capital assets, net of related debt	107,593,936	92,243,219	54,373,577	45,491,295	162,067,513	137,734,454
Restricted	829,674	8,452,803	479	375,697	830,153	8,828,500
Unrestricted	30,792,721	27,295,006	33,020,919	32,818,586	64,403,639	60,113,532
Total Net Assets	\$ 138,306,331	\$ 127,991,028	\$ 87,984,974	\$ 78,685,548	\$ 227,301,305	\$ 206,676,576

The City's net assets increased \$20.6 million over the prior fiscal year. Current and other assets decreased \$738,709 while capital assets increased \$21.3 million. Long-term liabilities decreased \$1.6 million due to normal amortization while other liabilities increased by \$1.5 million.

GOVERNMENTAL ACTIVITIES

The City's net assets from governmental activities increased \$11.3 million, accounting for 55% of the total growth in net assets of the City of El Paso de Robles. The cost of all governmental activities this fiscal year was \$34 million. As shown in the statement of activities, the amount that the taxpayers ultimately financed for these activities was only \$19.8 million because some of the cost was paid by those who directly benefited from the programs (\$7.2 million). Capital grants and contributions (\$7.1 million) provided for \$5.7 million capital asset infrastructure provided by building development. The City paid for the remaining "public benefit" portion of governmental activities with \$24.8 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and revenues from other agencies.

The City's programs for governmental activities include general government, public safety, public works, library and recreation services, and community development. The programs for the business type activities include the water and sewer utilities, the airport

CITY OF EL PASO DE ROBLES

Management's Discussion and Analysis, continued

Fiscal Year Ended June 30, 2006

operations, and transit services.

Total resources available during the year to finance governmental activities consisted of net assets at July 1, 2005 of \$128 million, program revenues of \$14.4 million and general revenues of \$30.9 million. Total expenses for governmental activities during the fiscal year were \$34 million.

BUSINESS TYPE ACTIVITIES

The City's net assets from business-type activities increased \$9.3 million which accounts for 45% of the total increase in the City of El Paso Robles' net assets.

The cost of all Proprietary (business-type) activities this year was \$9.1 million. As shown in the statement of activities, the amounts paid by users of the systems were \$7.6 million, and capital grants and contributions were \$7.3 million. Revenues from other agencies accounted for \$2 million and earnings from uses of money and property were \$1.4 million.

CITY OF EL PASO DE ROBLES
Management's Discussion and Analysis, continued
Fiscal Year Ended June 30, 2006

CITY OF EL PASO DE ROBLES CHANGES IN NET ASSETS

	Governmental activities		Business-type activities		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
Revenues:						
Program revenues:						
Charges for services	\$ 7,254,038	\$ 7,395,756	\$ 7,605,823	\$ 7,058,562	\$ 14,859,729	\$ 14,064,346
Operating grants and contributions	-	570,520	-	-	-	570,520
Capital grants and contributions	2,020,023	4,377,944	2,213,475	6,012,365	4,442,598	11,390,307
General revenues:						
Taxes:						
Property taxes	13,856,300	13,203,987	72,152	-	14,038,542	13,293,947
Sales tax	4,189,527	5,474,505	-	-	9,664,032	5,414,505
Other taxes	4,540,054	4,248,273	-	60,891	4,600,945	4,349,267
Licenses and permits	347,034	230,123	-	-	347,034	330,120
From other agencies	10,678,811	2,175,094	2,038,013	1,865,420	3,099,822	4,559,091
Investment earnings	375,387	488,855	1,565,416	759,352	2,241,873	3,228,185
Miscellaneous	91,550	644,847	54,746	204,949	968,206	3,153,327
Total revenues	45,254,665	40,651,899	19,452,426	17,612,656	63,732,214	57,964,654
Expenses:						
General government	490,802	2,534,380	-	-	490,802	2,504,589
Public safety	11,715,863	9,691,846	-	-	11,715,863	9,391,644
Public works	8,347,720	7,014,788	-	-	8,347,720	7,124,735
Library and recreation services	4,560,785	4,345,380	-	-	4,560,785	4,345,338
Community development	7,124,605	3,894,177	-	-	7,124,605	5,094,177
Interest on long term debt	1,703,387	825,825	-	-	1,709,387	823,625
Water operations	-	-	3,734,082	3,142,802	3,734,082	3,142,632
Sewer operations	-	-	3,521,438	3,430,779	3,521,438	3,400,773
Airport operations	-	-	681,207	703,839	681,207	703,638
Transit operations	-	-	1,065,576	893,054	1,065,576	893,034
Total expenses	39,628,262	29,049,401	9,125,300	8,141,184	42,883,525	30,790,699
Increase in net assets before transfers	11,259,403	12,902,498	9,327,126	4,871,471	20,624,729	21,773,955
Transfers	18,700	1,503,527	158,700	(1,743,394)	-	-
Increase (decrease) in net assets	11,215,303	14,209,430	9,306,429	2,557,550	20,624,729	21,773,955
Net assets July 1	927,651,028	113,784,606	78,583,543	71,117,308	206,678,576	184,502,637
Net assets June 30	\$ 109,209,531	\$ 127,600,026	\$ 87,894,074	\$ 74,695,548	\$ 227,201,306	\$ 206,673,576

CITY OF EL PASO DE ROBLES
Management's Discussion and Analysis, continued
Fiscal Year Ended June 30, 2006

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund balance at fiscal year-end for the City's general fund of \$8.4 million is an overall increase of \$806,422 over last year.

The Measure D GO bonds capital projects fund shows a decrease in fund balance of \$6.3 million from the prior fiscal year, which is the result of the construction on the 13th Street Bridge.

The Highway 101/16 West Community Facilities District has a negative fund balance as a result of property acquisitions for the interchange and road re-alignments.

The Measure D GO bonds debt service fund shows an increase of \$750,267 in fund balance, directly attributable to funding of the bond measure by property tax assessments.

The Redevelopment Agency debt service fund shows an increase of \$773,288 in fund balance from the prior fiscal year resulting from the increase in property taxes and reduced expenditures.

DEBT ADMINISTRATION

Debt considered a liability of governmental activities decreased in FY 2005-06 by only \$775,600 due to new capital lease proceeds, compensated absences increased \$127,043, and closure/postclosure liability increased \$154,126. Per capita debt outstanding decreased to \$1,656 for FY 2005-06 down from \$1,743 for FY 2004-05. While debt remained relatively unchanged, the City's increase in population reduced per capita debt outstanding.

Debt considered a liability of business-type activities decreased in FY 2005-06 by \$622,201 due to normal amortization. Per capita debt outstanding decreased to \$312 for FY 2005-06 down from \$345 for FY 2004-05.

CITY OF EL PASO DE ROBLES
 Management's Discussion and Analysis, continued
 Fiscal Year Ended June 30, 2006

A schedule of outstanding debt is presented below.

	Balance July 1, 2005	Incurred or Issued	Satisfied or Matured	Balance June 30, 2006
Governmental Activities:				
Leases payable	\$ 5,569,070	\$ 1,789,000	\$ 681,248	\$ 6,676,821
Compensated absences	1,661,546	127,043		1,788,589
Closure/postclosure liability	919,935	154,126		1,074,061
General obligation bonds payable	33,972,550		1,999,560	31,972,970
Redevelopment bonds payable	6,645,000		165,000	6,480,000
Total governmental activities	\$ 48,768,101	\$ 2,070,169	\$ 2,845,828	\$ 47,992,441
Business-type Activities:				
Compensated absences	\$ 143,970	\$ 32,799	\$	\$ 176,769
Revenue bonds payable	8,510,000		655,000	8,855,000
Total business-type activities	\$ 8,653,970	\$ 32,799	\$ 655,000	\$ 9,031,769

CASH MANAGEMENT

To obtain flexibility in cash management, the City employs a pooled cash system (reference Note 2 in the notes to the basic financial statements). Under the pooled cash concept, the City invests the cash of all funds with maturities planned to coincide with cash needs. Idle cash is invested in certain eligible securities as constrained by law and further limited by the City's Investment Policy. The goals of the City's Investment Policy are safety, liquidity, and yield.

CITY OF EL PASO DE ROBLES
 Management's Discussion and Analysis, continued
 Fiscal Year Ended June 30, 2006

CAPITAL ASSETS

The capital assets of the City are those assets, which are used in the performance of the City's functions including infrastructure assets. At June 30, 2006, net capital assets of the governmental activities totaled \$152 million and the net capital assets of the business-type activities totaled \$63 million. Depreciation on capital assets is recognized in the government-wide financial statements. The City has elected to depreciate its infrastructure assets. In order to depreciate the infrastructure assets, an estimated useful life for each type of asset was determined using engineering standards, as well as discussions with City staff regarding the City's maintenance program for each asset type. This allowed the estimated useful life of each asset type to be tailored to include the unique attributes of the City of El Paso Robles.

The following table presents summary information on the City's capital assets.

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Capital Assets - Governmental Activities:			
Land, Buildings, Equipment, CIP, and Infrastructure	\$ 192,081,922	\$ 40,302,809	\$ 151,779,113
Capital Assets - Business-type Activities:			
Land, Buildings, Equipment, CIP, and Infrastructure	\$ 103,853,211	\$ 37,390,800	\$ 66,462,411

CITY OF EL PASO DE ROBLES
 Management's Discussion and Analysis, continued
 Fiscal Year Ended June 30, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

Comparing the FY 06 original budget (or adopted) general fund budget amount of \$22.4 million to the final budget amount of \$25.6 million shows a net increase of \$3.2 million. Included in this figure is 274,800 in prior year carry forward, \$125,000 in funds for engineering services at the landfill, \$197,200 in Sherwood Park playground upgrades, \$85,600 to reimburse the Paso Robles Public Schools for parking lot improvements, \$2,000,000 property acquisition at the landfill, \$40,000 for Pioneer Skate Park staffing, \$80,000 for increased legal services, \$47,500 for the development impact fee update, and \$411,100 in a variety of operating budget augmentations. City Council approved all budget supplemental changes to the original budget.

Original Budget	+	Supplemental Changes	=	Final Budget
\$ 22,377,900	+	\$ 3,261,200	=	\$ 25,639,100

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The key assumptions in the general fund revenue forecast for fiscal year 2006-07 were:

- An increase in property tax revenues of 8% due to an estimated rise in assessed valuation and general growth.
- An increase in sales tax revenues of 5.5% as a result of anticipated growth in the retail base.
- An increase in 2% annually for growth in Transient Occupancy Tax.

The City continues to benefit from a sound financial base and local economy. Positive results of the last six fiscal years (2001 through 2006) have increased the general fund's fund balance by nearly \$5.7 million. The City's FY 07 budget includes the following new/expanded budget requests:

- Economic development study
- One full time sworn officer

CITY OF EL PASO DE ROBLES

Management's Discussion and Analysis, continued
Fiscal Year Ended June 30, 2006

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, separate reports of the City's component units or need any additional financial information, contact the Office of Administrative Services at 1000 Spring Street, Paso Robles, California, 93446, phone 805-237-3999 or e-mail finance@prcity.com.

CITY OF EL PASO DE ROBLES



BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities statements required by Governmental Accounting Standards Board Statement No. 34 (GASB 34). Their purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis - the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects, and Debt Service Funds. The City's Business-type Activities include all the Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when the cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The format of the Statement of Activities differs considerably from those prepared in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues - that is, revenues which are generated directly by these programs - are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of El Paso de Robles, which is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the Agency's activities.

