

In the opinion of the Law Offices of Cameron A. Weist, 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, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.



\$5,185,000
PISMO BEACH PUBLIC FINANCING AUTHORITY
(San Luis Obispo County, California)
SERIES 2007A LEASE REVENUE REFUNDING BONDS
(City Hall Refunding Project)

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

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the purchase of the bonds.

The above-captioned Series 2007A Lease Revenue Refunding Bonds (the "Bonds") are being issued by the Pismo Beach Public Financing Authority (the "Authority") pursuant to an Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will bear interest at the rates shown below, payable semiannually on December 1 and June 1 of each year (each an "Interest Payment Date"), commencing December 1, 2007.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. The Trustee will make payments of the principal of, premium, if any, and interest on the Bonds directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to the Beneficial Owners of the Bonds is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See "THE BONDS – BOOK-ENTRY SYSTEM" herein.

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

The Bonds are being issued by the Authority, to (i) refund and defease a certain lease agreement dated as of February 1, 1999, by and between the Authority and the City, (ii) to finance the acquisition and construction of certain public improvements, (iii) to purchase a Qualified Reserve Account Credit Instrument in lieu of the required deposit to the reserve account established for the Bonds under the Indenture, and (iv) pay the costs of issuance associated with the issuance and sale of the Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Pursuant to a Lease Agreement, dated as of April 1, 2007 (the "Lease"), by and between the Authority and the City, the Authority has leased to the City certain real property and the improvements thereon comprising the Pismo Beach City Hall (the "Leased Property"). Under the Lease, the City will pay to the Authority certain base rental payments (the "Base Rental Payments") in amounts equal to the scheduled debt service on the Bonds. Pursuant to the Indenture, the Authority will assign its right to receive the Base Rental Payments to the Trustee for the benefit of the Owners of the Bonds. See "SECURITY FOR THE BONDS" herein.

The scheduled payment of principal of and interest on the Bonds as the same shall become due (other than by reason of redemption) will be insured by a municipal bond insurance policy to be issued simultaneously with delivery of the Bonds by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE" herein.



The City is required under the Lease to make Base Rental Payments in each year in consideration for the use of the Leased Property from any source of legally available funds, and in an amount sufficient to pay the annual principal of and interest on the Bonds. The City's obligation to make Base Rental Payments is subject to abatement in the event of substantial interference with the use and possession of all or a part of the Leased Property. See "RISK FACTORS – Abatement" herein. The City has covenanted under the Lease to take such action as may be necessary to include and maintain all Base Rental Payments in its annual budget and to make the necessary appropriations therefor, subject to such abatement.

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

| **NORTHCROSS** | **HILL** | **ACH** |
Financial Advisors to Public Agencies

NEITHER THE BONDS NOR THE OBLIGATION TO PAY PRINCIPAL OF OR INTEREST THEREON CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY, BUT ARE SECURED SOLELY BY THE PLEDGE OF REVENUES, CONSISTING PRIMARILY OF BASE RENTAL PAYMENTS PAID BY THE CITY PURSUANT TO THE LEASE OF THE CITY AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval as to their validity by the Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel. Certain other legal matters will be passed upon for the City and the Authority by the City Attorney, and by the Law Offices of Cameron A. Weist, Scotts Valley, California, Disclosure Counsel. It is anticipated that the Bonds in book-entry form will be available through the facilities of DTC in New York, New York for delivery on or about April 25, 2007.



DE LA ROSA & Co.
 INVESTMENT BANKERS

Dated: April 4, 2007

DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

\$5,185,000
PISMO BEACH PUBLIC FINANCING AUTHORITY
(San Luis Obispo County, California)
SERIES 2007A LEASE REVENUE REFUNDING BONDS
(City Hall Refunding Project)

MATURITY SCHEDULE
(Base CUSIP[†] No. 72433L)

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
2007	\$25,000	4.000%	3.470%	100.309	AN9
2008	175,000	4.500%	3.470%	101.586	AP4
2009	250,000	4.000%	3.500%	101.229	AQ2
2010	250,000	5.000%	3.530%	104.925	AR0
2011	270,000	3.500%	3.560%	99.745	AS8
2012	275,000	3.500%	3.600%	99.494	AT6
2013	290,000	3.500%	3.650%	99.124	AU3
2014	300,000	3.500%	3.710%	98.617	AV1
2015	310,000	5.000%	3.770%	108.959	AW9
2016	325,000	3.700%	3.870%	98.644	AX7
2017	335,000	3.750%	3.950%	98.278	AY5
2018	355,000	3.800%	4.020%	97.973	AZ2
2019	365,000	4.000%	4.120%	98.826	BA6
2020	380,000	4.000%	4.190%	98.042	BB4
2021	395,000	4.100%	4.250%	98.377	BC2
2022	415,000	4.125%	4.300%	98.022	BD0
2023	230,000	4.200%	4.350%	98.236	BE8
2024	240,000	4.200%	4.380%	97.803	BF5

[†]CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2007 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. None of the Authority, the City or the Underwriter take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

PISMO BEACH PUBLIC FINANCING AUTHORITY
Pismo Beach, California

CITY COUNCIL and AUTHORITY BOARD

Mary Ann Reiss, *Chair/Mayor*
Shelly Higginbotham, *Vice-Chair/Mayor Pro Tem*
Bill Rabenaldt, *Agency Member/Councilmember*
Kris Vardas, *Agency Member/Councilmember*
Ted Ehring, *Agency Member/Councilmember*

CITY STAFF

Kevin Rice, *City Manager*
George N. Edes, *Administrative Services Director*
Randy Bloom, *Community Development Director*
R. Dennis Delzeit, *Public Works Director*
Lori Grigsby, *City Clerk*

PROFESSIONAL SERVICES

Bond and Disclosure Counsel

Law Offices of Cameron A. Weist
Scotts Valley, California

Financial Advisor

Northercross, Hill & Ach
San Rafael, California

Trustee

U.S. Bank National Association
Los Angeles, California

City Attorney

Hanley & Fleishman, LLP
Atascadero, California

Underwriter

E.J. De La Rosa & Co., Inc.
San Francisco, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Agency or the City, in any press release and in any oral statement made with the approval of an authorized officer of the Agency or the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation

Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, nor may 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.

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

Official Statement Speaks Only as of its Date. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

Document Summaries. All summaries of the Indenture or other documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE 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 ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SUCH PUBLIC OFFERING PRICES MAYBE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

\$5,185,000

**PISMO BEACH PUBLIC FINANCING AUTHORITY
(San Luis Obispo County, California)
SERIES 2007A LEASE REVENUE REFUNDING BONDS
(City Hall Refunding Project)**

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Bonds, and a brief overview of the contents of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement including the Appendices hereto. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in the body of the Official Statement shall have the meanings given to them in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" hereto.

Purpose of Official Statement

This Official Statement, which includes the cover page and the appendices hereto, is provided to furnish information in connection with the sale by the Pismo Beach Public Financing Authority (the "Authority") of its Pismo Beach Public Financing Authority, Lease Revenue Refunding Bonds, Series 2007A (the "Bonds") in the aggregate principal amount of \$5,185,000. Certain capitalized terms used herein are defined in "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions."

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the "Bond Law"), a Resolution (the "Resolution") adopted by the Board of Directors of the Authority on March 20, 2007, and an Indenture (the "Indenture"), dated as April 1, 2007, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

Purpose of the Bonds

The Bonds are being issued to (i) refund and defease a certain lease agreement dated as of February 1, 1999 (the "Prior Lease"), by and between the City of Pismo Beach (the "City") and the Authority, (ii) finance the acquisition and construction of certain public capital improvement projects, (iii) purchase a Qualified Reserve Account Credit Instrument in lieu of the required deposit to the reserve account established for the Bonds under the Indenture (the "Reserve Account"), and (iv) pay the costs of issuance associated with the issuance and sale of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE" herein.

Security for the Bonds

Pursuant to a Site Lease, dated as of April 1, 2007 (the “Site Lease”), by and between the City and the Authority, the Authority has agreed to lease from the City certain real property and the improvements thereon, more commonly known as the City of Pismo Beach City Hall located at 760 Mattie Road, Pismo Beach, California (the “Leased Facilities”), in exchange for a portion of the proceeds from the sale of the Bonds. Pursuant to a Lease Agreement, dated as of April 1, 2007 (the “Lease”), by and between the Authority, as Lessor, and the City, as Lessee, the Authority has leased the Leased Facilities back to the Authority. Under the Lease, the City will pay to the Authority certain base rental payments (the “Base Rental Payments”) in amounts equal to the scheduled debt service on the Bonds.

The Bonds are special obligations of the Authority secured by and payable solely from Revenues, defined in the Indenture as all amounts received by the Authority as lessor under the Lease, including, without limiting the generality of the foregoing, scheduled Base Rental Payments, prepayments, and insurance and condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture. Under the Lease, the City is obligated to budget and appropriate from its General Fund amounts sufficient to make Base Rental Payments. See “SECURITY FOR THE BONDS” herein.

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Bondowners, all of the Revenues and other assets pledged under the Indenture, except only amounts required for the compensation or indemnification of the Trustee as provided in the Indenture, and all of the Authority’s rights under the Lease, including its right to receive Base Rental Payments, but excluding the right to receive Additional Rental (defined herein).

Under the Lease, the City has the right to substitute alternate real property or improvements for the Leased Facilities, release existing property or add additional real property or equipment to the Leased Facilities.

The obligation of the City to make Base Rental Payments under the Lease is an unsecured obligation of the City, payable from legally available funds. Under the Lease, the City has covenanted to budget and appropriate sufficient funds to make all rental payments required to be made under the Lease, subject only to abatement as provided therein. See “RISK FACTORS – Base Rental Payments Are Not Debt” and “– Abatement” herein.

Neither the Bonds nor the obligation to pay principal of or interest thereon constitutes a debt, obligation or liability of the City, the State of California or any of its political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City, but are secured solely by the pledge of Revenues by the Authority and certain funds held under the Indenture. The Bonds are not secured by a pledge of the taxing power of the City.

Municipal Bond Insurance

Concurrently with issuance of the Bonds, MBIA Insurance Corporation (the “Insurer”) will issue its financial guaranty insurance policy (the “Policy” or “Insurance Policy”) for the Bonds. The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which

has become due for payment, but which is unpaid. See “BOND INSURANCE – Payments Pursuant to the Policy” and “APPENDIX F – SPECIMEN MUNICIPAL BOND INSURANCE POLICY” herein.

The City

The City of Pismo Beach is located in the central coast area of California in the southern portion of San Luis Obispo County. It sits astride Highway 101 approximately eight miles south of the City of San Luis Obispo. Pismo Beach is approximately 196 miles north of Los Angeles and approximately 249 miles south of San Francisco. The City is a popular resort community situated directly on the Pacific Ocean and extends to the east into the foothills of the coast range mountains. Temperatures are mild year-round, with average highs between 60 and 80 degrees, and average lows between 45 and 55 degrees. Average annual rainfall, mostly occurring between December and March, is approximately 15 inches per year. See “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY OF PISMO BEACH AND SURROUNDING AREA” herein.

The Authority

The Pismo Beach Public Financing Authority is a joint of powers authority formed by its members, the City and Redevelopment Agency of the City of Pismo Beach (the “Agency”). The Authority was established pursuant to that certain Joint Exercise of Powers Agreement dated April 2, 1991, by and between the City and the Agency (the “JPA Agreement”). Such JPA Agreement was entered into pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The Authority is governed by a five-member Board of Directors (the “Board”), which consists of the members of the City Council of the City.

The Authority was created for the purpose of assisting the financing or refinancing of certain public capital facilities within the City. Under the Bond Law, the Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. See “THE AUTHORITY” herein.

Risk Factors

The purchase of the Bonds involves certain risks. For a description of certain of these risks, see “BONDOWNER’S RISKS” herein.

Description of the Bonds

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

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Redemption Provisions” herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General” herein. When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “THE BONDS – Book-Entry System” herein.

Continuing Disclosure

The City has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than nine (9) months following the end of the City’s Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the City’s Fiscal Year), commencing with the report for the 2006-07 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The notices of material events will be filed by the City 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 C – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward- looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements.