CITY OF EL PASO DE BOBLES
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Governmental Activities	Business-Type Activities	TOTAL
ASSETS			
Cash and investments	\$ 34,311,347	\$ 82,948,722	\$ 117,260,069
Accounts receivable	2,520,891	1,514,167	4,035,058
Interest receivable	317,643		317,643
Inventory		61,043	61,043
Loan contracts receivable	572,456		572,456
Prepaid expenses	378,798		378,798
Land	7,734,382	8,588,455	16,322,837
Buildings and improvements	42,580,867	2,928,402	45,509,269
Equipment	6,511,131	1,735,062	8,246,193
Construction in progress	2,282,177	15,033,203	17,315,380
Infrastructure	131,836,835		131,836,835
Accumulated depreciation	(40,302,805)	(37,800,500)	(78,103,305)
Bond issuance-related charges	1,049,814	258,166	1,307,980
Total Assets	191,253,672	97,795,504	289,049,176
LIABILITIES			
Accounts payable	1,623,644	633,818	2,257,462
Accrued payroll expenses	671,699	24,658	696,357
Interest payable	644,823	30,624	675,447
Customer deposits	212,575	72,636	285,211
Deferred revenue	487,025		487,025
Prepaid monies	14,000		14,000
Long term debt			
Due within one year	2,667,291	675,000	3,342,291
Due in more than one year	45,025,053	33,559,368	78,584,421
Total Liabilities	51,847,511	34,200,535	86,048,046
NET ASSETS			
Invested in capital assets, net of related debt	102,663,833	54,373,577	157,037,410
Restricted	829,674	476	830,150
Unrestricted	20,760,165	33,221,391	53,981,556
Total net assets	\$ 124,253,672	\$ 87,894,974	\$ 212,148,646

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Funding Sources			Net (Expense) Revenue and Changes in Net Assets		
	Expenditures	Primary Government		Primary Government		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Net Capital/Investment Activities	Business-type Activities
Governmental Activities:						
General government	\$ 400,070	\$ 43,072	\$ -	\$ (458,000)	\$ -	\$ (456,690)
Public safety	11,745,880	620,003	15,306	(11,085,975)	-	(10,250,575)
Public works	8,347,720	20,844	7,713,718	(7,211,058)	-	(10,210,98)
Library and recreation services	4,550,785	785,650	-	(3,764,555)	-	(3,760,850)
Community development	7,124,846	5,777,450	-	(1,347,355)	-	(1,347,355)
Interest on long-term debt	1,709,597	-	-	(1,709,597)	-	(1,709,597)
Total Governmental Activities	29,888,262	7,254,998	7,729,024	(19,376,160)	-	(19,376,160)
Business-type Activities:						
Water operations	3,734,062	3,590,664	4,779,166	-	4,431,707	4,691,931
Sewer operations	2,627,438	3,851,353	2,598,510	-	2,761,226	2,761,225
Airport operations	691,207	18,544	-	-	(682,633)	(682,667)
Transe operations	1,058,576	132,378	-	-	(955,435)	(955,495)
Total Business-type Activities	8,125,303	7,609,629	7,377,676	-	5,763,801	5,239,801
Total primary government	\$ 43,062,685	\$ 14,864,627	\$ 7,729,024	\$ (19,376,160)	\$ 5,763,801	\$ (13,281,359)
				General Revenues and Transfers:		
				Taxes:		
				Property taxes	10,038,512	10,038,512
				Sales taxes	4,143,527	4,143,527
				Other taxes	4,648,054	4,648,054
				Fees from other agencies	5,991,922	5,991,922
				Licenses and permits	341,934	341,934
				Other	64,246	64,246
				Use of money and property	1,388,416	1,388,416
				Transfers in/(out)	(115,307)	(115,307)
				Total general revenues and transfers	30,550,481	30,550,481
				Change in net assets	17,174,323	17,174,323
				Net assets beginning of fiscal year	20,685,548	20,685,548
				Net assets end of fiscal year	\$ 37,859,871	\$ 37,859,871

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE ROBLES



FUNDS FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-Term Debt Groups of Accounts.

The Governmental funds described below were determined to be Major Funds in the City this fiscal year. Individual non-major funds may be found in the Supplemental section.

General Fund

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

Measure D GO Bonds Capital Projects Fund

This fund accounts for project expenditures for a variety of infrastructure projects funded by voter approved Measure D General Obligation Bonds.

Highway 101/46 West Community Facilities District Fund

The fund accounts for the improvements to the Highway 101/46 West interchange and road re-alignments.

Measure D GO Bonds Debt Service Fund

This fund accounts for long-term debt service transactions relating to a variety of infrastructure projects funded by voter approved Measure D General Obligation Bonds.

Redevelopment Agency Debt Service Fund

This fund accounts for long-term debt service transactions relating to the acquisition and improvements of interim city hall and the repayment of short-term cash advances owed to the City of El Paso de Robles' general fund.

CITY OF EL PASO DE SOBRLES
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2008

	General Fund	Measure D GO Roads Capital Projects Fund	Highway 10140 West Community Facilities District	Meekins D GO Scenic Dist Service Fund	Redevelopment Agency Debt Service Fund	Other Governmental Funds	Totals
ASSETS							
Cash and cash equivalents	\$ 6,116,561	\$ -	\$ -	\$ 6,153,576	\$ 279,041	\$ 20,470,533	\$ 33,029,711
Cash and investments with fiscal agent					22,640	480,593	1,004,953
Accounts receivable	1,051,508			205,608	164,747	267,335	2,529,898
Interest receivable	317,643						617,343
Down payment receivable	1,766,257					9,021,810	10,788,067
Prepaid items	90,334				325,304		378,708
Total Assets	\$ 10,505,303	\$ -	\$ -	\$ 6,671,184	\$ 1,288,722	\$ 30,780,483	\$ 48,645,772
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 676,943	\$ 671,023	\$ 19,924	\$ -	\$ -	\$ 99,020	\$ 1,526,944
Account payable expenses	667,976					3,017	671,993
Compensated absences	50,000						50,000
Deposits due to others	204,000						204,000
Lease contracts payable			1,420,067		6,955,402	1,300,161	10,215,630
Customer deposits	4,076						4,076
Deferred revenues	142,649					617,732	1,060,381
Prepaid revenues	14,038						14,038
Total Liabilities	2,053,303	671,023	1,439,991	-	6,955,402	2,986,930	14,148,269
Fund Balances:							
Reserves:	1,319,571					7,115,402	8,934,973
Unreserved/Designated	260,800	671,023			(5,876,680)		(8,087,700)
Unreserved/Undesignated	6,342,932		11,439,991	6,671,184		20,076,542	31,650,247
Total Fund Balances	8,422,063	(671,023)	11,439,991	6,671,184	(5,876,680)	27,191,944	34,489,112
Total Liabilities and Fund Balances	\$ 10,505,306	\$ -	\$ -	\$ 6,671,184	\$ 1,288,722	\$ 30,780,483	\$ 48,645,776

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE ROBLE
 GOVERNMENTAL FUNDS
 Reconciliation of the Governmental Funds - Balance Sheet
 to the Statement of Net Assets
 June 30, 2008

Fund balances of governmental funds	\$ 34,497,512
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation have not been included as financial resources in governmental fund activity	151,768,118
Deferred revenue	572,436
Accrued expense and postclosure costs added to long term debt	(1,074,061)
Bond issuance related charges	1,054,614
Interest payable	(644,923)
Lease contracts payable	(2,091,821)
Bonds and certificates of participation payable	(43,147,679)
Compensated absences	<u>(1,738,580)</u>
Net assets of governmental activities	<u>\$ 139,008,521</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE HUELOS
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Mesa Verde Bonds Capital Project Fund	Highway 10 East West Community Facilities District	Mesa Verde Juniata Debt Service Fund	Redevelopment Agency Debt Service Fund	Other Dedicated Funds	Total
Revenues							
Taxes	\$ 12,474,251	\$ -	\$ -	\$ 3,395,007	\$ 2,055,579	\$ 1,359,454	\$ 24,289,391
Licenses and permits	1,581,411						1,581,411
Fines and forfeitures	307,138						307,138
Use of money and assets	294,796			149,762	31,801	835,967	1,163,400
Financial agencies	3,063,715					1,435,035	4,498,750
Charges for current services	1,099,090					4,715,635	5,441,726
Grants	33,256				71,287	720,354	911,545
Total Revenues	24,951,556			3,744,869	2,461,066	8,630,216	39,687,647
Expenditures							
General government	139,706			1,250		75,000	196,956
Public safety	1,351,340					270,718	1,622,058
Public works	2,744,282					1,830,919	4,575,201
Library and recreational services	4,716,481					55,000	4,771,481
Community development	2,559,530		69,715			2,137,000	4,766,250
Interest	37,288			967,000	345,680	296,050	1,645,918
Financial	215,751			2,000,000	165,010	450,053	2,670,814
Paying agent fees				1,000	3,140	3,440	7,580
Capital outlay	2,423,642	6,842,364	1,270,276	1,000	1,140	2,650,521	13,188,143
Fiscal agreements payments					918,000		918,000
Total Expenditures	26,525,262	6,842,364	1,439,991	3,865,260	2,431,215	6,076,425	45,350,517
Excess revenues over (under) expenditures	775,000	(6,842,364)	(1,439,991)	(760,267)	(1,031,490)	653,791	(2,771,612)
Other financing sources (uses):							
Operating transfers in	1,309,067	3,594,201				6,056,777	11,959,245
Operating transfers out	(2,076,285)	(3,090,000)			(200,202)	(7,375,150)	(12,561,537)
Capital assets	(778,000)						(778,000)
Proceeds from asset sale facility						154,125	154,125
Total Other Financing Sources (Uses)	(745,218)	494,201				(291,327)	(542,344)
Net Change in Fund Balances	29,785	(6,348,163)	(1,439,991)	(760,267)	(733,265)	1,107,604	(8,749,691)
Fund Balances - July 1	7,615,661	6,676,150		5,820,917	(6,448,858)	25,701,170	39,465,040
Plus periodic interest						(236,740)	(236,740)
Fund Balances - July 1, as adjusted	7,615,661	6,676,150		5,820,917	(6,448,858)	25,464,430	39,227,290
Fund Balances - June 30	\$ 7,645,446	\$ 6,127,987	\$ (1,439,991)	\$ 5,060,650	\$ (5,076,650)	\$ 27,101,014	\$ 34,397,612

The notes to the financial statements are an integral part of this statement.