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

Further Information

Brief descriptions of the Bonds, the Indenture, the Lease, the Site Lease, the Assignment Agreement and other documents and information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, the Lease, the Site Lease, the Assignment Agreement and other documents are qualified in their entirety by reference to the forms thereof. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

THE BONDS

Authority for Issuance

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

General Provisions

General. The Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “THE BONDS – Book-Entry System” herein.

The Bonds. The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and will be dated the date of delivery. Interest on the Bonds will be payable semiannually on December 1 and June 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2007, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds shall be calculated based on a 360-day year consisting of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before May 15, 2007, in which event it shall bear interest from the date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall

bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

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

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

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

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

Redemption Provisions

Optional Redemption. The Bonds maturing on or before December 1, 2017, are not subject to optional redemption prior to their stated maturities. The Bonds maturing on or after December 1, 2018, are subject, at the option of the City, to redemption prior to their stated maturities, on any Business Day on or after December 1, 2017, as a whole or in part by such maturities as may be designated by the Authority to the Trustee at least forty-five (45) days prior to the redemption date, and by lot within any one maturity, from prepayments of Base Rental Payments made at the option of the City pursuant to the Lease, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued but unpaid interest to the redemption date.

Extraordinary Redemption. The Bonds are subject to redemption on any date prior to their respective stated maturities, upon notice (as described below), as a whole, or in part on any date, from prepayments of Base Rental Payments made by the City from the proceeds of insurance or eminent domain proceedings, pursuant to the Lease, at a redemption price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date.

Selection of Bonds for Redemption. If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Bonds of such maturity date to be redeemed in any manner that it deems appropriate and fair and shall promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption. For purposes of such selection, Bonds shall be deemed to be composed of \$5,000 multiples of principal and any such multiple may be separately redeemed.

Notice of Redemption. Notice of redemption shall be given by the Trustee not less than thirty (30) nor more than sixty (60) days prior to the redemption date by first class mail to the Bond Insurer and each of the Owners designated for redemption at their addresses appearing on the Bond registration books of the Trustee on the date such Bonds are selected for redemption. Each notice of redemption shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

At least thirty (30) but no more than sixty (60) days before the redemption date, such notice of redemption shall be given as specified in the Indenture to the specified securities depositories and information services.

Neither failure to receive any notice of redemption nor any defect in such notice of redemption so given shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Purchase in Lieu of Redemption. At any time prior to the selection of Bonds for redemption, the Trustee may, upon written direction of the City, apply amounts held for redemption of Bonds to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest payable from the Interest Account) as the City may direct the Trustee, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price of such Bonds; and provided further that in the case of optional redemption, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts for redemption may be used for payment of such Bonds to be redeemed in order of their due date as set forth in a request of the City.

Effect of Redemption. Notice of redemption having been duly given as provided above, and moneys for payment of the amount necessary for the redemption of the Bonds called for redemption having been set aside for that purpose pursuant to the Indenture, the Bonds designated for redemption shall become due and payable on the redemption date thereof. No interest will accrue on such Bonds called for redemption after the redemption date specified in the notice of redemption. The Bonds called for redemption shall, after the redemption date, cease to be entitled to any benefit or security under the Indenture, and the Owners of such Bonds shall have no right in respect thereof except to receive payment of the redemption price. All Bonds redeemed shall be canceled by the Trustee and shall not be reissued.

Book-Entry System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee), and

will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants.

When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry only system maintained by DTC. Beneficial ownership in the Bonds may be acquired or transferred only through book entries made on the records of DTC and in Participants. If the Bonds are taken out of the book-entry only system and delivered to owners in physical form, as described below, the following discussion will not apply. One fully registered Bond certificate will be issued in the aggregate principal amount of each maturity of the Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority (or the Trustee on behalf thereof) as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to

transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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

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

The Authority, the City, the Underwriter and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an Owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered Owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered Owner; or (vi) any other matter arising with respect to the Bonds or the Indenture. The Authority, the City, the Underwriter and the Trustee cannot and do not give any assurances that DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Authority, the City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

The foregoing description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made by the Authority or the City concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that DTC shall no longer so act and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the Book-Entry System with DTC for the Bonds. If the Authority determines to replace DTC with another qualified securities depository, the Authority will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified securities depository to

replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

ESTIMATED SOURCES AND USES OF FUNDS

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

Table 1
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

<u>ESTIMATED SOURCES AND USES OF FUNDS</u>	
<u>SOURCES</u>	
<u>Sources of Funds:</u>	
Par amount of Bonds	\$5,185,000.00
<i>Less:</i> Original Issue Discount	(15,805.35)
Prior Lease Transferred Funds	111,213.77
<i>Less:</i> Underwriter's Discount	(51,850.00)
Total Sources	<u>\$5,228,558.42</u>
<u>USES</u>	
<u>Uses of Funds:</u>	
Escrow Fund	\$4,071,003.95
Project Fund	1,000,000.00
Costs of Issuance Fund ⁽¹⁾	157,554.47
Total Uses	<u>\$5,228,558.42</u>

(1) Costs of Issuance include legal fees, financial advisor fees, Insurance Policy and Surety Bond premium, printing costs, rating agency fees, Trustee fees, Escrow Agent fees, Verification Agent fees, and other miscellaneous expenses in connection with the issuance, sale and delivery of the Bonds.

SECURITY FOR THE BONDS

Revenues

The Bonds are special obligations of the Authority secured by and payable solely from Revenues, defined in the Indenture as all amounts received by the Authority as lessor under the Lease, including, without limiting the generality of the foregoing, scheduled Base Rental Payments, prepayments, and insurance and condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES AND AMOUNTS HELD IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Base Rental Payments

Under the Lease, the City will pay to the Authority the Base Rental Payments in amounts equal to the scheduled debt service on the Bonds.

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Bondowners, all of the Revenues (consisting primarily of Base Rental Payments) and other assets pledged under the Indenture, except only amounts required for the compensation or indemnification of the Trustee as provided in the Indenture, and all of the Authority's rights under the Lease, including its right to receive Base Rental Payments, but excluding the right to receive Additional Rental.

Under the Lease, the City agrees to make Base Rental Payments for the beneficial use of the Leased Facilities, and to take such action as is necessary to budget for and to appropriate such amounts.

See "THE PLAN OF FINANCE – The Leased Facilities" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease" herein.

The Base Rental Payments are equal to the principal of and interest on the Bonds, and are payable in semiannual installments on the 25th day of the month immediately preceding each Interest Payment Date. The Base Rental Payments will be paid by the City to the Trustee for the benefit of the Owners of the Bonds.

The City's obligation to make Base Rental Payments is subject to abatement in the event of substantial interference with the use and possession of all or a part of the Leased Facilities. See "RISK FACTORS – Abatement" herein.

Insurance

The Lease requires the City to maintain insurance coverage on the Leased Facilities, so long as the Lease is outstanding, consisting of the following types of insurance. The City may adopt alternative risk management programs to insure against any of the risks required to be insured against under the Lease, including a program of self-insurance, in whole or in part; provided that any such alternative risk management program shall be similar in nature and scope to self-insurance programs maintained by other

California cities of comparable size and operations and shall be reviewed by a qualified independent insurance consultant. The City is not required to maintain or cause to be maintained any insurance which is not available from reputable insurers on the open market or more insurance than is specifically required under the Lease.

Fire and Extended Coverage Insurance. The City is to maintain insurance against loss or damage to the Leased Facilities resulting from fire, lightning, vandalism, malicious mischief and such other perils as the City may determine should be insured against, in an amount equal to the replacement cost (subject to deductible clauses not exceeding \$400,000 for any one loss) of improvements located on or to be located on the Leased Facilities, or an amount equal to or greater than the aggregate principal amount of the Bonds Outstanding (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss).

Rental Interruption or Use and Occupancy Insurance. The City must maintain rental interruption insurance in an amount sufficient to pay the total Base Rental Payments attributable to the Leased Facilities for a period of at least 24 months to insure against loss of rental income from the Leased Facilities caused by the events that give rise to the right of abatement on the part of the City under the Lease, provided that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Leased Facilities.

Workers' Compensation. The City is required to maintain workers' compensation insurance covering all employees working in or on the Leased Facilities in the same amount as other workers' compensation insurance maintained by the City for similar employees that do similar work.

Liability Insurance. The City is to maintain a standard comprehensive public entity liability policy or policies protecting the Authority, the Trustee and the City, and providing coverage in the amount of at least \$3,000,000, subject to a deductible clause of not to exceed \$400,000, for claims arising from personal injury, death and property damage related to the possession, operation or use of the Leased Facilities.

Title Insurance. The City is to obtain a CLTA standard coverage leasehold policy of title insurance issued by a company of recognized standing duly authorized to issue the same on the Leased Facilities or any Substituted Property which becomes the Leased Facilities, in an amount at least equal to the aggregate principal amount of unpaid Base Rental Payments.

Reserve Account

The Bonds are secured by amounts on deposit in the Reserve Account established under the Indenture, initially funded in an amount equal to the Reserve Requirement. The "Reserve Requirement" for the Bonds is defined in the Indenture to mean as of any calculation date in a Bond Year, an amount equal to the least of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service for the Bonds. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Reserve Account" herein.

With the written consent of the Bond Insurer, the City may meet the Reserve Requirement by depositing in the Reserve Account an irrevocable standby or direct-pay letter of credit or surety bond issued

by a commercial bank, insurance company or other financial institution and deposited with the Trustee, provided that all of the following requirements are met: (i) at all times during the term of such letter of credit or surety bond, the long-term credit rating of such bank is within the highest rating category of Moody's and S&P, or the claims paying ability of such insurance company is rated within the highest rating category of A.M. Best & Company and S&P; (ii) such letter of credit or surety bond has a term which ends no earlier than the last Interest Payment Date of the series of Bonds to which the Reserve Requirement applies; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder amounts necessary to carry out the purposes specified in the Indenture, including the replenishment of the Interest Account or the Principal Account.

Any amount in the Reserve Account in excess of the Reserve Requirement resulting from the delivery of a Qualified Reserve Account Credit Instrument may be applied to the cost of acquiring such instrument and, to the extent not so applied, shall be transferred by the Trustee as directed in a Certificate of the City.

Surety Bond

The Indenture permits the satisfaction of the Reserve Requirement by crediting to the Reserve Account moneys or a Qualified Reserve Account Credit Instrument or any combination thereof which in the aggregate makes funds available in the Reserve Account in an amount equal to the Reserve Requirement.

Application has been made to the Insurer to issue its commitment for a Qualified Reserve Account Credit Instrument (the "Surety Bond") which will be used to fund the Reserve Account in the amount of the Reserve Requirement beginning on the date of issuance of the Bonds. The Surety Bond will provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Lease Revenue Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with the U.S. Bank Trust National Association, New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts that are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage (as defined in the Surety Bond).

The available amount of the Surety Bond is the initial face amount of the Surety Bond less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the Authority. The Authority and the Insurer will enter into a Financial Guaranty Agreement relating to the Bonds (the "Guaranty Agreement"). Pursuant to the Guaranty Agreement, the Authority is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Surety Bond. Such reimbursement shall be made only after all required deposits to the Lease Revenue Fund and Redemption Account have been made.

Under the terms of the Guaranty Agreement, the Trustee is required to reimburse the Insurer, with interest, until the face amount of the Surety Bond is reinstated before any deposit is made to the City's General Fund. No optional redemption of Bonds may be made until the Insurer's Surety Bond is reinstated. The Surety Bond will be held by the Trustee in the Reserve Account and is provided as an alternative to the City depositing funds equal to the Reserve Requirement for outstanding Bonds. The Surety Bond will be issued in the face amount equal to Reserve Requirement for the Bonds and the premium therefor will be fully paid by the Authority at the time of delivery of the Bonds.

Bond Insurance

Concurrently with issuance of the Bonds, the Insurer will issue its Insurance Policy for the Bonds. The Insurance Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but which is unpaid. See "BOND INSURANCE" and "APPENDIX F – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein.

Additional Bonds

The Authority may authorize, with the consent of the Bond Insurer (except for refundings which result in debt service savings) but without the consent of the Bondholders of Outstanding Bonds, the issuance of Additional Bonds under the Indenture which are payable from Base Rental Payments and secured by a pledge of and lien upon the Base Rental Payments on a parity with the pledge and lien securing the Outstanding Bonds; provided, among other things, that the Lease shall have been amended so as to increase the Base Rental Payments payable thereunder by an aggregate amount equal to the principal and interest due and payable on such Additional Bonds. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Indenture – Issuance of Additional Bonds" herein.

Budget and Appropriation of Base Rental Payments

The Lease provides that, from and after the date on which the City takes possession of the Leased Facilities and unless the Lease is terminated, the City shall take such action as may be necessary to include all Base Rental Payments in each of its budgets and to make necessary appropriations for all such Base Rental Payments coming due and payable during the period covered by such budget, and the public officials of the City shall take such actions and do other things required by law to enable the City to carry out and perform this covenant. The amounts payable to the Trustee under the Lease are to be used to make payments of the principal of and interest on the Bonds, plus other fees, expenses and reimbursements as specified in the Indenture.

The City's revenues are derived in part from ad valorem property taxes. Such taxes are subject to limitations under Article XIII A of the California Constitution. The City has the capacity to enter into other obligations which may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments and Additional Rental payments, if any, may be decreased. Appropriations of the City are subject to limitation under Article XIII B of the California Constitution. See "RISK FACTORS – Risks Related to Taxation in California" herein.

PLAN OF FINANCE

The Leased Facilities

Under the Lease and the Site Lease, the Leased Facilities consist of the City of Pismo Beach City Hall buildings and City Hall site located at 760 Mattie Road, Pismo Beach, California, (the “Leased Facilities”). The City Hall is comprised of a two story, 15,747-square foot building that was constructed in 1990, and a single story 4,718-square foot building that was constructed in 1990, both of which are built upon on land owned by the City. The City Hall buildings and adjacent parking are located on an approximate sixty-six thousand square feet site. The City Hall houses the City Manager, Administrative Services, Finance, Community Development and Public Works departments as well as the Council chambers.

The Authority will lease the Leased Facilities to the City pursuant to the Lease. Under the Lease, the City is required to maintain the Leased Facilities in working order.

The City, based upon insurance coverage estimates of the buildings, and based upon land value estimates of the site which encompasses over sixty-six thousand square feet, values the City Hall at more than \$5.5 million. The City Hall building is made of Concrete mat foundation, wood load bearing and shear walls, truss floor and roof systems. The building contains a sprinkler system. The site is fully landscaped and includes parking and lighting.

The Lease provides that the City has the right to substitute alternate real property or improvements for the Leased Facilities, release existing property or add additional real property or improvements to the Leased Facilities, provided that the fair market value and the fair rental value of the substitute premises are at least equal to that of the Leased Facilities, and provided certain other criteria are met. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The Refunding

The City has determined that, as a result of favorable financial market conditions, it is in the best interests of the City at this time to refinance the City’s obligation to make payments under and pursuant to Lease Agreement No. 1999, dated as of February 1, 1999 (the “1999 Obligation”). The 1999 Obligation was originally issued in the amount of \$4,950,000 (with a principal balance of \$3,990,000 is still outstanding of the 1999 Obligation), at a interest rate averaging almost 5.25%, with regularly principal and interest payments (annually totaling approximately \$360,000) scheduled each December 1st through and including December 1, 2024.

Pursuant to an escrow deposit and trust agreement, dated as of April 1, 2007 (the “Escrow Agreement”), between the City and U.S. Bank National Association, as escrow bank (the “Escrow Bank”), a portion of the proceeds of the Bonds, together with certain moneys held by the trustee with respect to the 1999 Obligation, will be deposited in an escrow fund which will be applied by the Escrow Bank to the purchase of certain Federal Securities. The Escrow Bank will apply the maturing principal of the Federal Securities and the receipt of interest thereon at such times and in such amounts that sufficient moneys shall be available to prepay the entire 1999 Obligation in full on June 1, 2007, at the prepayment price equal to the remaining principal amount thereof, plus accrued interest, but without premium.

The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the Federal Securities in the escrow fund established under the Escrow Agreement (the “Escrow Fund”) to meet the debt service requirements of the 1999 Obligation and the calculation of yield relating to the Bonds will be verified by Grant Thornton, LLP, Minneapolis, Minnesota, independent certified public accountants. See “VERIFICATION OF MATHEMATICAL ACCURACY” herein.

The Project

The Authority will fund the Project Fund, in the amount set forth in Table 1, from the proceeds of the Bonds to partially fund one or more capital improvement projects, which include (i) the reconstruction of Price Street, including sidewalks, from Hinds Avenue south to the US 101 Entrance; (ii) installation of Beachcomber stairs; (iii) construction of storm drain outfall projects at Montecito, Ocean Park, and Shell Beach Road; (iv) Downtown drainage improvements, including a new outfall to the beach at Wadsworth Avenue; and (v) other City approved public infrastructure and public facilities (the “Project”).

Debt Service Requirements

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

Table 2
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

ANNUAL DEBT SERVICE SCHEDULE			
<u>Bond Year (December 1)</u>	<u>Principal Portion of Debt Service</u>	<u>Interest Portion of Debt Service</u>	<u>Total Debt Service</u>
2007	\$25,000	\$124,518.75	\$149,518.75
2008	175,000	206,531.26	381,531.26
2009	250,000	198,656.26	448,656.26
2010	250,000	188,656.26	438,656.26
2011	270,000	176,156.26	446,156.26
2012	275,000	166,706.26	441,706.26
2013	290,000	157,081.26	447,081.26
2014	300,000	146,931.26	446,931.26
2015	310,000	136,431.26	446,431.26
2016	325,000	120,931.26	445,931.26
2017	335,000	108,906.26	443,906.26
2018	355,000	96,343.76	451,343.76
2019	365,000	82,853.76	447,853.76
2020	380,000	68,253.76	448,253.76
2021	395,000	53,053.76	448,053.76
2022	415,000	36,858.76	451,858.76
2023	230,000	19,740.00	249,740.00
2024	<u>240,000</u>	<u>10,080.00</u>	<u>250,080.00</u>
Totals	<u>\$5,185,000</u>	<u>\$2,098,690.15</u>	<u>\$7,283,690.15</u>

CITY FINANCIAL INFORMATION

General

The City covenants to annually budget and appropriate sufficient funds to make all Base Rental Payments due under the Lease. Neither the obligation of the City to pay Base Rental Payments, nor the Bonds, will constitute a debt of the City.

Budgetary Process and Administration

The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June the following year (the "Fiscal Year").

At such date as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for such department for the ensuing Fiscal Year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective department heads as necessary, and may revise the estimates as he may deem advisable.

In June, the City Manager submits to the City Council the proposed budget as prepared by him. After reviewing and making such revisions as it deems advisable, the City Council determines the time for the holding of a public hearing thereon and causes to be published a notice thereof not less than ten days prior to the hearing date. Copies of the proposed budget are available for inspection by the public in the office of the City Clerk at least ten days prior to the hearing.

At the conclusion of the public hearing, the City Council further considers the proposed budget and makes any revisions thereof that it deems advisable and on or before June 30 it adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members of the Council.

From the effective date of the budget, the several amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named, provided that the City Manager may transfer funds from one object or purpose to another within the same fund, department, office or agency. All appropriations lapse at the end of the budget period to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative vote of at least a majority of the total members of the City Council.

The City Council employs, at the beginning of each Fiscal Year, an independent certified public accounting firm which, at such time or times as specified by the City Council, at least annually, at such other times as such firm shall determine, examines the books, records, inventories and reports of all officers and employees who receive, control, handle or disburse public funds and of all such other officers, employees or departments as the City Council may direct. As soon as practicable after the end of the Fiscal Year, a report is submitted by such firm to the City Council and a copy of the financial statements as of the close of the Fiscal Year is published.

General Fund Revenues and Expenditure

The General City Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of sales tax, property tax, revenues from the State and/or federal government, and charges for services provided.

The three major or general fund revenue sources of the City, which together accounted in Fiscal Year 2005-06 for about 80% of the general fund revenues (collectively, the "Key Tax Sources"), are the Transient Occupancy Tax (41% of total general fund revenues), Sales Tax (16%) and Property Tax (23%). See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2005-06" herein.

The following table sets forth the audited revenues received by the City for each of the Key Revenue Sources for Fiscal Years 1997-98 through 2005-06, and the unaudited budgeted revenue expected to be received by the City for each of the Key Revenue Sources for Fiscal Year 2006-07, which have been totaled and compared to the prior Fiscal Year to illustrate the amount and percent of change.

Table 3
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

GENERAL FUND KEY REVENUE SOURCES AND CHANGE FROM PRIOR YEAR						
Fiscal Year	Transient Occupancy Taxes	Property Taxes	Sales Taxes	Total of Key Tax Sources	Change From Prior Year	
					Amount	Percent
1998	\$3,004,234	\$1,241,736	\$1,366,708	\$5,612,678	--	--
1999	3,445,993	1,291,632	1,395,217	6,132,842	520,164	9.3%
2000	3,740,545	1,407,950	1,530,857	6,543,712	410,870	6.7%
2001	4,152,258	1,539,713	1,623,170	7,222,828	679,116	10.4%
2002	4,292,264	1,663,394	1,708,960	7,578,828	356,000	4.9%
2003	4,342,969	1,816,986	1,661,091	7,821,045	242,217	3.2%
2004	4,652,128	1,979,620	1,867,519	8,499,266	678,221	8.7%
2005	4,921,357	2,012,536	2,014,060	8,947,953	448,687	5.3%
2006	5,295,777	2,937,753	2,134,638	10,368,168	1,420,215	15.9%
2007	5,650,000	2,901,000	2,255,000	10,806,000	437,832	4.2%

Source: The City

The following table sets forth the audited revenues received by the City for the total of Key Revenue Sources and total of Other General Fund Revenue Sources for Fiscal Years 1997-98 through 2005-06, and the unaudited budgeted revenue expected to be received by the City from each such Revenue Source for Fiscal Year 2006-07, which have been totaled and compared to the prior Fiscal Year to illustrate the amount and percent of change.

Table 4
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

SUMMARY OF GENERAL REVENUES AND CHANGE FROM PRIOR YEAR					
<u>Fiscal Year</u>	<u>Total of Key Tax Sources⁽¹⁾</u>	<u>Other General Fund Revenues</u>	<u>Total General Fund Revenues</u>	<u>Change From Prior Year</u>	
				<u>Amount</u>	<u>Percent</u>
1998	\$5,612,678	\$ 1,857,659	\$7,470,337	--	--
1999	6,132,842	2,391,284	8,524,126	\$1,053,789	14.1%
2000	6,679,352	2,436,203	9,115,555	591,429	6.9%
2001	7,315,141	2,768,391	10,083,532	967,977	10.6%
2002	7,664,618	2,487,084	10,151,702	68,170	0.7%
2003	7,821,045	2,959,436	10,780,481	628,779	6.2%
2004	8,499,266	2,957,009	11,456,275	675,794	6.3%
2005	8,947,953	3,219,552	12,167,505	711,230	6.2%
2006	10,368,168	2,675,963	13,044,131	876,626	7.2%
2007	11,000,000	2,700,000	13,700,000	655,869	5.0%

(1) Comprised of the Transient Occupancy Tax, Sales Tax and Property Tax totals set forth in Table3, above.

Source: The City

Transient Occupancy Tax

As a resort and tourist destination, the City receives a sizable income from the Transient Occupancy Tax. The Transient Occupancy Tax is the largest single source of revenue to the City, constituting approximately 41% of the City's budgeted annual General Fund income for the 2006-07 Fiscal Year. In fiscal year 2005-06, the Transient Occupancy Tax generated \$5,295,777 in General Fund revenues, or approximately 41% of the City's total General Fund revenue for that period. Transient Occupancy Tax receipts have trended upward in each of the years shown in Table 3 above.

Property Taxes

Property taxes were the second largest category of revenue source to the City in fiscal year 2006-07, constituting approximately 22% of the City's budgeted annual income. In fiscal year 2005-06, the Transient Occupancy Tax generated \$2,937,753 in General Fund revenues, or approximately 23% of the City's total General Fund revenue for that period. Actual (audited) Property Tax receipts have trended upward in each of the years shown in Table 3 above.

Tax Levies 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. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. 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 on November 1 of the fiscal year. The City 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 certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

City taxes are assessed and collected by San Luis Obispo County at the same time and on the same rolls as are County, school and special district taxes.