CITY OF BOARDWATER
 GOVERNMENTAL FUNDS
 Reconciliation of the Net Change in Fund Balances
 with the Statement of Activities
 For the Fiscal Year ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (3,749,697)
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are not included but instead increase the capital assets on the statement of net assets	20,271,988
Governmental funds do not report cost of capital assets sold	(1,328,864)
Governmental funds do not report depreciation as an expense. However, in the Statement of Activities, depreciation is recorded as an expense	(4,610,888)
Repayment of long-term debt (bond principal, certificates of participation, and capital lease) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	2,845,629
Proceeds from debt financing	(1,789,000)
ODBG reduction in loans receivable	(48,231)
Interest payable one year increase	(53,820)
Postclosure change in long term liability	(154,125)
Current year bond issuance amortization	(38,518)
To record as an expense the net changes in compensated absences in the Statement of Activities	<u>(127,043)</u>
Change in net assets of governmental activities	<u>\$ 11,315,203</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE ROSLES
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgetary Account			Variance with Final Budget Positive/Negative
	Original	Final	Actual	
Revenues:				
Taxes	\$ 16,412,000	\$ 16,412,000	\$ 17,479,057	\$ 1,067,057
Licenses and permits	1,039,800	1,048,800	1,524,411	485,611
Fines and forfeitures	229,500	229,500	307,138	77,638
Use of money and property	225,000	489,000	324,492	(111,508)
From other agencies	2,025,000	2,532,800	2,046,717	(647,912)
Charges for current services	1,469,800	1,443,800	1,729,060	285,180
Other	255,000	263,400	139,968	(123,432)
Total Revenues	21,635,100	22,239,400	24,551,862	2,287,462
Expenditures:				
Current:				
General government	867,800	1,093,800	119,793	944,184
Public safety	11,325,100	11,491,800	11,351,340	140,460
Public works	3,122,300	3,495,800	3,744,282	(249,482)
Library & recreation services	4,343,400	4,388,200	4,119,487	268,713
Community development	2,065,800	2,654,500	2,668,528	(114,636)
Debt service	261,600	211,200	289,959	(78,359)
Capital outlay	125,800	2,373,800	2,423,542	(50,742)
Total Expenditures	22,377,800	25,639,100	24,626,952	7,012,148
Excess revenues over (under) expenditures	(742,700)	(3,409,700)	(75,090)	3,272,610
Other financing sources (uses):				
Opening transfers in	1,806,100	1,565,100	1,328,087	(177,033)
Opening transfers out	(550,100)	(247,300)	(2,236,555)	(1,439,255)
Drawdowns	280,000	1,240,900	1,789,322	(1,000)
Total other financing sources (uses)	746,000	2,548,800	981,512	(1,657,288)
Excess revenues and other sources over (under) expenditures and other late	1,200	(799,900)	806,422	1,608,322
Fund Balance - July 1	7,615,681	7,515,981	7,615,981	
Fund Balance - June 30	\$ 7,616,881	\$ 6,716,081	\$ 8,422,403	\$ 1,609,322

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement No. 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in the current fiscal year.

GASB Statement No. 34 does not provide for the disclosure of budget versus actual comparisons regarding proprietary funds.

Water Operations Fund

This fund is used to account for the operation and maintenance of the City's water production, transmission, and distribution system, and includes accounting for water connections, Naciminto water project, and Naciminto water treatment.

Sewer Operations Fund

This fund is used to account for the operation and maintenance of the City's sewer collection and treatment system.

Airport Operations Fund

This fund is used to account for the operation and maintenance of the City's airport.

Transit Operations Fund

This fund is used to account for the operation and maintenance of the City's dial-a-ride and fixed route transit systems funded from Transportation Development Act funds.

CITY OF EL PASO DE ROMOS
 PROPRIETARY FUNDS
 STATEMENT OF FUNDS NET ASSETS
 JUNE 30, 2006

	Business-type Activities - Enterprise Funds				Totals
	Water Operations	Sewer Operations	Airport Operations	Transit Operations	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 16,219,076	\$ 16,573,431	\$ 783,870	\$ 271,800	\$ 32,048,243
Cash and investments with fiscal agent		479			479
Accounts receivable	622,047	434,409	21,029	265,382	1,544,187
Inventory	64,043				64,043
Total Current Assets	18,305,486	17,008,319	804,899	538,248	34,598,052
Capital Assets:					
Plant, property and equipment	39,819,075	40,331,151	19,781,671	654,334	100,366,211
Less accumulated depreciation	14,204,955	16,655,160	5,106,907	456,715	37,398,820
Net Book Value	25,614,120	23,675,991	14,674,764	198,619	62,972,411
Long-term Assets:					
Unamortized bond discount and issue costs		258,166			258,166
Total Long-term Assets		258,166			258,166
Total Assets	\$ 41,425,586	\$ 40,638,463	\$ 14,462,803	\$ 555,387	\$ 97,783,559

The notes to the financial statement are an integral part of this statement.

CITY OF EL PASO DE ROSLES
 PROPRIETARY FUNDS
 STATEMENT OF FUNDS NET ASSETS
 JUNE 30, 2009

	Business-type Activities - Enterprise Funds				Total
	Waste Operations	Sewer Operations	Airport Operations	Trash Operations	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 528,888	\$ 51,296	\$ 8,867	\$ 47,035	\$ 636,086
Accrued payroll expenses	30,882	11,808	2,079		44,769
Accrued interest charges		31,024			31,024
Compensated absences	48,527	119,519	7,929		176,975
Customer deposits	68,555	3,970			72,525
Bond principal payable - current portion		575,032			575,032
Total Current Liabilities	867,397	891,659	13,875	47,065	1,820,096
Long-term Liabilities:					
Bond principal payable, net - less current portion		8,180,032			8,180,032
Total Long-term Liabilities		8,180,032			8,180,032
NET ASSETS					
Invested in capital assets, net of related debt	25,321,120	15,076,134	13,557,704	3,183,515	56,578,573
Restricted for capital projects		479			479
Unrestricted	15,447,504	16,790,691	791,224	581,205	33,620,914
Total Net Assets	\$ 40,768,624	\$ 31,867,534	\$ 14,448,928	\$ 909,828	\$ 87,094,974

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE COURSES
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUNDS NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds				Totals
	Water Operations	Wastewater Operations	Airport Operations	Trunkline Operations	
Operating Revenues:					
Charges for element services	\$ 2,880,654	\$ 3,364,353	\$ 14,844	\$ 132,379	\$ 6,392,630
Rents and leases			353,802		353,802
Other	(4,500)	58,741	512		56,753
Total operating revenues	2,876,154	3,423,094	371,158	132,379	6,702,825
Operating expenses:					
Maintenance, operations, and administration	3,045,384	2,229,634	139,716	884,001	6,298,735
Depreciation and amortization	782,799	1,079,414	261,732	253,819	2,117,764
Total operating expenses	3,828,183	3,309,048	401,448	1,137,820	8,676,503
Operating income (loss)	(952,029)	1,114,046	(30,290)	19,559	(158,714)
Non-operating revenues (expenses):					
Interest			71,192		71,192
Revenues from other agencies	554,046		371,998	857,170	1,783,214
Interest income	189,026	485,833	2,785	15,923	693,567
Water connection fees	1,745,663				1,745,663
Nonwater connection fees	331,382				331,382
Sewer connection fees		1,850,169			1,850,169
Sale of surplus property					
Contributions from other agencies				165,378	165,378
Interest expense		(581,340)			(581,340)
Total nonoperating revenues (expenses)	3,200,116	1,854,669	663,655	874,371	6,592,811
Income before transfers and capital contributions	2,274,125	2,647,655	630,865	(192,008)	5,523,639
Transfers out	(9,380)	(3,050)			(12,430)
Capital contributions	607,029	578,111			1,185,140
Capital contribution - Nacemito project	1,439,607				1,439,607
Capital contribution - Nacemito water treatment	281,025				281,025
Change in net assets	3,473,307	3,212,616	630,865	(192,008)	7,224,780
Total net assets - July 1	35,267,874	28,551,178	13,285,263	1,048,433	78,152,748
Total net assets - June 30	\$ 38,741,181	\$ 31,763,794	\$ 14,443,928	\$ 856,425	\$ 86,805,328

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE COBLEN
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds				
	Water Operations	Sewer Operations	Airport Operations	Public Utilities	Totals
Cash Flow from Operating Activities:					
Receipts from customers and users	\$ 3,175,076	\$ 4,988,067	\$ 255,267	\$ 82,656	\$ 8,499,066
Payments to suppliers	(1,911,470)	(1,524,346)	(178,033)	(750,071)	(4,474,560)
Payments to employees	(752,522)	(711,064)	(173,621)	(18,246)	(1,655,453)
Net cash provided (used) by operating activities	611,084	2,752,657	(90,387)	(645,661)	2,268,293
Cash Flow from Capital and Related Financing Activities:					
Proceeds from federal and state grants	364,042		871,093	331,829	1,566,964
Acquisitions of capital assets	(6,507,549)	(1,024,322)	(332,300)	(136,374)	(7,999,545)
Payments on principal		164,885			164,885
Proceeds on long-term debt		380,270			380,270
Contributor capital received	4,183,027	(600,139)			3,582,888
Net cash provided (used) by capital and related financing activities	(2,160,400)	(684,316)	538,793	195,455	(2,109,468)
Cash Flow from Non-capital and Related Financing Activities:					
Operating interest income	(9,350)	(5,387)			(14,737)
Taxes			32,102		32,102
Contributions in kind				(145,376)	(145,376)
Net cash provided (used) by non-capital financing activities	(9,350)	(5,387)	32,102	(145,376)	(27,911)
Cash Flow from Investing Activities:					
Interest on investments	46,902	485,830	18,787	15,021	1,076,540
Net cash provided by investing activities	46,902	485,830	18,787	15,021	1,076,540
Net increase (decrease) from cash and cash equivalents	(1,501,264)	2,467,864	50,799	(425,511)	1,538,956
Cash and cash equivalents at beginning of year	16,330,451	16,156,296	703,077	815,130	33,905,054
Cash and cash equivalents at end of year	\$ 14,829,187	\$ 18,624,160	\$ 753,876	\$ 389,619	\$ 16,006,842
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) in Operating Activities:					
Operating Income (Loss)	\$ (147,833)	\$ 622,366	\$ (303,266)	\$ (600,521)	\$ (329,254)
Adjustments to reconcile net operating income (loss):					
Add depreciation and amortization	36,675	1,070,444	241,759	74,306	1,723,184
Change in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(32,072)	442,118	(14,071)	(35,252)	370,823
(Increase) decrease in inventory	8,835				8,835
Increase (decrease) in accounts payable	534,030	(21,904)	(8,158)	(11,810)	292,158
Increase (decrease) from business	(1,194)	(4,007)	(2,584)	(252)	(8,037)
Increase (decrease) in compensated absences	9,845	22,438	375		32,658
Increase (decrease) in customer deposits	16,520	758			17,278
Net cash provided (used) by operating activities	\$ 611,084	\$ 2,752,657	\$ (90,387)	\$ (645,661)	\$ 2,268,293

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

Funds held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

CITY OF EL PASO DE ROBLES
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

		<u>Agency Funds</u>
Assets		
Cash and Investments		\$ 1,484,232
Total Assets		<u>\$ 1,484,232</u>
Liabilities		
Accounts payable		9,222
Accrued salaries and benefits payable		1,846
Customer deposits		885,251
Due to other		407,914
Total Liabilities		<u>1,404,233</u>
Net Assets		
Unrestricted		<u>84,000</u>
Total Net Assets		<u>\$ 84,000</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EL PASO DE ROBLES
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 June 30, 2006

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CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The accompanying comprehensive annual financial report includes the financial activities of the City of El Paso De Robles, and its component units, the Paso Robles Redevelopment Agency (Agency) and the El Paso de Robles Public Financing Authority (Authority). The financial activities of the foregoing entities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as each meets the criteria for inclusion as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39.

The City of El Paso de Robles was incorporated in 1889, and operates under the State of California City Council-Manager form of government. The governing body consists of a five member City Council elected at large by voters of the City. The City provides the following services: Public Safety (Police and Fire), Library and Recreation Services, Planning and Zoning, Public Works (Streets and Roads), Public Improvements, Water, Sewer, Airport Operations, Public Transportation (Transit Services), and General Administrative Services.

The City Council members, in separate sessions, serve as the governing board of the Agency and the Authority and, as such, these entities are presented as blended component units. Separate financial statements are produced only for the Redevelopment Agency component unit of the City and may be obtained from the City's Administrative Services office.

The Agency was organized in August 1986, pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". At the same time, the City Council became the governing board. The Final Report, Redevelopment Plan, and Agency boundaries were adopted on November 19, 1987. Although it is legally separate from the City, the Agency is reported as if it were part of the primary government because its sole purpose is redevelopment, rehabilitation, and the revitalization of the redevelopment project area within the City's jurisdictional boundaries. City staff provides management assistance to the Agency. The funds of the Agency have been included in the Governmental Activities in the financial statements.