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, since the State reimburses local agencies for the value of the exemptions.

Assessed Valuation. The table below presents the assessed valuation of taxable property in the City from fiscal year 2002-03 through fiscal year 2006-07.

Table 5
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

ASSESSED VALUATIONS OF ALL TAXABLE PROPERTY				
<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2002-03	\$1,341,516,588	\$112,561	\$22,413,635	\$1,364,042,784
2003-04	1,465,088,852	120,295	21,840,751	1,487,049,898
2004-05	1,614,007,810	135,706	23,066,792	1,637,210,308
2005-06	1,798,921,892	130,490	34,392,659	1,833,445,041
2006-07	2,009,804,272	117,615	38,801,558	2,048,723,445

Source: California Municipal Statistics Inc.

Top Tax Payers. The top twenty taxpayers, based on local secured assessed values of taxable property in the City, as shown on the 2006-07 tax roll, are set forth in the following table:

Table 6
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

LARGEST 2006-07 LOCAL SECURED TAXPAYERS				
	<u>Property Owner</u>	<u>Land Use</u>	<u>Assessed Valuation</u>	<u>Total (1)</u>
1.	Pismo Beach Mobile Home Park	Mobile Home Park	\$ 35,475,894	1.77%
2.	Martin Resorts Inc.	Hotel/Motel	31,377,205	1.56
3.	Second Horizon Group LP	Commercial – Retail	24,052,417	1.20
4.	Heron Crest Development General Partnership	Hotel and Residences	16,286,700	0.81
5.	La Noria IMS LLC	Hotel/Motel	13,568,576	0.68
6.	Pismo Coast Plaza LLC	Shopping Center	12,720,463	0.63
7.	Seacrest Resort LLC	Hotel/Motel	12,177,278	0.61
8.	Pismo Medical Campus LLC	Vacant Commercial	10,882,511	0.54
9.	Henry F. Myers	Hotel/Motel	10,022,210	0.50
10.	Pismo Development Group LLC	Office Building	9,586,982	0.48
11.	Holiday Recreational Vehicle Park	RV Park	9,553,208	0.48
12.	Sea Venture Resort LLC	Hotel/Motel	9,243,434	0.46
13.	Pismo Castle LLC	Hotel/Motel	8,619,943	0.43
14.	Curt Baney Inc.	Hotel/Motel	7,905,077	0.39
15.	V2V Acquisitions & Development Company	Commercial Land	7,700,000	0.38
16.	Pacplaza Properties LP	Shopping Center	7,654,560	0.38
17.	Sea Cottage Investors LP	Hotel/Motel	7,434,419	0.37
18.	Pismo Beach Hotel Partners LLC	Hotel/Motel	6,592,833	0.33
19.	Cavalon LLC	Residential Properties	6,400,000	0.32
20.	Hinds Avenue Partners LLC	Hotel/Motel	<u>6,000,000</u>	<u>0.30</u>
			\$253,253,710	12.60%

(1) 2006-07 Local Secured Assessed Valuation: \$2,009,804,272

Source: California Municipal Statistics Inc.

Sales Taxes

Sales taxes were the third largest category of revenue source to the City in fiscal year 2006-07, constituting approximately 17% of the City's budgeted annual income. In fiscal year 2005-06, the Sales Tax generated \$2,134,638 in General Fund revenues, or approximately 16% of the City's total General Fund revenue for that period. Property Tax receipts have trended upward (with the exception of a slight down-turn in 2002-03) in each of the years shown in Table 3 above.

The City's sales tax revenue represents the City's share of the sales and use tax, imposed on taxable transactions occurring within the City's boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax.

Financial Statements

The City's accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board ("GASB").

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

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

GASB No. 34. The Governmental Accounting Standards Board ("GASB") published its Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting; and (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting; and (iv) required supplementary information. As required by GASB, the City implemented Statement No. 34 beginning with the fiscal year 2002-03 audited financial statements. Consequently, changes in financial statement content and structure are evident in the audit for fiscal year 2002-03 and thereafter.

Audited Financial Statements. Excerpts of the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2006, which includes the City's 2005-06 audited financial statements are set forth in Appendix B. A complete copy of the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2006, as well as the reports for the prior years, can be obtained from the City's Finance Department. The City is the recipient of the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2005.

The following table summarizes the Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the fiscal years 2003-04 through 2005-06.

Table 7
CITY OF PISMO BEACH
GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
for the Year Ended June 30

	2004	2005	2006
Revenues:			
Property Taxes	\$1,979,620	\$2,012,536	\$2,937,753
Sales Taxes	1,867,519	2,014,060	2,134,638
Transient Occupancy Taxes	4,652,128	4,921,356	5,295,777
Other Taxes	622,092	692,511	738,257
Licenses and permits	746,845	848,031	496,717
Fines and forfeitures	118,724	122,215	142,390
Intergovernmental	488,846	794,043	104,175
Interest and Rents	174,162	235,093	256,343
Charges for services	217,252	487,796	824,702
Miscellaneous	189,087	39,864	113,379
Total Revenue	<u>\$11,056,275</u>	<u>\$12,167,505</u>	<u>\$13,044,131</u>
Expenditures:			
General government	2,303,804	2,529,042	2,843,670
Public safety	4,646,526	5,216,685	5,725,715
Highways and Streets	521,193	580,049	557,761
Community Services	1,608,169	1,673,626	1,750,662
Public works	612,657	687,840	732,548
Total Expenditures	<u>9,692,349</u>	<u>10,687,242</u>	<u>11,610,356</u>
Excess (Deficiency) of Revenue Over Expenditures	\$1,363,926	\$1,480,263	\$1,433,775
Other Financing Sources (Uses):			
Transfers in	394,441	319,068	291,132
Transfers out	(2,614,800)	(1,197,176)	(1,381,693)
Total Other Financing Sources (Uses)	<u>(2,220,359)</u>	<u>(878,108)</u>	<u>(1,090,561)</u>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses	\$(856,433)	\$602,155	\$343,214
Fund Balance, July 1	<u>6,091,579</u>	<u>5,235,146</u>	<u>5,837,301</u>
Fund Balance, June 30	<u><u>\$5,235,146</u></u>	<u><u>\$5,837,301</u></u>	<u><u>\$6,180,515</u></u>

Source: City of Pismo Beach Comprehensive Annual Financial Report.

OVERLAPPING DEBT OF THE CITY

Direct and Overlapping Bonded Debt

The following Table 8 sets forth the statement of the City's direct and overlapping bonded indebtedness, as of March 1, 2007, and as prepared by California Municipal Statistics, Inc., Oakland, California (the "Debt Report"). The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by public agency are payable only from the general fund or other revenues of such public agency.

Table 8
PISMO BEACH PUBLIC FINANCING AUTHORITY
SERIES 2007A LEASE REVENUE REFUNDING BONDS

DIRECT AND OVERLAPPING BONDED DEBT		
2006-07 Assessed Valuation:	\$2,048,723,445	
Redevelopment Incremental Valuation:	<u>96,770,691</u>	
Adjusted Assessed Valuation:	\$1,951,952,754	
OVERLAPPING TAX AND ASSESSMENT DEBT:		
	% Applicable (1)	Debt 3/1/07
San Luis Obispo County Flood Control and Water Conservation District, Zone No. 3	29.656%	\$ 3,558,720
Lucia Mar Unified School District	16.882	7,364,126
City of Pismo Beach 1915 Act Bonds	100.000	<u>85,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$11,007,846
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Luis Obispo County Certificates of Participation	5.731%	\$ 2,591,272
San Luis Obispo County Pension Obligations	5.731	5,072,187
San Luis Obispo Community College District Certificates of Participation	5.711	741,859
Lucia Mar Unified School District Certificates of Participation	16.882	1,299,070
City of Pismo Beach General Fund Obligations	100.000	<u>3,990,000</u> (1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$13,694,388
COMBINED TOTAL DEBT		\$24,702,234 (2)

(1) Excludes certificates of participation 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:

Total Overlapping Tax and Assessment Debt 0.54%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$3,990,000) 0.20%

Combined Total Debt 1.27%

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

Source: California Municipal Statistics Inc.

BOND INSURANCE

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

The Insurer 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 the Insurer set forth under this heading, entitled “Bond Insurance.” Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

Bond Insurance Policy

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer (as such term is defined in the Policy) to the Trustee 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 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 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 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”).

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The 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. The 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 the Insurer from the Trustee 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, 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 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 the Insurer, and appropriate instruments to effect the appointment of the Insurer 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 Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer

The Insurer 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 the Insurer. The Insurer 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. The Insurer, 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.

The principal executive offices of the Insurer 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, the Insurer is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for the Insurer, limits the classes and concentrations of investments that are made by the Insurer and requires the approval of policy rates and forms that are employed by the Insurer. State law also regulates the amount of both the aggregate and individual risks that may be insured by the Insurer, the payment of dividends by the Insurer, changes in control with respect to the Insurer and transactions among the Insurer 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 the Insurer “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer “AAA.”

Fitch Ratings rates the financial strength of the Insurer “AAA.”

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of the Insurer 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. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, the Insurer had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, the Insurer had admitted assets of \$10.9 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$4.0 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning the Insurer, see the consolidated financial statements of the Insurer 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 the Insurer and its subsidiaries as of December 31, 2006, 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 the Insurer 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 the Insurer at its principal executive offices.

Incorporation of Certain Documents by Reference

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

The Company's Annual Report on Form 10-K for the year ended December 31, 2006

Any documents, including any financial statements of the Insurer 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, 2006, June 30, 2006 and September 30, 2006 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 the Insurer 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.

BOND OWNERS' RISKS

The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

Base Rental Payments Are Not Debt

The obligation of the City to make the Base Rental Payments under the Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make Base Rental Payments constitute a debt of the City, the State of California or any political subdivision thereof (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues and amounts held in the funds and accounts created under the Indenture, consisting primarily of Base Rental Payments. The Authority has no taxing power.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease to pay the Base Rental Payments from any source of legally available funds and the City has covenanted in the Lease that, for so long as the Leased Facilities are available for its use, it will make the necessary annual appropriations within its budget for the Base Rental Payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Base Rental Payments, or which the City, in its discretion, may determine to pay prior to the Base Rental Payments.

The City has the capacity to enter into other obligations payable from the City's General Fund, without the consent of or prior notice to the Owners of the Bonds. To the extent that additional obligations

are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease. The same result could occur if state constitutional expenditure limitations were to prohibit the City from appropriating and spending all of its otherwise available revenues.

Abatement

In the event of loss or substantial interference in the use and possession by the City of all or any portion of the Leased Facilities caused by material damage, title defect, destruction to or condemnation of the Leased Facilities, Base Rental Payments will be subject to abatement. In the event that such component of the Leased Facilities, if damaged or destroyed by an insured casualty, could not be replaced during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such component of the Leased Facilities or prepayment of the Bonds, there could be insufficient funds to make payments to Owners in full. Reduction in Base Rental Payments due to abatement as provided in the Lease does not constitute a default thereunder.

Risk of Uninsured Loss

The City covenants under the Lease to maintain certain insurance policies on the Leased Facilities. See "SECURITY FOR THE BONDS – Insurance" herein. These insurance policies do not cover all types of risk, and the City need not obtain insurance except as available on the open market from reputable insurers. For instance, the City does not covenant to maintain earthquake insurance. The Leased Facilities could be damaged or destroyed due to earthquake or other casualty for which the Leased Facilities is uninsured. Additionally, the Leased Facilities could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Base Rental Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Facilities will be sufficient to redeem the Bonds.

Under the Lease the City may obtain casualty insurance which provides for a deductible up to \$250,000. Should the City be required to meet such deductible expenses, the availability of General Fund revenues to make Base Rental Payments may be correspondingly affected.

Eminent Domain

If the Leased Facilities are taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease will cease as of the day possession is taken. If less than all of the Leased Facilities are taken permanently, or if the Leased Facilities or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Base Rental Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Base Rental Payments, in an amount to be agreed upon by the City and the Authority such that the resulting Base Rental Payments represent fair consideration for the use and

occupancy of the remaining usable portion of the Leased Facilities. The City covenants in the Lease to contest any eminent domain award which is insufficient to either: (i) prepay the Base Rental Payments in whole, if all the Leased Facilities are condemned; or (ii) prepay a pro rata share of Base Rental Payments, in the event that less than all of the Leased Facilities are condemned.