The Authority was formed by the City as a conduit for long-term debt financing and is governed by the City Council. The Authority exists and acts as a separate public entity and has the power to acquire, purchase, construct, finance, lease, and/or sell public facilities and appurtenances necessary or convenient for the public purposes of the City. The Authority has no assets of its own. All capital assets acquired by the City under the Authority are included in the financial statements.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)

June 30, 2006

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Government-Wide Financial Statements: The Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-type Activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Funds Financial Statements: Governmental Funds Financial Statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of funds financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

C. Major Funds

The City reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Measure D GO Bonds Capital Projects Fund is used to account for the expenditure of general obligation bond proceeds for specific capital projects as authorized by the voters.

Highway 101/46 West Community Facilities District accounts for the improvements to the Highway 101/46 West interchange and road re-alignments.

Measure D GO Bond Debt Service Fund is to account for property tax revenues generated from the general obligation bond tax override approved by the voters and the expenditure of said funds for payment of bond principal and interest.

Redevelopment Agency Debt Service Fund is used to account for the collection property tax increment and payment of debt authorized by the Agency's Board.

The City reported all its enterprise funds as major proprietary funds in the accompanying financial statements:

Water Operations Fund is used to account for the operation and maintenance of the City's water production, transmission, and distribution system necessary to provide water service to the residents of the City.

Sewer Operations Fund is used to account for the operation and maintenance of the City's sewer collection and treatment system necessary to provide sewer services to the residents of the City.

Airport Operations Fund is used to account for the operation and maintenance activities of the City's airport.

Transit Operations Fund is used to account for the operation and maintenance activities of the City's transit system including both demand response and fixed route services as well as funding contributions to the regional transit system.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

The City also reports the following fund types:

Fiduciary Funds - Fiduciary Funds Financial Statements include a Statement of Net Assets. The City's Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Included in this category are the following five funds: 1) debt service transactions of special assessment bond issues for which the City is not obligated in any manner, 2) to account for funds received and expended by the Senior Advisory Committee, 3) to account for funds to provide scholarships to graduated local high school students who undertake courses in the medical field, scholarships are awarded by the Paso Robles High School District, 4) to account for Other Post-Employment Benefits, and 5) deposits from customers to be refunded when performance criteria is met or applied against future amounts due to the City from the customer.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services. Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary. Certain indirect costs are included in program expenses reported for individual functions and activities.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

E. Budgeting and Budgetary Accounting

The City prepares a four-year financial plan that contains appropriations for two full fiscal years. During the second year of the two-year budget/four year financial plan, a new two-year budget is developed and two additional years are added to the four-year financial plan. The process for updating the two-year budget/four year financial plan is generally described as follows:

Administrative Services prepares base budget schedules consisting of maintenance and operations, personnel services, operating capital, revenue estimating forms and forms for submitting budgetary requests for new and/or expanded services, as well as requests for operating capital not already provided for on various pre-authorized replacement schedules. These schedules are distributed to all executive managers for affirmation and/or completion. Upon affirmation and return of new request forms, Administrative Services compiles and publishes the draft budget. Executive managers meet to review the draft budget and prepare specific recommendations to balance the budget should resources not cover budgetary requests. The draft budget and executive manager recommendations are then reviewed by the Council's "ad hoc budget committee" made up of two Councilpersons. Final budget recommendations are developed and are presented to the full Council at a public workshop, followed by a public hearing, and then formal budget adoption at the first meeting in June. The budget preparation, review, and approval process takes place in the context of and with the objective of addressing the goals established by Council during a goal setting workshop held just prior to the process noted above.

This approved budget covers substantially all City expenditures including re-budgeted items. All appropriated amounts are as originally adopted or as amended by the City Council and lapse at fiscal year-end. The City Manager is authorized to transfer budgeted amounts between objects within departments. Transfers of appropriations between departments and funds may be made only by the City Council. Total departmental expenditures in excess of the total departmental budgeted amounts are discouraged and executive managers are held accountable accordingly. Formal budgetary integration is employed as a management control tool during the fiscal year for all funds including enterprise funds. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

F. Compensated Absences

It is the City's policy to record the cost of annual vacation, compensatory time, and fringe benefits as earned in accordance with the Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences". Accumulated unpaid vacation leave is accrued when incurred in the proprietary funds. Only the current portion of the unpaid vacation leave is accrued in the governmental funds. The long-term portion of the unpaid vacation leave is reported in the Government-wide Financial Statements. Employees may accumulate sick leave without limitation as to the number of hours of accumulation. Employees are paid 100% of their accumulated vacation pay when they terminate their employment for any reason. Accumulated sick pay under no circumstances is paid to employees at any time and thus is not recorded as a liability of the City.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

G. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

H. Inventories and Prepaid Items

Inventory is recorded using the purchases method and cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory held in the Water Department is valued at cost using the first in, first out (FIFO) inventory method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

I. Property Taxes

Property taxes are assessed, collected, and allocated by the County of San Luis Obispo throughout the fiscal year according to the following property tax calendar:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date - Secured Taxes	November 1, 1 st installment, March 1, 2 nd installment
Collection Date - Secured Taxes	December 10, 1 st installment, April 10, 2 nd installment
Due Date - Unsecured Taxes	June 30
Collection Date - Unsecured Taxes	August 31

Under California law, property taxes are assessed and collected by counties up to 1 percent of assessed value, plus other increases approved by the voters. Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed valuation is increased annually by a cost of living index not to exceed 2% except for those properties that changed ownership during the twelve month period since the lien date. In these cases, the property is re-assessed at current value. The property taxes go into a pool, and are then allocated to the cities based on a complex formula prescribed by state statute. Accordingly, the City of El Paso de Robles recognizes property tax revenues when it becomes both measurable and available to finance expenditures of the current period.

Beginning with fiscal year 1993-94, the County of San Luis Obispo, for those taxing agencies desirous of participating on a volunteer basis, converted the property tax collection and distribution system to the "Teeter Plan". The City of El Paso de Robles chose to participate in the "Teeter Plan" wherein the City receives 100% of the property tax levy during the fiscal year without deduction for property tax payment delinquencies. Accordingly, the County of San Luis Obispo keeps all property tax penalties collected.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

J. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

K. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at fiscal year-end are referred to as "due to/due from other funds". In some cases, "due to/due from other funds" represent the short-term transfer of cash resources at fiscal year-end to eliminate negative cash balances that are temporary in nature. Cash resources have been loaned from one fund to another to provide resources to prepare a "specific plan", a planning/development tool, until fees generated from the specific plan area repay the loan.

Proprietary fund receivables are shown net of any allowance for uncollectible accounts. Utility customers are billed monthly. The value of services provided, and billed at fiscal year-end has been included in the accompanying financial statements.

L. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

M. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 46

For the fiscal year ended June 30, 2006, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 46, "Net Restricted by enabling Legislation - an amendment of GASB Statement No. 34." This statement is effective for fiscal periods beginning after June 15, 2005. This Statement required that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the City - such as citizens, public interest groups, the judiciary - can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2006.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

Governmental Accounting Standards Board Statement No. 44

For the fiscal year ended June 30, 2006, the City implemented GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section." This Statement is effective for the City for the fiscal periods beginning after June 15, 2005. This Statement enhances and updates the statistical section that accompanies a local government's basic financial statements to reflect the significant changes that have taken place in the government. The statistical section comprised schedules presents trend information about revenues and expenses, trend information about the government's significant revenue sources, outstanding debt, economic and demographics, and operating information. Implementation of GASB Statement No. 44 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2006.

NOTE 2 - CASH AND INVESTMENTS

A. Investment Policy

Cash balances from all funds are combined and invested pursuant to the Council's adopted Investment Policy and State Government Code Section 53647. Authorized investments include securities of the United States Government or its agencies, certificates of deposit, the State of California Local Agency Investment Fund (LAIF), bankers' acceptances, negotiable certificates of deposit, and repurchase agreements. The earnings from these investments are allocated monthly to each fund based upon the closing balance of each fund at month end. All enterprise fund investments are considered to be liquid investments for cash flow and reporting purposes. Funds held by outside fiscal agents under the provisions of bond indentures that are maintained separately and interest income earned on said funds are credited directly to the bond fund or reported as if the interest was credited directly to said funds.

The City uses the yield on the Local Agency Investment Fund, an investment pool managed by the State of California Treasurer's Office for evaluating investment performance. The yield for LAIF during the last quarter of fiscal year 2005/06 was 4.53%. For the month ended June 30, 2006, the City recognized a weighted average daily rate of return of 4.51%. At no time during the fiscal year did the City borrow funds through the use of reverse purchase agreements.

The table below identifies the investment types that are specifically authorized by the City's investment policy and also identifies certain provisions of the City's investment policy that addresses interest rate risk and concentration of credit risk per GASB Statement No. 40. It does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the debt agreement between the City and trustee. Any investment type not listed is either prohibited by California Government Code, prohibited by the City's investment policy, or not specifically addressed by the City's investment policy.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

<u>Investment Types Authorized by Law</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Notes	7 years**	30%	None
U.S. Agency Mortgaged Backed Securities	7 years**	30%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	180 days	None	None
Corporate Notes	5 years	10%	\$1 Million
Certificates of Deposit	5 years	None	None
Collateralized Certificates of Deposit	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	None	None
Local Agency Investment Fund (LAIF)	None	None	None

**Only 15% of the aggregate total of 60% may be invested between 5 and 7 years.

B. Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus collateral for cash deposits is considered to be held in the City's name. The fair value of the pledged securities must equal at least 110% of the City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintains detailed records of the security pool that are coordinated and updated weekly. The City Treasurer, at his discretion, may waive the collateralization requirement for deposits that are insured up to \$100,000 by the Federal Deposit Insurance Corporation and in fact has waived the collateralization requirement for all deposits held by financial institutions at June 30, 2006.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)

June 30, 2006

C. Disclosures Relating to Interest Risk

Per GASB Statement No. 40, interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the table show below, any callable securities are assumed to be held to maturity.

		<u>Remaining Maturity (in months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
U.S. Agency Notes	\$ 11,270,508	\$ 3,278,253	\$ 7,410,505	\$ 581,750	\$ -
U.S. Agency Mortgage Backed Securities	16,452,059	266,551	4,457,302	12,728,206	-
Corporate Notes	8,223,345	1,362,730	4,384,125	1,497,095	-
Certificates of Deposit	10,717,000	7,447,000	3,072,000	198,000	-
Local Agency Investment Funds (LAIF) Held by Bond Trustee	20,218,257	20,218,257	-	-	-
Money Market Funds	1,025,432	1,025,432	-	-	-
	<u>\$ 68,335,501</u>	<u>\$ 34,206,523</u>	<u>\$ 19,323,932</u>	<u>\$ 14,505,046</u>	<u>\$ -</u>

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments did not include any investments that are highly sensitive to interest rate fluctuations (to a degree than already indicated in the information provided above).

E. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for the each investment type.

		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
U.S. Agency Notes	\$ 12,721,883	N/A	\$ -	\$ 12,721,883	\$ -	\$ -
U.S. Agency Mortgage Backed Securities	15,401,004	N/A	-	15,401,004	-	-
Corporate Notes	8,273,948	A	-	1,425,466	6,848,080	-
Certificates of Deposit	10,717,000	N/A	10,717,000	-	-	-
Local Agency Investment Fund (LAIF)	20,216,257	N/A	-	-	-	20,216,257
Held By Bond Trustee						
Money Market Funds	1,005,432		-	-	-	1,005,432
	<u>\$ 68,335,501</u>		<u>\$ 10,717,000</u>	<u>\$ 29,548,732</u>	<u>\$ 6,848,080</u>	<u>\$ 21,227,680</u>

F. Concentrations of Credit Risk

The investment policy of the City contains limitations that are, in some cases, more restrictive than those stipulated by the California Government Code. In some cases, the investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5% or more of the total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal agency securities	\$ 8,392,004
Federal Home Loan Mortgage Association	Federal agency securities	15,401,004
Federal National Mortgage Association	Federal agency securities	8,229,989

G. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)

June 30, 2006

exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, three different financial institutions held more than \$100,000 in City's deposits. Thus, each financial institution was required to collateralize all amounts in excess of \$100,000 in accordance with California law.

H. Cash and Investments

The carrying amount of the City's cash and deposits was \$344,700 at June 30, 2006. Cash on hand was \$4,100 and bank balances, before reconciling items, were \$566,826 at June 30, 2006. At June 30, 2006, the difference between the City's bank accounts and the carrying amount is due to the normal deposits in transit and outstanding checks.

The City's total cash and investments are reported as follows:

Governmental activities	\$34,331,347
Business activities	32,948,722
Fiduciary funds	<u>1,404,232</u>
Total Cash and Investments	\$68,684,301

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements:

Available for operations	\$66,284,637
With fiscal agent	1,006,432
Fiduciary funds	<u>1,404,232</u>
Total Cash and Investments	\$68,684,301

I. Marking Investments to Fair Value (GASB 31)

Governmental Accounting Standards Board Statement No. 31 requires that the City's investments be carried at fair value instead of cost. The City must adjust the carrying value (book) of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)

June 30, 2006

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City holds all investments until maturity or until fair value equals or exceeds cost, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" or "unrealized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following GASB 31, the City is reporting the amount of available resources that would actually have been available if it had been required to liquidate all its investments at any fiscal year-end. The fair value is provided by Union Bank of California, the City's safekeeping custodial institution.

J. State Investment Pool

LAIF is a special fund of the California State Treasury through which local governments can pool investments. Each governmental agency may invest up to \$40,000,000 for each account in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-hours without loss of interest or principal. The full faith and credit of the State of California secure investments in LAIF.

At June 30, 2006, the account in the name of the City held \$20,253,000 on deposit while the Redevelopment Agency had no funds on deposit. Due to GASB 31, the City recorded a total fair value of \$20,216,257 that included \$36,743 in recognized ("unrealized") losses on investments in LAIF. The unrealized loss was based on a fair value adjustment factor of .998135821 calculated by the State of California Treasurer's Office.

NOTE 3 - CAPITAL ASSETS

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 that requires the inclusion of capital assets including infrastructure capital assets in the local governments' basic financial statements. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems.

All capital assets including infrastructure are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment and \$25,000 for buildings, improvements, and infrastructure, all with useful lives exceeding two years.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2002 and has completed an internal update for June 30, 2006. This appraisal determined the original cost, which is defined as the actual cost to acquire new

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)

June 30, 2006

property in accordance with market prices at the time of first construction/acquisition. When actual cost information was not available, current replacement cost was estimated and trended back to the date of acquisition by using either the Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, Los Angeles-Riverside-Orange County, not seasonally adjusted for all items, or the Construction Cost Index compiled by Engineering News Record (ENR), revised in June 2002. The Consumer Price Index was used for traffic signals and streetlights. The Construction Cost Index was used for all other infrastructure assets. The book value was then computed by deducting the accumulated depreciation from the original cost.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the useful life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Pavement	25 years
Curbs and gutters	50 years
Sidewalks	50 years
Medians	25 years
Bridges	75 years
Traffic signals	20 years
Streetlights	50 years
Storm drain systems	50 years
Off-road trails	20 years
Playground equipment	15 years
Governmental buildings	50 years

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

Capital Assets of the City for the fiscal year ended June 30, 2006, consisted of the following:

	Balance		Balance	
	July 1, 2005	Increases	Decreases	June 30, 2006
Governmental Activities:				
Land	\$ 1,412,045	\$ 3,322,847	\$ -	\$ 4,734,892
Buildings and Improvements	42,966,178	624,709		43,590,887
Equipment	6,129,819	760,822	378,370	6,512,271
Infrastructure and CIP Infrastructure	118,955,265	14,196,116	1,214,517	131,936,864
Construction in progress	922,705	1,346,402	20,930	2,248,177
Less accumulated depreciation	(38,357,154)	(4,510,856)	(266,234)	(43,134,244)
Governmental activity capital assets, net	\$ 137,326,799	\$ 15,728,456	\$ 1,349,334	\$ 151,705,921

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

	Balance		Balance	
	July 1, 2005	Increases	Decreases	June 30, 2006
Business-type Activities:				
Water				
Buildings	\$ 732,488	\$ -	\$ -	\$ 732,488
Improvements other than buildings	25,247,908	3,051,239	-	28,299,147
Equipment	1,028,277	165,787	-	1,194,064
Construction in progress	4,503,048	6,280,761	2,551,845	8,150,366
Less accumulated depreciation	(7,806,357)	(668,766)	-	(8,475,123)
Water activities capital assets, net	\$ 6,499,556	\$ 6,467,369	\$ 2,551,845	\$ 6,331,120
Sewer				
Land	\$ 556,050	\$ -	\$ -	\$ 556,050
Buildings	688,338	-	-	688,338
Improvements other than buildings	25,785,930	3,074,953	-	28,860,883
Equipment	1,150,000	46,489	-	1,196,489
Construction in progress	6,426,223	674,778	225,625	6,775,373
Less accumulated depreciation	(15,645,719)	(1,019,444)	-	(16,665,163)
Sewer activities capital assets, net	\$ 22,974,871	\$ 925,776	\$ 225,625	\$ 22,674,968
Airport				
Land	\$ 7,833,115	\$ -	\$ -	\$ 7,833,115
Buildings	1,658,048	-	-	1,658,048
Improvements other than buildings	8,824,131	698,322	-	9,522,453
Equipment	153,835	-	-	153,835
Construction in progress	63,562	-	68,352	131,914
Less accumulated depreciation	(15,762,152)	(347,793)	-	(16,109,945)
Airport activities capital assets, net	\$ 13,077,539	\$ 350,529	\$ 68,352	\$ 13,557,704
Transit				
Equipment	\$ 507,401	\$ 109,359	\$ -	\$ 616,760
Construction in progress	2,402	5,462	-	7,864
Less accumulated depreciation	(257,259)	(28,500)	-	(285,759)
Transit activities capital assets, net	\$ 252,544	\$ 86,321	\$ -	\$ 338,865
Business-type activity capital assets, net	\$ 34,354,310	\$ 7,839,035	\$ 2,845,822	\$ 34,338,523
Net capital assets, less government	\$ 182,061,955	\$ 26,860,545	\$ 4,198,413	\$ 214,731,524

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

For the fiscal year ended June 30, 2006, depreciation expense on capital assets was charged to the governmental functions as follows:

General Government	\$	166,408
Public Safety		534,542
Public Works		3,417,519
Library and Recreation Services		379,016
Community Development		13,413
Total Depreciation Expense	\$	<u>4,510,898</u>

Construction Commitments

As of June 30, 2006, the City had a number of construction projects in progress. The governmental activity projects had a total work in progress amount of \$2,288,177. The business-type activity projects included various water, sewer, and airport infrastructure improvements totaling \$15,333,293.

NOTE 4 - INTERFUND TRANSACTIONS

A. Loans

With Council approval resources were loaned to the Chandler Ranch and Olsen Beechwood Specific Plan Funds. The City Council adopted Resolution No. 93-173 on November 2, 1993 which approved a reimbursement agreement between the City and the Redevelopment Agency. The reimbursement agreement requires the Agency to reimburse the City for lease payments made for the construction of the City Hall/Library facility. The amount noted below represents "life to date" lease payments (debt service) owed the City for lease payments already made less prior payments from the Agency. This amount does not include future lease payments. Future lease payments will be recorded when paid by the City.

CITY OF EL PASO DE ROBLES
 Notes to the Basic Financial Statements (continued)
 June 30, 2006

	<u>Loans Receivable</u>	<u>Loans Payable</u>
Major Funds:		
General Fund	\$ 1,766,267	\$ -
Highway 101/46 West Community Facilities District Fund		1,420,857
RDA Debt Service Fund		6,965,462
Non-major Funds:		
Public Facilities Development Fund	5,965,402	
Landscape and Lighting District Fund		90,344
Traffic Mitigation Development Fund	1,483,961	
Specific Plan Fund		1,675,923
Airport Road PSR Fund		63,894
	<hr/>	<hr/>
Totals	<u>\$ 10,215,630</u>	<u>\$ 10,215,630</u>

B. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The major purpose of the transfers is to reimburse a fund that has made an expenditure on behalf of another fund. Transfers are identified as follows:

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 1,329,067	\$ 2,236,555
Measure B GO Bonds Capital Projects Fund	3,594,363	3,098,600
RDA Debt Service Fund		259,202
Non-Major Funds:		
General Emergency and Reserves Fund	550,000	549,996
Capital Replacement Fund	500,000	
City Facility Repair Fund	239,588	
Gas Tax Fund	1,007,985	425,058
Transportation Development Fund	13,800	458,295
Landfill Closure/Postclosure Fund	79,200	
Community Development Block Grant Fund	103,208	
Redevelopment Agency Fund	258,447	103,208
Landfill Contingency Fund		500,000
Capital Projects Reserve Fund	188,867	
Traffic Mitigation Development Fund	783,672	684,145
Signalization Fund	367,345	183,672
Park Development Fund	124,000	
Parkway and Median Development Fund	51,613	122,915
Public Facilities Development Fund	968,438	738,438
Specific Plan Fund	2,215,000	3,594,363
1993 Public Facilities Debt Service Fund	554,414	
Enterprise Funds:		
Sewer Fund		9,350
Water Fund		9,350
Totals	\$ 12,983,207	\$ 12,983,207

CITY OF EL PASO DE ROBLES

Note to the Basic Financial Statements (continued)
June 30, 2006

NOTE 5 - RISK MANAGEMENT

The City is a member of the California Joint Powers Insurance Authority, a risk sharing, self-funded joint powers authority whose membership at last count included 113 public agencies. The Joint Powers Authority provides program administration, claim servicing, investigation services, legal counsel, and excess coverage to its members. For general and auto liability, the Joint Powers Authority provides coverage of \$50 million per occurrence and \$50 million aggregate. For workers' compensation, the coverage is statutory plus \$10 million per occurrence for employer's liability. The City also participates in the non-auto property program offered by the Joint Powers Authority which provides full replacement coverage for buildings and facilities. The City is self-insured for property damage to City owned equipment and vehicles except for major equipment, i.e. fire trucks for which the City participates with other public agencies in a special insurance pool. The City purchases specialty policies to cover airport liability and landfill liability & pollution coverage from other sources. Copies of the financial audit are available upon request from the City or the Joint Powers Authority, 8081 Moody Street, La Palma, Ca. 90623, or phone 800-229-2343.

With the dissolution of the Central Coast Cities Self Insurance Fund, the Joint Powers Authority agreed to manage the "tail" claims for general liability and workers' compensation for the Self Insurance Fund participants on a voluntary participation basis. The Joint Powers Authority manages these "tail" claims separately from its regular programs. Paso Robles has agreed to allow the Joint Powers Authority to manage said "tail" claims for general liability and workers' compensation.

The last actuarial study undertaken for tail claims was during fiscal year 2005. This study indicated that the City had general liability fund balance of \$181,484 not including \$70,000 for "incurred but not yet reported" claims per the actuary. It is not expected that another actuarial study will be undertaken on liability claims as their life expectancy is rather short lived.