Hazardous Substances

The existence or discovery of hazardous materials may limit the beneficial use of the Leased Facilities. In general, the owners and lessees of the Leased Facilities may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Leased Facilities may be limited in the future resulting from the current existence on the Leased Facilities of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Leased Facilities of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Leased Facilities. The City is unaware of the existence of hazardous substances on the Leased Facilities site which would materially interfere with the beneficial use thereof.

Bankruptcy

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the “Bankruptcy Code”). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City’s debt (a “Plan”) without the consent of the Trustee or all of the Owners of Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease or assume the Lease despite any provision of the Lease which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event the City rejects the Lease, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Lease and the City's obligations to make payments thereunder.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. However, the bankruptcy of the Authority, and not the City, should not affect the Trustee's rights under the Lease. The Authority could still challenge the assignment, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues in order to protect their interests.

Enforcement of Remedies Under the Lease

If the City defaults on its obligation to make Base Rental Payments with respect to the Leased Facilities, the Authority's only effective remedy is to sue for Base Rental Payments as they become due. In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Lease. The City, while it is the lessee under the Lease, will only be liable for Base Rental Payments on a semiannual basis, and the Authority would be required to seek a separate judgment for each year's defaulted Base Rental Payment. Any such suit for money damages would be subject to limitations on legal remedies against cities in the State.

No Liability of Authority to the Owners

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

Risks Related to Taxation in California

Constitutional Amendments Affecting Tax Revenues. Article XIII A of the California Constitution limits the amounts of ad valorem tax 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 City Assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or thereafter the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment period.” Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voters voting on the proposition approving such bonds, and requires a vote of two-thirds of the qualified electorate to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State tax law resulting in increased tax revenues.

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the subsequent two years.

Right to Vote on Taxes Act – Proposition 218. On November 5, 1996, California voters approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act (“Proposition 218”), which added Article XIII C and XIII D to the California Constitution. Among other provisions, Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include cities. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 will continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. Proposition 218 also provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. This extension of the initiative power is not limited by the terms of Proposition 218 to impositions after November 6, 1996 and absent other legal authority, could result in retroactive reduction in any existing taxes, assessments, fees and charges. In addition, Proposition 218 limits the application of assessments, fees and charges and requires certain existing, new and increased assessments, fees and charges to be submitted to property owners for approval or rejection, after notice and public hearing. The City does not expect Proposition 218 to have any immediate material effect on the revenues from which Base Rental Payments are expected to be appropriated.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the

consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Implementing Legislation. Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice of using 25% of full cash value as the assessed value for tax purposes). The legislation further provided that, for Fiscal Year 1978/79 only, the tax levied by each county was to be appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

Future assessed valuation growth allowed under Article XIII A (i.e., new construction, change of ownership, and 2% annual value growth) 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” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The Authority is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above those described above, even with the approval of the affected voters.

Constitutional Challenges to Property Tax System. There have been many challenges to Article XIII A of the California Constitution. The United States Supreme Court heard the appeal in *Nordlinger v. Hahn*, a challenge relating to residential property. Based upon the facts presented in *Nordlinger*, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. The Authority cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the Agency’s receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

Statutory Revenue Limitations – Proposition 62. Proposition 62 is a statewide statutory initiative adopted by the voters at the November 4, 1986 general election. It added Sections 53720 to 53730 to the Government Code to require that all new local taxes be approved by the voters. The statute provides that all local taxes are either general taxes or special taxes. General taxes are imposed for general governmental purposes. Special taxes are imposed for specific purposes only. General taxes may not be imposed by local government unless approved by a two-thirds vote of the entire legislative body and a majority of the voters voting on the proposed general tax. Special taxes may not be imposed by local government unless approved by a majority of the entire legislative body and by two-thirds of the voters voting on the special tax. Soon after Proposition 62 was adopted by the voters, legal challenges to taxes adopted contrary to its provisions were filed. In 1991, in the most significant case, *City of Woodlake v. Logan*, the California Court of Appeal held that the statutory voter approval requirement for general taxes was unconstitutional. The California Supreme Court refused to review *Woodlake*.

On September 28, 1995, the California Supreme Court, on a 5-2 vote, in a decision entitled *Santa Clara County Local Transportation Authority v. Guardino* (Case No. S036269), “disapproved” *Woodlake* and held that the voter approval requirements of Proposition 62 are valid. On December 14, 1995, the Supreme Court made minor nonsubstantive changes to its written opinion and denied the petition for rehearing. The decision provides that the voter approval requirements of Proposition 62 for both general and special taxes are valid. The *Guardino* case fails to say (1) whether the decision is retroactively applicable to general taxes adopted prior to the decision; (2) whether taxpayers have any remedies for refund of taxes paid under a tax ordinance that was not voter approved; (3) what statute of limitations applies to taxes adopted without voter approval prior to *Guardino*; (4) whether Proposition 62 applies only to new taxes or to tax increases as well.

The Court of Appeals in a December 15, 1997 decision entitled *McBearty v. City of Brawley* (Case No. D027877) addressed some of these issues. In *Brawley*, a taxpayer challenged the city’s utility tax that was passed by the city council in 1991 without a vote of the electorate. The Court of Appeals held that (i) a three year statute of limitations applies to challenges to a tax ordinance subject to Proposition 62; and (ii) the statute of limitations did not begin to run until September 1995 when the *Guardino* case determined that Proposition 62 was constitutional. The effect of the holding in *Brawley* is that any tax ordinances passed between November 1986 and December 1995 that were not approved by the electorate would be subject to a challenge until December 1998. The court ordered the city to either cease collecting the tax or seek voter approval to continue levying the tax. However, in *Howard Jarvis Taxpayers Association v. City of La Habra*, decided on June 4, 2001, the California Supreme Court overruled part of *McBearty*, finding that the three year statute of limitations applicable to such taxes does not run from the date of the *Guardino* decision, but rather the continued imposition and collection of such tax is an ongoing violation, upon which the limitations period begins with each new collection.

Several questions raised by the *Guardino* decision remain unresolved. Proposition 62 provides that if a jurisdiction imposes a tax in violation of Proposition 62, the portion of the one percent general *ad valorem* tax levy allocated to that jurisdiction is reduced by \$1 for every \$1 in revenue attributable to the improperly imposed tax for each year that such tax is collected. The practical applicability of this provision has not been fully determined. Potential future litigation and legislation may resolve some or all of the issues raised by the *Guardino* decision.

The Authority cannot predict the outcome of any pending or future litigation concerning the validity of Proposition 62, nor can it predict the scope of the *Guardino* or *Brawley* decisions discussed above. Proposition 62 could affect the ability of the City to continue the imposition of, or to retain, certain taxes, and restrict the City’s ability to raise revenue.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the Authority or the City.

State Budget Deficit

The State has been experiencing serious budgetary shortfalls for the past three fiscal years, and it is currently projected to experience budgetary shortfalls in the current fiscal year. The State General Fund Budgets for fiscal year 2002/03 and fiscal year 2003/04 were both adopted over two months late, and required the Legislature to close multi-billion dollar deficits. The State's 2003/04 budget, in addition to suspending, deferring or eliminating certain State mandated local programs, reduced the vehicle license fee backfill to cities and counties by approximately \$662 million. However, Assembly Bill 1768 was subsequently adopted by the Legislature, and required the State to repay this transferred amount of vehicle license fees by August 15, 2006.

2006/07 Adopted State Budget. Governor Schwarzenegger signed a \$131.4 billion 2006/07 State Budget (the "2006/07 Budget") into law on June 30, 2006 which aims to improve the State's fiscal health by paying down debt and building a reserve; and fully funding education while also providing funding for law enforcement, disaster readiness and services for abused and neglected children. The 2006/07 Budget sets aside a combined total of more than \$4.9 billion, or 4.7 percent of total General Fund resources available, to address the State's debt by establishing a budget reserve of \$2.1 billion and early debt repayments of \$2.8 billion.

The 2006/07 Budget provides a record level of funding for the State's K-12 schools and community colleges providing \$55.1 billion in education spending under Proposition 98, an increase of \$8.1 billion, or 17 percent compared to the 2004 Budget Act. This funding increases total per-pupil spending from \$9,977 in 2004/05 to \$11,264 in the 2006/07 Budget, an increase of \$1,287 or 13 percent. The 2006/07 Budget also provides new resources to protect the public, including \$256 million (\$163 million General Fund) to improve services to abused and neglected children; \$214 million (\$180 million General Fund) to improve the capacity of hospitals to handle disaster and epidemic related surges in healthcare demand; \$196 million for law enforcement initiatives, enhancements to law enforcement subventions, funding for methamphetamine eradication, funding for sexual assault felony enforcement grants to local governments, and grants to help county sheriffs and probation officers manage mentally ill offenders.

In addition, the 2006/07 Budget provides \$1.4 billion to fully fund Proposition 42 for the second consecutive year and provides an additional \$1.4 billion for the early repayment of past loans from Proposition 42, for a total of \$2.8 billion. Of the \$1.4 billion repayment, \$446 million is designated for cities and counties for local road and street maintenance. The 2006/07 Budget also provides \$250 million for deferred maintenance in the State park system.

With regard to local government, the 2006/07 Budget includes \$232.5 million (General Fund) and \$1.7 million (special funds) to pay 2005/06 and 2006/07 claims for 38 noneducation mandates, including the Peace Officer's Procedural Bill of Rights mandate. Funding for the AB 3632 mental health mandate is provided separately in the budget. The 2006/07 Budget suspends local agency obligations to carry out 29 mandates in the budget year and directs the Commission on State Mandates to reconsider two previous mandate determinations that found state reimbursable costs. The 2006/07 Budget starts the process of paying local governments for the large backlog of pre-2004/05 mandate claims. Specifically, the 2006/07 Budget provides \$169.9 million (General Fund) to make the 2006/07 and 2007/08 payments towards the State's 15-year plan to retire this mandate debt.

The 2006/07 Budget provides \$565 million for major local public safety programs. This represents an increase of \$146 million, or 35 percent, above the 2005/6 funding level. Notable initiatives for local law enforcement include those targeting mentally ill offenders and local booking fees. Specifically, the 2006/07 Budget provides \$45 million to reestablish the Mentally Ill Offender Crime Reduction Grant Program. In addition, the 2006/07 Budget provides \$35 million to reimburse cities for jail booking fees paid to counties in 2005/06 and revamps county authority to collect fees starting in 2007/08.

Earthquakes

The City, like much of California, is subject to seismic activity. The City is located in a seismically dynamic region featuring active fault systems.

The City is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Facilities. Depending on its severity, an earthquake could result in abatement of Lease Payments under the Lease. See “RISK FACTORS – Abatement” above.

Loss of Tax Exemption

As discussed under the caption “TAX EXEMPTION,” in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the City has covenanted in the Lease not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the City in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until prepaid under the optional redemption or mandatory sinking fund redemption provisions of the Indenture

Limited Secondary Market

As stated herein, investment in the Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Bonds or, if a secondary market exists, that the Bonds can or could be sold for any particular price.

Bond Insurance Policy

The Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; or

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee.

In the event that the Insurer were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Secondary Market for Bonds

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

THE AUTHORITY

The Pismo Beach Public Financing Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated April 2, 1991 by and between the City and the Redevelopment Agency of the City of Pismo Beach and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). The Authority is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the City.

FINANCIAL REPORT

The City's financial statements for the Fiscal Year ended June 30, 2006 were prepared by the City and audited by Terry E. Krieg, Certified Public Accountant, and excerpts from such report are contained in APPENDIX B hereto. The financial report should be read in its entirety. At the time of the execution and delivery of the Bonds, the City will certify that there has been no material adverse change in the City's financial position since June 30, 2006. The information set forth herein does not purport to be a summary of the City's financial report.

TAX MATTERS

In the opinion of the Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the

Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to the alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

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

To the extent that a purchaser of a Bond acquires that Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the Bonds (determined, in the case of a callable Bond, under the assumption described below), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the Bond will be called on the redemption date that would minimize the purchaser’s yield on the Bond (or that the Bond will not be called prior to maturity if that would minimize the purchaser’s yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

Any person considering purchasing a Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Bond.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof permitted or predicated upon the advice or approval of counsel if such advice or approval is given by other counsel.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City as the “taxpayer,” and the owners of Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest with respect to the Bonds, the City may have different or conflicting interest from such owners. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City and the Authority described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service.