In the case of workers' compensation, the actuarial study indicated that the City had a fund balance of \$1,051,970. This amount does not include \$926,000 present value of liability for outstanding claims per the "Actuarial Review of the Workers' Compensation Program" as prepared by Richard Sherman & Associates, Inc. during fiscal year 2005. The "Actuarial Review" will be updated in fiscal year 2007.

NOTE 6 - GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

A. Description

General Obligation Bonds - In June 1998, the voters passed a tax override authorizing the sale of \$38,000,000 general obligation bonds. The bonds were sold in three series. On June 9, 1999, the City issued \$22,999,598 in General Obligation Bonds, Series A Capital Appreciation and Term Bonds (1999) for the purpose of providing construction funds for a variety of citywide projects. The outstanding bonds bear a net interest cost of 5.36% and are due in annual installments ranging from \$297,970 to \$615,806 through January 1, 2028. These bonds are payable from ad valorem taxes levied against all taxable real property in the City (with the exception of certain classes of personal property).

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2005

On September 28, 2001, the City issued \$6,889,603 in General Obligation Bonds, Series B Capital Appreciation and Term Bonds (2001) for the purpose of providing construction funds for a variety of citywide projects. The outstanding bonds bear a net interest cost of 5.09% and are due in annual installments ranging from \$297,970 to \$615,806 through January 1, 2028. These bonds are payable from ad valorem taxes levied against all taxable real property in the City (with the exception of certain classes of personal property).

On April 17, 2002, the City issued \$8,000,000 in General Obligation Bonds, Series C (2002) for the purpose of providing construction funds for a variety of Citywide projects. The outstanding bonds bear a net interest cost of 4.98% and are due in annual installments ranging from \$297,970 to \$615,806 through January 1, 2028. These bonds are payable from ad valorem taxes levied against all taxable real property in the City (with the exception of certain classes of personal property).

Tax Allocation Bonds - On September 16, 1996, \$3,630,000 Tax Allocation Refunding Bonds were issued by the Agency to refund bonds originally issued in 1991 to repay advances and loans received by the Agency from the City. The outstanding bonds bear a net interest cost of 5.50% and are due in annual installments ranging from \$70,000 to \$255,000 through January 1, 2022. These bonds are payable from property tax increment revenues.

On October 3, 2000, \$4,000,000 Tax Allocation Bonds were issued by the Agency to repay advances and loans received by the Agency from the City and provide funds for the widening of Nollis Bridge from two to four lanes. The outstanding bonds bear a net interest cost of 5.25% and are due in annual installments ranging from \$20,000 to \$485,000 through January 1, 2028. These bonds are payable from property tax increment revenues.

Lease Purchase Obligations - On November 15, 1993, the Paso Robles Public Financing Authority sold \$8,230,000 Certificates of Participation. \$3,530,000 of the certificates was used to refund the 1988 Certificates of Participation issued to construct a community park and recreational facility. This portion of the certificates matures June 1, 2007. The balance of certificates, \$4,700,000, were used to construct a new municipal library and municipal offices. This portion of the certificates matures June 1, 2024. All the outstanding certificates bear a net interest cost of 5.15% and are due in annual installments ranging from \$180,000 to \$640,000 through January 1, 2024. The library portion is reimbursable to the General Fund from Redevelopment Agency property tax increment revenues.

The City entered into a \$428,162 lease purchase contract dated December 7, 1999, for the acquisition of an aerial ladder truck for the Fire Department. Principal and interest payments are due semi-annually in installments beginning June 7, 2000, with the last payment due December 7, 2006. The total annual payments are \$98,562.

The City entered into a \$17,410 lease purchase contract dated August 24, 2000, for the acquisition of a copy machine for the Police Department. Principal and interest payments are due monthly beginning August 15, 1999, with the last payment due July 15, 2006. Total annual payments are \$4,011.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
 June 30, 2006

The City entered into a \$193,571 lease purchase contract dated August 20, 1999, for the acquisition of a 911 phone system for the Police Department. Principal and interest payments are due monthly beginning December 1, 1999, with the last payment due November 1, 2006. Total annual payments are \$45,941.

The City entered into a \$666,218 lease purchase contract dated October 25, 2002, for the acquisition of two fire engines for the Fire Department. Principal and interest payments are due monthly beginning November 25, 2002, with the last payment due October 25, 2007. Total annual payments are \$144,471.

The City entered into a \$200,254 lease purchase contract dated September 7, 2004, for the acquisition of two street sweepers for the Public Works Department. Principal and interest payments are due monthly beginning December 3, 2004, with the last payment due November 3, 2009. Total annual payments are \$57,299.

The City entered into a \$289,000 lease purchase contract dated August 15, 2005, for the acquisition of one heavy rescue vehicle for the Emergency Services department. Principal and interest payments are due monthly beginning September 30, 2005, with the last payment due August 30, 2010. Total annual payments are \$63,353.

The City entered into a \$1,500,000 lease purchase agreement dated December 6, 2005, for the acquisition of 52 acres adjacent to the City's landfill. Principal and interest payments are due semi-annually beginning June 30, 2006, with the last payment due December 30, 2020. Total annual payments are \$138,598.02.

B. Changes in Long-Term Debt

As of June 30, 2006, the City had the following long-term obligations outstanding including the current portion:

	Governmental Activities				
	Balance July 1, 2005	Incurred or Issued	Satisfied or Matured	Balance June 30, 2006	Current Portion
Governmental Activities:					
Capital Leases Payable	\$ 559,070	\$ 1,729,000	\$ (266,249)	\$ 2,021,821	\$ 321,136
Certificates of Participation	\$ 010,000		(415,000)	4,595,000	425,000
General Obligation Bonds	33,972,550		(,999,580)	31,072,970	2,006,255
Redevelopment Tax Allocation Bonds	6,645,000		(155,000)	6,480,000	165,000
Compensated Absences	1,651,546	127,000		1,778,546	50,000
Grants/Providence Liability	919,895	154,126		1,074,021	
Total Governmental Activities	\$ 48,769,101	\$ 2,010,126	\$ (2,845,829)	\$ 47,933,441	\$ 2,967,391

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

C. Annual Repayment Requirements of Long-Term Debt

The annual requirements to amortize all debt outstanding (excluding compensated absences and closure/postclosure liability) as of June 30, 2006 are as follows:

Year End June 30	Governmental Activities	
	Principal	Interest
2007	\$ 2,917,391	\$ 1,651,357
2008	2,846,905	1,717,773
2009	2,398,766	1,778,580
2010	2,408,221	1,829,947
2011	2,289,391	1,874,331
2012-2016	10,853,301	10,072,994
2017-2021	9,343,893	10,737,281
2022-2026	8,611,475	10,617,064
2027-2028	3,216,758	4,135,762
	<u>\$ 45,129,791</u>	<u>\$ 44,614,538</u>

D. Bond Requirements

At June 30, 2006, management believes the City and its component units are in compliance with all covenants of the various debt indentures.

E. Defeased Obligations

There are no outstanding defeased obligations at June 30, 2006.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

NOTE 7 - BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

A. Description

Sewer Installment Sale Revenue Bonds - On October 1, 2002, the Public Financing Authority issued \$11,550,000 in Sewer Revenue Installment Bonds (2003) for the purpose of refunding the 1993 Sewer Refunding Bonds (which refunded the 1987 Sewer Revenue Bonds) and provided \$3,000,000 for sewer collection and treatment system improvements. The economic gain, net present value savings, was \$129,373. The outstanding bonds bear a net interest cost of 5.36% and are due in annual installments ranging from \$522,438 to \$1,046,201 through January 1, 2032. These bonds are payable from sewer user fees.

B. Changes in Long-Term Obligations

As of June 30, 2006, the City had the following long-term obligations outstanding including the current portion:

	Business Activities				
	Balance July 1, 2005	Incurred or Issued	Satisfied or Matured	Balance June 30, 2006	Current Portion
Business-type Activities:					
Compensated Absences	\$ 143,970	\$ 32,793	\$ -	\$ 176,769	\$ -
Revenue Bonds	9,510,000		(655,000)	8,855,000	675,000
Total Business-type Activities	\$ 9,653,970	\$ 32,793	\$ (655,000)	\$ 9,031,769	\$ 675,000

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

C. Annual Repayment Requirements of Long-Term Debt

The annual requirements to amortize all debts outstanding (excluding compensated absences) as of June 30, 2006 are as follows:

Year End June 30	Business Activities	
	Principal	Interest
2007	\$ 675,000	\$ 366,389
2008	695,000	351,201
2009	150,000	333,826
2010	185,000	325,264
2011	205,000	322,310
2012-2016	1,125,000	1,498,713
2017-2021	1,365,000	1,254,913
2022-2026	1,730,000	917,875
2027-2031	2,175,000	460,253
2032	500,000	25,000
	<u>\$ 5,555,000</u>	<u>\$ 5,858,653</u>

D. Bond Requirements

At June 30, 2006, management believes the City and its component units are in compliance with all covenants of the various debt indentures.

E. Defeased Obligations

There are no outstanding defeased obligations at June 30, 2006.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

NOTE 8 - EMPLOYEE BENEFITS

A. Retirement System

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts.

Active plan members in PERS are required to contribute a percent of their annual covered salary. However, the City pays the contributions required of all miscellaneous employees, all police safety employees, and fire safety members. The rates are set by statute and therefore remain unchanged from year to year. The City is required to contribute the actuarially determined amounts necessary to fund the benefit for its members beyond the contribution required of member employees. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration.

The plans' provisions, benefits and contribution rates in effect at June 30, 2006 are summarized as follows:

	<u>Miscellaneous</u>	<u>Police</u>	<u>Fire</u>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	50	50
Monthly benefits, as % of annual salary	2.5%	3.0%	2.0%
Required employee contribution rate	8%	9%	9%
Required employer contribution rate	14.104%	26.085%	13.008%
Total current covered payroll	\$ 5,887,846	\$ 2,483,231	\$ 1,434,429
Required employee contributions made	\$ 470,928	\$ 223,492	\$ 129,099
Required employer contributions rate made	\$ 820,422	\$ 647,751	\$ 199,500

Total current payroll for covered employees for the year ended June 30, 2006 was \$9,805,505 and the total payroll for all employees was \$17,413,404.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization periods for the City's plans are as follows:

Police Safety	June 30, 2022
Fire Safety	June 30, 2020
Miscellaneous	June 30, 2034

A three-year smoothing technique is used for Asset Valuation. For 2005-06 the annual rate components were as follows:

	Miscellaneous	Police	Fire	Total
Normal Cost	\$ 389,531	\$ 293,326	\$ 139,917	\$ 822,774
Unfunded Liability (Surplus)	216,485	117,903	29,147	363,535
Total City Portion Paid	\$ 606,016	\$ 411,229	\$ 169,064	\$ 1,186,309
Normal Cost Rate	7.443%	11.510%	11.510%	
Unfunded Liability (Surplus) Rate	4.137%	4.626%	2.398%	
Total	11.580%	15.136%	13.908%	

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

The plans' actuarial value (which differs from fair value) and funding progress over the three most recently available years is set forth below at their actuarial valuation date:

	Actuarial Valuation Date	Actual Asset Value	Entry Age Actuarial Accrued Liability	Underfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
Miscellaneous Plan	6/30/2003	18,718,357	20,686,401	1,968,044	90.5%	4,754,706	41.4%
	6/30/2004	20,085,080	24,657,599	4,572,519	81.5%	5,414,685	84.4%
	6/30/2005	21,949,690	27,966,498	6,016,808	78.5%	5,657,410	106.4%
Police Safety Plan	6/30/2003*	1,083,690,137	1,218,082,935	134,392,798	89.0%	184,098,257	73.0%
	6/30/2004*	4,424,586,846	5,383,921,842	959,335,096	82.2%	575,296,434	166.8%
	6/30/2005*	5,295,150,375	6,367,049,264	1,071,898,889	83.2%	664,147,796	161.4%
Fire Safety Plan	6/30/2003*	1,083,690,137	1,218,082,935	134,392,798	89.0%	184,098,257	73.0%
	6/30/2004*	585,549,650	995,203,370	110,653,720	98.9%	149,407,703	74.1%
	6/30/2005*	646,352,708	742,247,338	95,894,630	87.1%	115,062,820	83.3%

*Since the plan had less than 100 active members in at least one valuation since June 30, 2003, it is required to participate in a risk pool.