The proposed form of the opinion of Bond Counsel is attached as APPENDIX E.

CERTAIN LEGAL MATTERS

Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. The Law Offices of Cameron A. Weist is serving as Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and issuance of the Bonds. Certain legal matters will be passed upon for the City and the Authority by Hanley & Fleishman, LLP.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than nine months following the end of the City’s Fiscal Year (currently, the City’s fiscal year ends on June 30) (the “Annual Report”), commencing with the report of Fiscal Year ending June 30, 2007, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE,” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended.

VERIFICATION OF MATHEMATICAL ACCURACY

In connection with the execution and delivery of the Bonds, Grant Thornton, LLP, Minneapolis, Minnesota, (the “Verification Agent”) will verify from the information provided to it the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided

schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the 1999 Obligation, and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is exempt from tax. The Verification Agent will express no opinion on the assumptions provided to it, nor as to the exemption from taxation of the interest on the Bonds. The report of the Verification Agent, will include the statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them, and have they no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

LITIGATION

There is no action, suit or proceeding known to the Authority to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Indenture, or the Lease, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority taken with respect to any of the foregoing. The City has pending against it claims and lawsuits arising in the normal course of City operations. The City is of the view that, if determined adversely to the City, such claims and lawsuits would not, in the aggregate, materially impair the City's ability to make Base Rental Payments and Additional Payments when due.

RATINGS

Moody's Investors Services, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Bonds with the understanding that upon delivery of the Bonds, the Policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Bond Insurer. There is no assurance that any credit ratings given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

FINANCIAL ADVISOR

The Authority has entered into an agreement with Northcross, Hill & Ach, San Rafael, California (the "Financial Advisor"), whereunder the Financial Advisor provides financial recommendations and guidance to the Authority with respect to preparation and sale of the Bonds. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement and has supervised the completion and editing thereof. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the Authority, with respect to accuracy and completeness of disclosure of such information, and the Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

UNDERWRITING

The Bonds are being purchased by E.J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$5,117,344.65 (which price is equal to the \$5,185,000 aggregate principal amount of the Bonds, less Original Issue Discount of \$15,805.35, and less Underwriter's Discount of \$51,850).

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

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

MISCELLANEOUS

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

This Official Statement does not constitute a contract with the purchasers of the Bonds.

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

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2006 is contained in APPENDIX B.

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

PISMO BEACH PUBLIC FINANCING AUTHORITY

By: /s/ Kevin Rice
Executive Director

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following statements are summaries of certain provisions of the Indenture and the Lease. These statements are qualified in their entirety by reference to the full terms of such documents, copies of which may be obtained from the Trustee.

DEFINITIONS

As used in this summary, the following terms have the meanings herein specified:

“Act” means the provisions of Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

“Additional Bonds” means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with Section 3.05 of the Indenture.

“Additional Rental Payments” means the additional rental payable by the City under and pursuant to the Lease

“Agency” means the Redevelopment Agency of the City of Pismo Beach.

“Agreement” means that certain Joint Exercise of Powers Agreement dated as of April 2, 1991, entered into under the Act by the City of Pismo Beach and the Redevelopment Agency of the City of Pismo Beach, together with any amendments thereof and supplements thereto.

“Assignment Agreement” means the Assignment Agreement, dated as of April 1, 2007, by and between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

“Authority” means the Pismo Beach Public Financing Authority, a joint powers authority and public body duly organized and existing under the Agreement and the laws of the State of California.

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

“Authority Representative” means the Chair, Secretary or Treasurer of the Authority, or any other person authorized by resolution of the Board of the Authority to act on behalf of the Authority under or with respect to the Indenture.

“Base Rental Payments” means all payments required to be paid by the City pursuant to Section 3 of the Lease including any prepayment thereof pursuant to Section 12 of the Lease.

“Bond Counsel” means (a) the Law Offices of Cameron A. Weist, and (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code.

“Bond Insurance” “Insurance Policy” or “Bond Insurance Policy” means the financial guaranty insurance policy insuring the scheduled payment of the amounts of principal of and interest on the Bonds, issued by the Insurer.

“Bond Insurer” or “Insurer” means MBIA Insurance Corporation, and its successors assigns.

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

“Bond Year” means each twelve-month period extending from December 2 in one calendar year to December 1 in the succeeding calendar year, both dates inclusive, except that the first Bond Year will extend from the Closing Date to December 1, 2007.

“Bond Register” means the registration books for the ownership of Bonds maintained by the Trustee pursuant to Section 2.12 of the Indenture.

“Bondowner” or “Owner” means, with respect to a Bond, the registered owner of such Bond as set forth in the Bond Register.

“Bonds” means the Pismo Beach Public Financing Authority, Series 2007A Lease Revenue Refunding Bonds, issued pursuant to terms and provisions of the Indenture.

“Business Day” means a day other than a Saturday, Sunday or legal holiday, on which banking institutions in the State of California, or in any state in which the Office of the trustee is located, are not closed.

“City” means the City of Pismo Beach, a municipal corporation duly organized and existing under the laws of the State of California.

“City Representative” means the City Manager or the Administrative Services Director of the City, or any other person authorized by resolution of the City Council of the City to act on behalf of the City under or with respect to the Indenture.

“Closing Date” means April __, 2007, being the day when the Bonds, duly executed by the Trustee, are delivered to the Original Purchaser.

“Code” or “Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference herein to a provision of the Tax Code will include all applicable Tax Regulations promulgated with respect to such provision.

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

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the execution and delivery of the Lease or the execution, sale and delivery of the Bonds, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee and the Escrow Bank (which will include legal fees and the first annual administration fee of the Trustee), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, bond insurance premium and fees, costs of any guarantee or surety, fees for execution, transportation and safekeeping of the Bonds and charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name created pursuant to Section 4.02 of the Indenture.

“County” means the county of San Luis Obispo, California.

“Depository” means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository pursuant to Section 2.13 of the Indenture.

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

“DTC” means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York or its successors and assigns. References in the Indenture to DTC will include any Nominee of DTC in whose name any Bond is registered.

“Escrow Bank” means U.S. Bank National Association, acting as escrow bank under the Escrow Deposit and Trust Agreement.

“Escrow Deposit and Trust Agreement” means the Escrow Deposit and Trust Agreement, dated as of April 1, 2007, between the Authority and the Escrow Bank.

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

“Event of Default” means an event of default under the Lease, as defined in Section 8.1 thereof.

“Facilities” means, collectively, those certain parcels of real property, together with the improvements constructed or to be constructed thereon, leased by the Authority to the City pursuant to the Lease, as more fully described in Exhibit A to the Lease, as such Exhibit A may be revised and amended from time to time pursuant to the terms of the Indenture and of the Lease.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or

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

“Federal Securities” means any direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), or other noncallable obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest.

“Fiscal Year” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period by the City as its fiscal year pursuant to written notice filed with the Trustee.

“Fitch” means Fitch Ratings, its successors and assigns.

“Indenture” means the Indenture, by and between the Authority and the Trustee, dated as of April 1, 2007, as originally executed or as thereafter amended pursuant to any amendments hereto permitted to be made thereunder.

“Independent Certified Public Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State of California, appointed by the Authority, and who, or each of whom:

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

and

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

“Independent Financial Consultant” means any financial consultant or firm of such consultants appointed by the City or Authority, and who, or each of whom:

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

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

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

“Information Services” means any of the following services which has been designated in a certificate of the Authority delivered to the Trustee: Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Call Notification; Standard & Poor’s Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Trustee.

“Insurance and Condemnation Fund” means the fund by that name to be established and held by the Trustee pursuant to Section 6.01 of the Indenture.

“Interest Account” means the account by that name established and held by the Trustee pursuant to Section 4.02 of the Indenture.

“Interest Payment Date” means December 1 and June 1 of each year, commencing December 1, 2007, so long as any Bonds are Outstanding.

“Lease” means the Lease agreement dated as of April 1, 2007, by and between the Authority as lessor and the City as lessee, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

“Lease Revenue Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.02 of the Indenture.

“Maximum Annual Debt Service” means the largest of the sums obtained for any Bond Year after totaling the following for each such Bond Year:

A. The principal amount of all Outstanding Bonds and Additional Bonds maturing or required to be redeemed by mandatory sinking account redemption in such Bond Year; and

B. The interest which would be due during such Bond Year on the aggregate principal amount of Bonds and Additional Bonds which would be Outstanding in such Bond Year if the Bonds and Additional Bonds Outstanding on the date of such computation were to mature or be redeemed in accordance with the applicable maturity or mandatory sinking account redemption schedule. At the time and for the purpose of making such computation, the amount of Bonds and Additional Bonds already retired in advance of the above mentioned schedule or schedules will be deducted pro rata from the remaining amounts thereon.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means insurance proceeds or an eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid with respect to the Facilities or Site, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.13(a) of the Indenture.

“Office” or “Corporate Trust Office” means the office of the Trustee in Los Angeles, California provided that for the purposes of the registration, transfer, exchange, payment or surrender of the Bonds, the term “Office” or “Corporate Trust Office” means the corporate Office of the Trustee in St. Paul, Minnesota, or at such other address or addresses designated by the Trustee in written notice filed with the City, the Authority and the Owners, including such other office for registration, transfer, exchange, or payment of Bonds.

“Original Purchaser” means E.J. De La Rosa & Co., Inc., San Francisco, California.

“Outstanding” means used as of any particular time with respect to Bonds, means (subject to the provisions of Section 13.04) all Bonds theretofore executed and delivered by the Trustee under the Indenture, including Bonds the principal of or interest on which is paid pursuant to the Bond Insurance Policy, except:

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

- (b) Bonds deemed to have been paid pursuant to Section 13.01 of the Indenture; and

- (c) Bonds in lieu of or in exchange for which other Bonds will have been executed and delivered by the Trustee pursuant to Section 2.08 of the Indenture.

“Owner” or “Bond Owner” when used with respect to a Bond, means the person in whose name the ownership of such Bond will be registered on the Registration Books.

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

“Permitted Investments” means the following, but only to the extent that the same are acquired at Fair Market Value (provided, that the Trustee will have no duty to investigate the Fair Market Value of any Permitted Investments), if and to the extent that they are permissible investments of funds of the City as stated in its current investment policy (the Trustee may rely on the investment directions of the City that the investment is approved by the City’s investment policy) and to the extent then permitted by law:

- A. The following obligations are Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America, including State and Local Government Series.

B. The following obligations are Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies
- Student Loan Marketing Association (SLMA)
- Tennessee Valley Authority (TVA)

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

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

(5) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including any such funds for which the Trustee or an affiliate provides investment advice or other services;

(6) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (Pre-refunded Municipal Obligations meeting the requirements of subsection (B) of the Indenture may not be used as Permitted Investments for annual appropriation lease transactions without the prior written approval of S&P)

(7) General obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(8) Investment agreements approved in writing by the City and supported by appropriate opinions of counsel, with notice to S&P; and

(9) Repurchase agreements with any commercial bank, which has a long-term, unsecured rating of “A” or better by S&P and A2 or better by Moody’s, provided that (i) the term of such repurchase agreement is not greater than thirty years, (ii) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (iii) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 103% for those securities defined in paragraphs (A) and (B)(1) above and 104% for those securities defined in paragraph (B)(2) above of the amount of cash transferred by the Trustee to the commercial bank under the repurchase agreement plus interest, (iv) failure to maintain the requisite collateral levels will permit the Trustee to liquidate the collateral immediately, (v) the repurchase securities are free and clear of any third-party lien or claim; and (vi) in the case of PSA Master Repurchase Agreements, there will have been delivered to the Trustee, the Authority and the Corporation an opinion of counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of the funds to be invested.

(10) The Local Agency Investment Fund of the State or any state administered pool investment fund in which the City is statutorily permitted or required to invest will be deemed a permitted investment.

C. The value of the above investments will be determined as follows:

“Value”, which will be determined as of the end of each month, means that the value of any investments will be calculated as follows:

(a) For securities:

(1) the closing bid price quoted by Interactive Data Systems, Inc.; or

(2) a valuation performed by a nationally recognized and accepted pricing service acceptable to the City whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealers or their parent holding companies must be rated at least investment grade by Moody’s and S&P and must be market makers in the securities being valued.