June 30, 2005 reports are the latest year available.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2006, the most recent available:

	Miscellaneous	Police	Fire
Beginning Balance 6/30/04	\$ 19,734,640	\$4,367,765,127	\$967,719,242
Contributions Received	811,685	252,543,855	41,384,180
Benefits and Refunds Paid	(565,746)	(228,213,447)	(40,163,236)
Investment Return	2,514,246	586,747,476	111,964,832
Transfers In/Out and Miscellaneous Adjustments	12,158	488,941,724	(210,926,998)
Expected Actuarial Value of Assets 6/30/05	<u>\$ 22,510,994</u>	<u>\$5,449,784,637</u>	<u>\$670,108,720</u>
Market Value of Assets 6/30/05	<u>\$ 22,510,994</u>	<u>\$5,449,784,637</u>	<u>\$670,108,720</u>
Actuarial Value of Assets 6/30/05	<u>\$ 21,949,690</u>	<u>\$5,296,150,375</u>	<u>\$646,258,708</u>

Since the Police and Fire plans had less than 100 active members in at least one valuation since June 30, 2003, it is required to participate in a risk pool.

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2006, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94225-2709.

B. Post Employment Benefits

In addition to the pension benefits described above, the City Council has adopted resolutions making health care insurance benefits available for all retired full-time City employees regardless of bargaining affiliation if they so desire. Providing health care benefits under the City's group health plan may provide benefits at a substantially lower cost than if the retirees purchased their own individual benefit. This obligation to make coverage available under the City's group health plan is discontinued at such time as the retiree reaches age sixty-five or receives health insurance coverage from another employer. In accordance with adopted wage and benefit agreements, the City contributes toward retiree health insurance premiums as follows: 1) Management, Police, Fire, and SEIU employees receive up to \$500 per month. The City contributions may be used to defray premium cost for either the City provided plan(s) or other plan(s) secured by retirees. Each retiree choosing to receive City provided health care insurance must reimburse the City the full premium cost that exceeds the City's contribution as detailed above.

The City contribution toward retiree health care insurance benefits is recognized as an expenditure in the fund which paid the employee's wage at the time of retirement. For the fiscal year ended June 30, 2006, these costs totaled \$52,855. For fiscal year 2005 these costs totaled \$50,209, 2004 these costs totaled 545,094, 2003 the total amount was \$29,800, and fiscal year 2002 the amount was \$21,400. The balance of the retiree health care benefits is not recognized as an expenditure. Payments for health insurance premiums are recorded as receivables and are billed for reimbursement to the retirees. At June 30, 2006, 22 retirees were subscribing to the City's group health plan.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

C. Deferred Compensation Plans

City employees may defer a portion of their compensation under two separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the law governing deferred compensation plan assets now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

In accordance with adopted wage and benefit agreements, the City makes contributions to optional City-sponsored deferred compensation plans for management. For all managers, the City contributes \$4,200 annually. In addition to the \$4,200, the City will match up to \$2,600 in additional contributions for executive managers. For the fiscal year ended June 30, 2006, the total City contribution on behalf of eligible employees was \$139,063.

D. Section 125 Benefit Plan

The City has a 125 benefit plan established pursuant to Section 125 of the IRS code. Under this plan, eligible employees may elect to contribute pre-tax dollars into any combination of the following three benefit categories:

1. Unreimbursed Medical Spending Account
2. Dependent Day Care Spending Account

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Day Care Spending Account and the Unreimbursed Medical Spending Account. All regular full-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on July 1 and ends June 30. To obtain reimbursement of expenses incurred within a plan year within the spending accounts (only items 1 or 2 above), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds undrawn after 90 days of the close of the plan year are then remitted to the City.

E. Compensated Absences

The City's policy relating to compensated absences is described in Note 1. The long-term portion of this debt, amounting to \$1,738,589 for governmental activities and \$176,769 for business-type activities at June 30, 2006, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund and the proprietary funds.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2006

NOTE 9 - NET ASSETS AND FUND BALANCES

A. Net Assets

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis. In the Government-wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents the net assets of the City, which are not restricted for any project or other purpose.

B. Fund Balances

In the Funds Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced, or eliminated by similar actions (see pages 28, 75, and 76). As of June 30, 2006, reservations of fund balance are described below:

Fiscal Agreements - In the case of the Redevelopment Agency, tax increment revenues are held by the Agency until such time as projects are mutual, agreed benefit are identified and undertaken.

Interfund Receivables - These reserves were established to provide for receivable due by one fund to another. While expected to be fully repaid, it is not currently available for use by the fund where the receivable is recorded.

Capital Projects - These reserves represent specific projects and programs for which the City has made a commitment towards completion through adoption of the City Budget or Capital Improvement Projects Plan.

CITY OF EL PASO DE ROBLES

Notes to the Basic Financial Statements (continued)
June 30, 2005

Low Income Housing - Pursuant to California Health and Safety Code, 20% of property tax increment received by the Redevelopment Agency must be set aside and used exclusively for projects related to low and moderate income housing purposes.

The City has designated fund balances in the Funds Financial Statements for specific purposes.

As of June 30, 2005 the Measure D GO Bonds Capital Projects Fund had a deficit fund balance of (\$671,028), the Highway 101/46 West Community Facilities District Fund deficit fund balance of (\$1,439,891), the Redevelopment Agency Debt Service Fund deficit fund balance of (\$5,676,680), the Transportation Development Act Fund had a deficit fund balance of (\$354), the Landscape and Lighting District deficit fund balance of (\$93,133), and the Airport Road P&R Fund of (\$75,019).

NOTE 10 - FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS

The following individual fund and department expenditures exceeded appropriations during the fiscal year:

Major Funds:	
Highway 101/46 West Community Facilities District Fund	\$ 1,405,391
Redevelopment Agency Debt Service Fund	183,318
Non-Major Funds:	
Building Education Fund	\$ 7,508
Landscape and Lighting District	596,849
Landfill Closure/Restoration Special Revenue Fund - Public Works	154,426
Redevelopment Agency Special Revenue Fund - Comm. Dev.	151,638
Community Development Special Fees	35,242
Economic Incentive Fund	19,306

NOTE 11 - LITIGATION AND CONTINGENCIES

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determined in amount. While the City is a defendant in a number of lawsuits arising out of the normal course of business, their outcome can not be predicted. In the opinion of the City Attorney, these actions when finally adjudicated will not have a material adverse impact on the financial position of the City.

CITY OF EL PASO DE ROBLES
Notes to the Basic Financial Statements (continued)
June 30, 2006

NOTE 12- PRIOR PERIOD ADJUSTMENTS

The prior period adjustments are related to correctly accounting for deferred revenues that were previously recognized. The accounting change is reported in the Redevelopment Agency special revenue fund in the amount of \$236,740.

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APPENDIX C

**CITY OF EL PASO DE ROBLES
RELATED FINANCIAL INFORMATION**

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CITY OF EL PASO DE ROBLES RELATED FINANCIAL INFORMATION

The following selected financial information provides a brief overview of the City's finances. This financial information has been extracted from the City's audited financial statements and, in some cases, from unaudited information provided by the City. Excerpts from the most recent audited financial statements of the City with an unqualified auditor's opinion is included as **APPENDIX B** hereto.

Accounting Policies and Financial Reporting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The three broad fund categories include governmental, proprietary and fiduciary funds. The operations of the different funds are accounted for with separate sets of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The basis of accounting for all funds is more fully explained in the Notes to General Purpose Financial Statements contained in **APPENDIX B**.

Budgetary Process

In fiscal year 1997-98, the City modified its budget preparation methodology and presentation format from a single year focus to a four year financial plan. The first effective year of the preparation and publication of the four year financial plan was fiscal year 1998-99. The purpose of preparing a four year financial plan, rather than a single year budget, was to accurately measure the budgetary impact of the resource allocation decisions made today against available resources two to four years into the future. The City, much like other California cities, found itself constantly in a reactionary mode when dealing with budget constraints which is the nature of single year budgeting formats. It was the City's desire to become proactive by identifying budget constraints far enough in advance so that it might implement budgetary adjustments without negatively impacting the delivery of municipal services to the public and creating undue hardship and turmoil upon City staff and resources.

To further improve upon this process the City also prepares a ten year financial plan. While ten year projections are difficult they have proven to be successful in identifying major funding challenges.

Beginning in December/January of each year, as part of the City's "Mid Year Budget Report" to the City Council, the department managers prepare revenue collection estimates and expenditure projections through June 30 for the current fiscal year. These revenue and expenditure estimates become the basis for projecting year end fund balances and the foundation for preparation of the four year financial plan.

In January/February, department managers, for revenues under their care and control, estimate collections for the next four years. The Director of Administrative Services prepares the estimates for all other revenues. These revenue estimates are then scrutinized by the executive management team (all department managers), an ad hoc committee appointed by the City Council (two Council members) and, finally, by the full City Council. The revenue format in the four year financial plan provides for the prior two years actual collections, revenue estimate (budget) and collection projection for the current fiscal year and revenue projections for the next four years.

For expenditures, the City utilizes a “base budget” approach wherein the four year financial plan may only be modified by existing long term employee bargaining agreements and/or by the submission by the executive manager of a “new and expanded services request” and its subsequent approval by the City Council. This base budget approach provides that both the City staffs and the City Council’s attention is directed more towards the policy implications of budget decisions and their long term impact upon the availability and/or allocation of fiscal resources rather than short term needs and fixes. The expenditure format in the four year financial plan provides for the prior two years actual expended, current year modified budget (as of date of preparation) and projections for the next four years.

The Director of Administrative Services compiles these revenue and expenditure projections into a “draft” or preliminary four year financial plan for publication and review by mid-April. The City Council ad hoc budget committee then holds a series of budget meetings with each executive manager and their respective staffs to discuss their needs and requests. Following these meetings, the ad hoc budget committee formulates recommendations for full City Council consideration. The City Council then holds a number of public workshop meetings and a public hearing, before adopting a final two year budget within the context of a four year financial plan at its second regular meeting in June.

General Fund Financial Summary

The information contained in the following table of revenues, expenditures and changes in fund balances has been derived from the City’s Comprehensive Annual Financial Reports for fiscal years 2002-03 through 2005-06 and from the City’s current estimates for 2006-07.

A copy of excerpts from the City’s Comprehensive Annual Financial Report for the twelve months ended June 30, 2006 is attached as **APPENDIX B** hereto.