(b) As to certificates of deposits and bankers acceptances: the face amount thereof, plus accrued interest; and

(c) As to any investment not specified above: the value thereof established by prior agreement between the City and the Trustee.

“Principal Account” means the account by that name established and held by the Trustee pursuant to Section 4.02 of the Indenture.

“Project” means the acquisition, construction or improvement of public capital improvements designated by the City to be financed with the proceeds of the Bonds, or any additional project to be financed with the proceeds of Additional Bonds.

“Project Costs” means any costs or expenses incurred in connection with the Project.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to Section 4.02, provided that all of the following requirements are met: (i) at all times during the term of such letter of credit or surety bond, the long-term credit rating of such bank is within the highest rating category of Moody’s and S&P, or the claims paying ability of such insurance company is rated within the highest rating category of A.M. Best & Company and S&P, (ii) such letter of credit or surety bond has a term which ends no earlier than the last Interest Payment Date of the series of Bonds to which the Reserve Requirement applies; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to

Section 4.02 of the Indenture; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder amounts necessary to carry out the purposes specified in Section 4.02 of the Indenture, including the replenishment of the Interest Account or the Principal Account,

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

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.09 of the Indenture for registration of the ownership and transfer of ownership of the Bonds.

“Rental Payments” means collectively the Base Rental Payments and the Additional Rental Payments.

“Request of the Authority” means a request in writing signed by the Chairman or Vice Chairman of the Authority or by any other officer of the Authority duly authorized by the Chairman or by the Authority for that purpose, as evidenced in writing to the Trustee.

“Request of the City” means a request in writing signed by the City Manager, Administrative Services Director or by any other officer of the City duly authorized for that purpose.

“Reserve Account” means the fund by that name established and held by the Trustee pursuant to Section 4.02 of the Indenture.

“Reserve Requirement” means as of any calculation date in a Bond Year, an amount equal to the least of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service; unless, with respect to the issuance of Additional Bonds, it is determined to maintain a pooled Reserve Account, then it will mean, as of as of any calculation date in a Bond Year, an amount equal to the least of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds and Additional Bonds, (ii) 125% of average annual debt service on the Bonds and Additional Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

“Revenues” means (a) all Base Rental Payments payable by the City pursuant to the Lease (including prepayments); (b) any proceeds of Bonds originally deposited with the Trustee and all moneys and accounts established hereunder; (c) investment income with respect to any moneys held by the Trustee; and (d) any insurance proceeds or condemnation awards received by or payable to the Trustee relating to the Base Rental Payments, including rental interruption insurance.

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

“S&P” means Standard & Poor’s Authority, its successors and assigns.

“Site Lease” means that certain Site Lease, dated as of April 1, 2007, by and between the City and the Authority, pursuant to which the Authority leases the Facilities from the City.

“State” means the State of California.

“Substituted Property” will have the meaning given to such term in the Lease.

“Substitution” means the release of all or a portion of the Facilities from the leasehold of the Indenture, and the lease of substituted real property and improvements under the Lease as provided in the Lease.

“Supplemental Indenture” means any resolution, agreement or other instrument then in full force and effect which amends or supplements the Indenture, and which has been duly adopted or entered into by the City or Authority; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Surety Bond” means the Qualified Reserve Fund Credit Instrument issued by the Insurer on the Closing Date guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitations set forth therein.

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

“Term Bonds” means the Bonds that are payable on or before their specified maturity dates from mandatory sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

“Trustee” means U.S. Bank National Association, or any successor thereto acting as Trustee pursuant to the Indenture.

THE INDENTURE

Transfer and Exchange of Bonds

The Bonds may be transferred or exchanged at the Trust Office of the Trustee. The Trustee will not be required to make any such exchange or transfer of Bonds during the period established by the Trustee for selection of Bonds for redemption or to make any such exchange or transfer after the applicable Bond has been selected for redemption.

Bonds Mutilated, Lost, Destroyed or Stolen

If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the Trustee shall authenticate and deliver, a new Bond of like tenor, maturity and aggregate principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity

satisfactory to it shall be given, the Authority, at the expense of the Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and series in lieu of and in substitution for the Bonds so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The Authority may require payment of a reasonable fee for each new Bond issued and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under these provisions in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

Establishment of Funds and Accounts; Flow of Funds

Lease Revenue Fund; Receipt, Deposit and Application of Revenues. All Revenues shall be deposited by the Trustee in a special fund designated as the "Lease Revenue Fund," which the Trustee shall establish, maintain and hold in trust under the Indenture.

On or before each Interest Payment Date, the Trustee shall transfer from the Lease Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Lease Revenue Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Interest Account. On or before each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds and Additional Bonds. No deposit shall be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds and Additional Bonds on each succeeding Interest Payment Date within the then current Bond Year. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds and Additional Bonds as it shall become due and payable (including accrued interest on any Bond and Additional Bond redeemed prior to maturity).

(b) Principal Account. On or before each Interest Payment Date, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds and any Additional Bonds maturing or required to be redeemed through mandatory sinking account redemption on such Interest Payment Date pursuant to the Indenture or pursuant to a Supplemental Indenture, as the case may be. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds and any Additional Bonds.

(c) Reserve Account.

(1) On the Closing Date, the Trustee shall receive the Surety Bond which will fund the Reserve Account in an amount equal to the Reserve Requirement. On or before each Interest Payment Date, the Trustee shall, as appropriate, first reimburse the insurer under the Guaranty Agreement for any draws on the Surety Bond, so as to reinstate the Surety Bond, and, second, deposit in the Reserve Account such amount as may be necessary to maintain a balance therein equal to the Reserve Requirement. No deposit will be made in the Reserve Account so long as there shall be on deposit an amount equal to the Reserve Requirement. All money in (or available to) the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account in such order, in the event of any deficiency at any time in either of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds or any Additional Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all Bonds and any Additional Bonds then Outstanding. Draws on the Surety Bond shall be made by the Trustee pursuant to the Guaranty Agreement by presenting a Demand For Payment (as defined in the Guaranty Agreement) at least three (3) days prior to the date such amounts are scheduled to be deposited into the Interest Account or the Principal Account.

(2) The Reserve Requirement may be satisfied by crediting to the Reserve Account moneys or a Qualified Reserve Account Credit Instrument or any combination thereof as approved by the Insurer, which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Requirement. Upon the deposit with the Trustee of such Qualified Reserve Account Credit Instrument, the Trustee shall release moneys then on hand in the Reserve Account to the City, to be used for any lawful purpose, in an amount equal to the face amount of the Qualified Reserve Account Credit Instrument. The Trustee shall provide notice to the Original Purchaser of any deposit in the Reserve Account of a Qualified Reserve Account Credit Instrument.

(3) In any case where the Reserve Account is funded with a combination of cash and a Qualified Reserve Account Credit Instrument, the Trustee shall deplete all cash balances before drawing on the Qualified Reserve Account Credit Instrument. With regard to replenishment, any available moneys provided by the Authority or the City shall be used first to reinstate the Qualified Reserve Account Credit Instrument and second, to replenish the cash in the Reserve Account. In the event the Qualified Reserve Account Credit Instrument is drawn upon, the Authority shall make payment of interest on amounts advanced under the Qualified Reserve Account Credit Instrument after making any payments pursuant to this subsection.

(d) Surplus. On June 15 and December 15 of each year the Trustee shall determine the amount, if any, remaining in the Lease Revenue Fund after making the deposits required by the Indenture and the transfers of investment earnings pursuant to Section 4.03 of the Indenture, and shall apply such amount as a credit against the next following Base Rental Payment. Notwithstanding the foregoing, if directed in a Request of the City, the Trustee shall, with respect to all or any portion of such amount, pay, or set aside an amount for the payment of, any Rebate Requirement (as defined in the Tax Certificate) in accordance with a computation made by the City.

Project Fund. There shall be established a separate fund to be held and maintained by the Director of Administrative Services to be known as the "Project Fund." The Director of Administrative Services shall disburse or transfer all amounts in the Project Fund, as stated in a Request of the City for the payment

of the cost of the construction of the Project. Upon receipt of each such requisition, the Director of Administrative Services shall pay the amount set forth in such requisition as directed by the terms thereof. When the construction of the Project has been completed, a Certificate of the City shall be delivered to the Director of Administrative Services, stating the fact and date of such completion and stating that all the Project Costs have been determined and paid (or that all such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claim until such dispute is resolved). Following the delivery of such certificate, the Director of Administrative Services shall transfer amounts then on deposit in the Project Fund (but less the amount of any such retention) to the Trustee for deposit in the Lease Revenue Fund.

Costs of Issuance Fund. The Costs of Issuance Fund shall be held and maintained by the Trustee. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time and shall be disbursed by the Trustee upon delivery to the Trustee of a requisition.

Investment of Funds

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments pursuant to the written direction of the Authority or the City given to the Trustee two Business Days in advance of the making of such investments. In the absence of any such direction from the Authority or the City, the Trustee shall invest any such moneys in money market funds described in clause (B)(5) of the definition of Permitted Investments. Moneys in the Reserve Account shall not be invested in investments having maturities extending beyond 5 years; provided, however, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Account may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final scheduled payment date of the Bonds and/or Additional Bonds. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account.

For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it under the Indenture. The Trustee may act as principal or agent in the acquisition of any investment and may impose its customary charges therefor. The Trustee may act as manager, sponsor, advisor or depository with respect to any Permitted Investment. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture. The Authority acknowledges that regulations of the Comptroller of the Currency grant the Authority the right to receive brokerage confirmations of security transactions to be effected by the Trustee hereunder as they occur. The Authority specifically waives the right to receive such confirmation to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Trustee under the Indenture; provided, however, that the Authority retains its right to receive brokerage confirmation on any investment transaction requested by the Authority.

Covenants of the Authority

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, interest and premium (if any) to become due in respect of all the Bonds and Additional Bonds, in strict conformity with the terms of the Bonds, the Additional Bonds, the Indenture and of any Supplemental Indenture,

according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and any Supplemental Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or Additional Bonds or the time of payment of any claims for interest by the purchase of such Bonds or Additional Bonds or by any other arrangement, and in case the maturity of any of the Bonds or Additional Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or Additional Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Additional Bonds for the purpose of refunding any Outstanding Bonds or Additional Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds or Additional Bonds.

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

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and Additional Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Lease and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and Additional Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee (subject to the provisions of the Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions by the Trustee relating to the proceeds of Bonds, the Revenues, the Lease and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, the Bond Insurer and the City during regular business hours with reasonable prior notice.

Additional Obligations. The Authority covenants and agrees that it will not issue any other bonds, notes or other obligations (other than Additional Bonds), enter into any agreement or otherwise incur any indebtedness, which is any case payable, as to either principal or interest, from all or any part of the Revenues.

Lease. The Trustee shall receive amounts due from the City pursuant to the Lease with respect to the Revenues. The Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease required to be complied with, kept, observed and

performed by it and, together with the Trustee, will enforce the Lease against the City in accordance with its terms.

So long as any Bond remains Outstanding, the Authority will not alter, amend or modify the Lease without the prior written consent of the Trustee, which consent shall be given only (i) if the Trustee first obtains the written consent of the Bond Insurer and if the Trustee receives an opinion of counsel selected by the Authority that such alteration, amendment or modification will not result in any material impairment of the covenants made or the security given or intended to be given for the payment of the Base Rental Payments, or (ii) if the Trustee first obtains the written consents of the Bond Insurer and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding to such alteration, amendment or modification.

Tax Covenants. The Authority will not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

Further Assurances. The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture. Furthermore, the Authority shall not enter into contracts or take any action by which the rights of the Bond Insurer or security for sources of payment of the Bonds may be impaired or prejudiced except upon obtaining the prior written consent of the Bond Insurer.

Amendments to the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, with notice to the Bond Insurer but without consent of any Owner, to the extent permitted by law, but only for any one or more of the following purposes:

- (1) to issue Additional Bonds in accordance with the Indenture;
- (2) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers herein reserved to or conferred upon the Authority so long as such limitation or surrender of such rights or powers shall not materially adversely affect the Owners;
- (3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners in the reasonable judgment of the Authority;

(4) for any other purpose that does not materially adversely affect the interests of the Owners.