CITY OF EL PASO DE ROBLES
General Fund
Summary of Revenues, Expenditures and Changes in Fund Balances
Fiscal Years 2002-03 through 2005-06

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Revenues:				
Taxes	\$12,343,844	\$13,632,654	\$15,209,073	\$17,479,251
Licenses and permits	1,403,061	1,080,724	1,505,948	1,531,411
Fines and forfeitures	191,483	281,908	271,611	307,138
Uses of money and property	1,179,782	448,593	450,082	324,292
From other agencies	1,955,107	2,555,188	2,508,435	3,040,712
Charges for current services	1,537,380	1,332,561	1,862,517	1,729,090
Other	562,717	33,506	87,384	139,968
Total Revenues	19,173,374	19,356,134	21,895,050	24,551,862
Expenditures:				
General government	873,820	704,506	1,610,350	119,706
Public safety	7,340,090	8,718,878	9,215,472	11,351,340
Public works	2,453,620	3,130,985	2,933,501	3,744,282
Library and recreations services	4,092,245	4,150,782	3,940,208	4,118,487
Community development	1,888,685	2,068,144	2,371,025	2,569,536
Debt service	244,604	--	--	--
Capital outlay	1,165,860	534,254	985,247	2,243,642
Interest	--	26,236	72,572	83,228
Principal	--	266,373	238,093	216,731
Total Expenditures	18,058,924	19,600,158	21,368,468	24,626,952
Excess revenues over (under) expenditures	1,114,450	(235,024)	528,582	(75,090)
Other financing sources (uses):				
Operating transfers in	339,102	659,864	707,906	1,329,067
Operating transfers out	(593,867)	(512,166)	(1,245,031)	(2,236,555)
Capital leases	--	--	263,254	1,789,000
Total other financing sources (uses)	(254,765)	147,698	(273,871)	(907,488)
Net change in fund balances	859,685	(87,326)	254,711	806,422
Fund balances - July 1	8,234,466	7,448,276	7,360,950	7,615,661
Residual equity transfer	(1,645,875)	--	--	--
Fund balances - June 30	\$7,448,276	\$7,360,950	\$7,615,661	\$8,422,083

Sources: City of El Paso de Robles Comprehensive Annual Financial Reports (2003, 2004, 2005 and 2006).

General Fund Tax Receipts

Taxes received by the City for general fund purposes, other than Property Taxes as discussed above, include Sales Taxes, Transient Occupancy Taxes, Business License Taxes and Franchise Taxes. Sales Taxes and Property Taxes constitute the major sources of general fund tax revenues.

The following table sets forth general fund tax revenues received or estimated to be received by the City, by source:

CITY OF EL PASO DE ROBLES General Fund Tax Revenues by Source Fiscal Years 2001-02 through 2005-06

	Fiscal Year Ending				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Sales Taxes ⁽¹⁾	\$5,408,997	\$5,821,356	\$6,229,299	\$5,414,506	\$6,183,527
Property Taxes	2,833,986	3,267,031	3,513,445	4,076,025	4,952,372
Occupancy Taxes	1,040,692	1,123,814	1,296,972	1,446,059	1,614,347
Franchise Taxes	1,543,510	1,740,499	2,106,291	2,190,988	2,362,852
Property Transfer Taxes	159,474	168,598	239,085	340,630	332,074
Other Taxes	<u>209,736</u>	<u>222,546</u>	<u>247,562</u>	<u>1,740,865</u>	<u>2,034,079</u>
 Total	 <u>\$11,196,395</u>	 <u>\$12,343,844</u>	 <u>\$13,632,654</u>	 <u>\$15,209,073</u>	 <u>\$17,479,251</u>

⁽¹⁾ Growth attributable solely to retail sales.

Sources: City of El Paso de Robles

None of the general taxes currently imposed by the City are affected by Proposition 218 or by Proposition 62. See “**CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS -- Proposition 218**” and “**Proposition 62**” herein

Sales Tax

A sales tax is imposed on retail sales or consumption of personal property. The basic tax rate is established by the State Legislature. The statewide basic tax rate is 7.25%. The State collects and administers the tax and makes distributions on taxes collected within the City as follows:

CITY OF EL PASO DE ROBLES Applicable Sales Tax Rates

State	6.00%
City and County	1.00
County Transportation	<u>0.25</u>
Total	7.25%

The table below shows the total of taxable transactions within the City for fiscal years 2001-2002 through 2005-2006.

CITY OF EL PASO DE ROBLES
Taxable Transactions
Fixable Years 2001-02 through 2005-06
(\$'s in thousands)

<u>Fiscal Year Ending</u>	<u>Taxable Transactions</u>
2002	\$483,068
2003	516,461
2004	557,198
2005	625,455
2006	712,114

Sources: State Board of Equalization

Long-Term Obligations

The City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 (see **APPENDIX B** hereto) in Notes to General Purpose Financial Statements (Note 6) describes the City’s long-term obligations. Certain of the obligations described in Note 6 are not general fund obligations of the City. These include the City’s Redevelopment Agency tax allocation bonds, sewer revenue bonds and other enterprise fund obligations.

Excluding these obligation, and also excluding notes payable, equipment leases and advances from other funds, the City’s general fund obligations, as of June 30, 2006 may be summarized as follows:

<u>Type of Obligation</u>	<u>Principal Balance June 30, 2006</u>
Capital Facilities Project Certificates of Participation	\$4,595,000
General Obligation Bonds (Election of 1998)	<u>31,972,970</u>
	\$36,567,970

The Statement of Direct and Overlapping Debt as shown in the next section hereof indicates City direct tax and direct general fund obligation debt in the total amount of \$34,136,715 as of May 1, 2007.

This total is constituted of the Certificates of Participation and the General Obligation Bonds listed above.

Direct and Overlapping Debt

Contained within the City are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics,

Inc. of Oakland, California. The City has not independently verified the information in the table and makes no representations as to completeness or accuracy.

CITY OF EL PASO DE ROBLES

2006-07 Assessed Valuation:	\$3,204,196,909		
Redevelopment Incremental Valuation:	<u>307,740,346</u>		
Adjusted Assed Valuation:	\$2,896,456,563		
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		<u>% Applicable</u>	<u>Debt 5/1/07</u>
City of Paso Robles		100.00%	\$29,966,715 ⁽¹⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT			\$29,966,715
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Luis Obispo County Certificates of Participation		8.524%	\$ 3,854,127
San Luis Obispo County Pension Obligations		8.524	7,544,115
San Luis Obispo Community College District Certificates of Participation		8.495	1,103,501
Paso Robles Union School District Certificates of Participation		49.718	1,111,197
Paso Robles Joint Unified School District Certificates of Participation		60.095	471,746
City of Paso Robles Certificates of Participation		100.00	<u>4,170,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$18,254,686
COMBINED TOTAL DEBT			\$48,221,401 ⁽²⁾

(1) Excludes refunding general obligation bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:

Direct Tax Debt (\$29,966,715).....	0.94%
Total Direct and Overlapping Tax and Assessment Debt.....	0.94%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$34,136,715)	1.18%
Combined Total Debt	1.66%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

Investment of City Funds

Under provisions of the City’s investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Certificates of deposit
- Repurchase agreements
- Securities of the U.S. Government and its agencies
- Bankers acceptances
- California Local Agency Investment Fund
- Negotiable certificates of deposit

Investments held by the City at June 30, 2006 are as follows:

CITY OF EL PASO DE ROBLES
Investments as of June 30, 2006

		Minimum <u>Legal Rating</u>	Exempt from <u>Disclosure</u>	<u>Ratings as of Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
U.S. Agency Notes	\$12,721,863	N/A		\$12,721,863		
U.S. Agency Mortgaged Backed Securities	15,401,004	N/A		15,401,004		
Corporate Notes	8,273,945	A		1,425,865	\$6,848,080	
Certificates of Deposit	10,717,000	N/A	\$10,717,000			
Local Agency Investment Fund (LAIF)	20,216,257	N/A				\$20,216,257
Held by Bond Trustee:						
Money Market Funds	<u>1,005,432</u>					<u>1,005,432</u>
	<u>\$68,335,501</u>		<u>\$10,717,000</u>	<u>\$29,548,732</u>	<u>\$6,848,080</u>	<u>\$21,221,689</u>

Source: City of El Paso de Robles Comprehensive Annual Financing Report (2006)

Under the City’s investment policy, the City may not invest in the following:

- Reverse repurchase agreements
- Financial futures and options
- Zero coupon treasury bonds
- Small Business Administration notes

Additional information regarding the City’s investments is provided in Note 2 to the General Purpose Financial Statements contained in **APPENDIX B**.

Retirement Program

The City contributes to the State of California Public Employees Retirement System (PERS). The City’s “actuarial accrued liability” is a standardized disclosure measure of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. The City’s employees participate in separate police, fire and miscellaneous (all other) employee plans. The following table shows the City’s actuarial accrued liability (combined employee plans) as of June 30, 2003, 2004 and 2005, respectively, and related funding ratios.

	(\$'s in thousands)		
	<u>Fiscal Years Ending</u>		
	<u>2003</u>	<u>2004</u>	<u>2005⁽¹⁾</u>
Actuarial value of assets	\$2,186,099	\$5,330,222	\$5,963,459
Actuarial accrued liability	2,456,852	6,404,783	7,137,263
Underfunded (overfunded) Actuarial Accrued	270,754	1,074,561	1,173,804
Funded ratio	89.0%	83.2%	83.6%
Annual covered payroll	\$ 372,951	\$ 730,119	\$ 784,868
Underfunded (overfunded) actuarial accrued liability as percentage of the annual payroll of employees covered by PERS	72.6%	147.2%	149.6%

⁽¹⁾ Latest year available

Sources: City of El Paso de Robles Comprehensive Annual Financing Report (2006).

Additional information regarding the City's retirement program is provided in Note 8 the to the General Purpose Financial Statements contained in **APPENDIX B**.

Risk Management

The City has in place a self-insurance program for workers' compensation coverage up to \$350,000 per occurrence and for general liability coverage up to \$30,000 per occurrence. Claims in excess of these amounts are insured up to certain limits.

Additional information is provided in Note 3 to the General Purpose Financial Statements contained in **APPENDIX B**.

APPENDIX D

**FORM OF CONTINUING
DISCLOSURE CERTIFICATE**

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of El Paso de Robles (the “City”) in connection with the issuance of \$31,435,000 2007 General Obligation Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted by the City Council on May 15, 2007. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bond Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

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

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

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Bond Owner” or “Owners” shall mean registered owners of the Bonds.

“CPO” means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

“Dissemination Agent” shall mean initially the City, or any successor Dissemination Agent designated in writing by the City (which may be the City) and which has filed with the City a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than March 31 after the end of each fiscal year (currently June 30) after the City normally receives its audited financial statements from its auditors, commencing with the report for Fiscal Year 2006-2007 provide to the Participating Underwriter and to each Repository (or in lieu thereof, provide to the CPO) an Annual Report which 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 if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit the audited financial statements as soon as available. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than 15 business days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the City (if the Dissemination Agent is other than the City) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the City’s Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the City is available to provide to the Repositories by the date requested in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

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

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City for the fiscal year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental

Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Subsection 3(a) of this Certificate, the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the financial statements, the following type of information will be provided in one or more reports:

- (i) Taxable assessed values of taxable property within the City; and
- (ii) Property tax levies and collections.

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bond Owners;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties;

9. unscheduled draws on any credit enhancement facility reflecting financial difficulties;

10. substitution of the provider of any credit enhancement facility or any failure by said provider to perform on any credit enhancement facility; and

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

SECTION 6. 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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive any provision of this Disclosure Certificate only if:

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

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

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next 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 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in Superior Court of the State of California in and for the City or in U.S. District Court in or nearest to the City. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. The laws of the State of California and the federal securities laws shall govern this Certificate.

CITY OF EL PASO DE ROBLES

By: _____
City Treasurer and Director of
Administrative Services

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of El Paso de Robles

Name of Issue: 2007 General Obligation Refunding Bonds

Date of Issue: September 27, 2007

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF EL PASO DE ROBLES

By: _____ [form only; no signature required]

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APPENDIX E
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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 or completeness thereof. The City cannot and does not give any assurances that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate for each maturity of each series will be issued for the Bonds in the aggregate principal amount of each maturity of such series and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. 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. a consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

APPENDIX F
SPECIMEN
FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272