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

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

Events of Default and Remedies

Events of Default Defined. The following events are Events of Default under the Indenture:

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

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

(c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds or Additional Bonds contained, other than as referred to in the preceding clauses (a) and (b), for a period of 30 days after written notice, specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Bonds and Additional Bonds; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 30-day period, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within such 30-day period and diligently pursued until such failure is corrected.

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

Remedies Upon Event of Default; No Acceleration. Subject to the rights of the Bond Insurer, upon the occurrence of an Event of Default the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or any member, officer or employee thereof, in order to compel the Authority or any such member, officer or employee to perform and carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him contained in the Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of an Event of Default to require the Authority and its members, officers and employees to account as the trustee of an express trust.

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

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

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

The Trustee shall have no right to declare the principal of or interest on the Bonds to be due and payable immediately.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture and any funds then held or thereafter received by the Trustee shall be applied by the Trustee in the following order

upon presentation of the Bonds and Additional Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee, including reasonable compensation to its agents, attorneys and counsel;

Second, to the payment of the whole amount of interest on and principal of the Bonds and Additional Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the lesser of 12% per annum or the maximum rate permitted by law, provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest; and

Third, to the extent not already paid, to the reimbursement of any provider of a Qualified Reserve Account Credit Instrument in accordance with the terms thereof.

Power of Trustee to Control Proceedings. Subject to the rights of the Bond Insurer, in the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of at least a majority in aggregate principal amount of the Bonds and Additional Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Additional Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Additional Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation and if the Trustee is indemnified as provided in the Indenture. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners issued under the Indenture by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

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

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any

such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Owners by the Bond Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

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

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

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

Discharge of the Indenture

Subject to the Indenture, and so long as all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for, if the Authority shall pay and discharge any or all of the Outstanding Bonds of a Series in any one or more of the following ways:

- (a) by well and truly paying or causing to be paid the principal of and interest and premiums (if any) on such Bonds of a Series, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture, is fully sufficient to pay such Bonds of a Series, including all principal, interest and redemption premiums (if any); or
- (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust pursuant to an escrow deposit agreement (which shall be acceptable in form and substance to the

Bond Insurer), Federal Securities in such amount as an Independent Certified Public Accountant shall determine in a written report acceptable in form and substance, and addressed, to the Authority, the Trustee and the Bond Insurer, filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds of a Series (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and delivering an opinion of Bond Counsel acceptable in form and substance, and addressed, to the Authority, the Trustee and the Bond Insurer to the effect that the Bonds are no longer Outstanding under the Indenture, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the Request of the Authority, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all amounts due the Trustee. Any funds held by the Trustee following any payment or discharge of the Outstanding Bonds of a Series pursuant to the Indenture, which are not required for said purposes, shall after payment of amounts due the Trustee under the Indenture be paid over to the Authority.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee and signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds. The Authority or the Bond Insurer may also remove the Trustee at any time upon 30 days notice, except during the existence of an Event of Default. The Trustee may be removed at any time for any breach of the Trustee's duties set forth herein.

THE LEASE

Term

The Authority leases to the City and the City leases from the Authority, on the terms and conditions set forth in the Lease, the Leased Property.

The term of the Lease shall commence on the later of April __, 2007, or the date on which the Lease is filed of record in the Official Records of San Luis Obispo County. The Lease shall constitute a sublease of the Authority's leasehold interest in the Leased Property arising under the Site Lease.

The Lease shall end on December 1, 2024, unless such term is sooner terminated or is extended as provided in the Lease. If on December 1, 2024, the Indenture shall not be discharged by its terms or if the rental payable thereunder shall have been abated at any time and for any reason, then the term of the Lease shall be extended until ten (10) days after all Bonds shall be fully paid. If prior to December 1, 2024, the

Indenture shall be discharged by its terms, the term of the Lease shall thereupon end. The Lease will terminate upon the earlier of either of the following events: (a) a default by the City and the Authority's election to terminate the Lease pursuant to the provisions of the Lease; or (b) the payment by the City of all Base Rental Payments, Additional Rental and all other amounts authorized or required to be paid by it under the Lease.

Throughout the term of the Lease, title to the Leased Property shall remain in the City.

Rental

Subject to the provisions of the Lease, the City agrees to pay to the Authority, its successors or assigns, as rental for the use and possession of the Leased Property, the following amounts at the following times:

Base Rental. The City shall pay to the Authority as base rental Base Rental Payments with interest and principal components in accordance with the Base Rental Payment Schedule set forth in Exhibit B attached to the Lease. Base Rental Payments shall be made by the City on each Lease Payment Date, which shall be sufficient in both time and amount to pay when due the principal of the Bonds, as set forth in Exhibit B thereto, as such Exhibit B may be amended and supplemented from time to time. The interest components of the Base Rental Payments payable by the City under the Lease shall be paid by the City as and shall constitute interest paid on the principal components of the Base Rental Payments payable by the City thereunder. Payment of Base Rental Payments and Additional Rental for each rental payment period during the term of the Lease shall constitute the total rental for such rental payment period, and shall be paid by the City in each rental payment period for and in consideration of the right to the use and occupancy, and the continued quiet enjoyment, of the Leased Property during the rental payment period for which such rental is paid.

If the term of the Lease shall have been extended, Base Rental Payments shall continue to be due on Lease Payment Dates, and payable as described in the Lease, continuing to and including the date of termination of the Lease. Upon such extension of the Lease, the principal and interest components of the Base Rental Payments shall be established so that the principal components will in the aggregate be sufficient to pay all unpaid principal components with interest components sufficient to pay all unpaid interest components plus interest on the extended principal components at a rate equal to the rate of interest on the principal component of the Base Rental Payments payable on December 1 of the year after the date of such extension.

The parties have agreed and determined that the Base Rental Payments shown in the Base Rental Payment Schedule represent the fair market value of the Leased Property. In making such determination, consideration has been given to the costs of the Leased Property, the fair market value thereof, the other obligations of the parties, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City, its residents and the general public.

The City covenants that it shall not permit an increase in the Base Rental Payments without first obtaining an opinion of nationally recognized bond counsel to the effect that the resulting aggregate Base Rental Payments are not greater than the fair rental value of the Leased Property, and that the increase in the Base Rental Payments will not impair the validity and enforceability of the Lease or impair the exclusion of

interest on bonds payable from Base Rental Payments from the gross income of the owners thereof for federal income tax purposes.

Additional Rental. The City shall pay to the Authority as Additional Rental under the Lease such amounts in each year as shall be required by the Authority for the payment in full of all costs and expenses incurred by the Authority, and the Trustee in connection with the execution, performance or enforcement thereof or any assignment thereof, of the Indenture and of the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority, amounts paid or to be paid by the Authority to the Bond Insurer relating to the Bond Insurance or the Qualified Reserve Account Credit Instrument, and the Trustee in connection with the Leased Property, the Lease, and the Indenture and all taxes, assessments and governmental charges of any nature whatsoever levied or imposed by any governmental authority against the Authority, the Leased Property, or the rentals and the other payments required to be made by the City under the Lease. Such Additional Rental shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount so billed has been paid by the Authority or the Trustee for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for one or more of such items, and all amounts so billed shall be due and payable by the City within thirty (30) days after receipt of each bill therefor by the City.

Annual Budgets; Reporting Requirements

The City covenants to take action as may be necessary to include all such rental payments due under the Lease in its annual budgets and to make the necessary annual appropriations for all such rental payments. For this budgetary purpose, the City shall furnish to the Trustee at least 15 days before final adoption of the proposed budget for each Fiscal Year a certificate stating that it has included in the proposed budget all Base Rental Payments and Additional Rental due under the Lease in the Fiscal Year covered by such proposed budget and following adoption of the final budget a certificate stating that the Base Rental Payments and Additional Rental was included in the final budget as adopted. The City shall file with the Trustee the certificate regarding adoption of the final budget by July 1 of each year unless the City is permitted by applicable law to adopt its final budget after such date, and has in fact not adopted its final budget by July 1, in which event, the City will file with the Trustee by July 1 a certificate stating the specified later date by which the City may adopt its final budget under applicable law and will file with the Trustee by such specified later date such certificate following such adoption.

To the extent that the amount of any such payment becomes known after the adoption of the annual budget, such amounts shall be included and maintained in such budget as amended. The City covenants to take such action as is necessary to include such amounts in a supplemental budget of the City. The covenants on the part of the City contained in the Lease shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

The obligation of the City to pay Base Rental Payments and Additional Rental shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or

requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall anything contained in the Lease constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Base Rental Payments and Additional Rental thereunder or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Maintenance and Use of the Leased Property

The City agrees that, at all times during the term of the Lease, it will, at its own cost and expense, maintain, preserve and keep the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property. The parties hereto contemplate that the Leased Property will be used primarily for public purposes by the City and, therefore, that the Leased Property will be generally exempt from all taxes presently assessed and levied with respect to real and personal property. In the event that the use, possession or acquisition by the City or the Authority of the Leased Property is found to be subject to taxation in any form, the City will pay during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; provided, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

The City and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Leased Property, except Permitted Encumbrances. The City and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as otherwise provided herein. The City shall have the ability to sublease any portion of the Leased Property.

Substitution and Changes to the Leased Property

The City, with the consent of the Bond Insurer, may amend the Lease to substitute additional real property and/or improvements (the "Substituted Property") for existing Leased Property, or to remove real property or improvements from the definition of Leased Property, upon compliance with all of the conditions set forth in the Lease. After a Release, Substitution or Removal, the part of the Leased Property for which the Release, Substitution or Removal has been effected shall be released from the leasehold hereunder and all right, title and interest in and to such Leased Property shall vest in the City. In connection with such release of part of the Leased Property, the Authority shall execute such conveyances, deeds, and other documents, and shall take or cause to be taken all actions that are necessary to provide that such released Leased Property constitutes a valid legal parcel, the ownership of which is recordable in the real property records of the County of Los Angeles for which a title insurance policy may be legally obtained, as may be necessary to effect such vesting of record.

Except as set forth in the Lease, no Substitution or Removal shall take place until the City delivers to the Authority and the Trustee certain items, including (i) a Certificate of the City containing, in the event of a Removal, a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place and a certification that the remaining useful life of the Substituted Property is not less than the remaining term of the Lease; (ii) a Certificate of the City stating that the fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of this Lease is at least equal to the Base Rental Payments in each such year attributable to the Leased Property prior to said Substitution or Removal, as determined by the City on the basis of an appraisal of the Leased Property (taking into account such Substitution or Removal) performed by a qualified, independent consultant; (iii) an Opinion of Counsel to the effect that the amendments hereto contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the City and the Authority enforceable in accordance with their terms; (iv) in the event of a Substitution, a policy of title insurance in an amount sufficient to maintain compliance with the Lease, insuring the City's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Bonds; and (v) an Opinion of Counsel that the Substitution or Removal does not cause the interest on the Bonds to fail to be excluded from the gross income of the Owners thereof for federal income tax purposes.

Subject to the Lease, the City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of the Lease. Such additions, modifications and improvements shall not in any way damage the Leased Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Insurance

The City shall procure or cause to be procured and maintain or cause to be maintained through the term hereof for the Leased Property insurance against the following risks in the following respective amounts:

(1) insurance against loss or damage to the Leased Property caused by fire or lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance, and such other perils as the City may determine should be insured against and as are normally covered by such insurance. The insurance required by this paragraph shall be in an amount equal to the replacement cost (subject to deductible clauses not in excess of \$400,000 for any one loss) of improvements located or to be located on the Leased Property but shall be not less than the principal amount of the Outstanding Bonds (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss);

(2) rental interruption insurance against the Authority's loss of income due to events giving rise to the right of abatement on the part of the City under this Lease in an amount sufficient to pay the

total Base Rental Payments attributable to the Leased Property for a 24 month period (measured by the Base Rental Payments for the 24 months following the month in which the insurance commences; provided, that the amount of such insurance need not exceed the total remaining Base Rental Payments attributable to the Leased Property;

(3) workers' compensation insurance covering all employees working in or on the Leased Property, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work; and the City shall also require any other person or entity working in or on the Leased Property to carry the foregoing amount of workers' compensation insurance;

(4) a standard comprehensive public entity liability insurance policy or policies in protection of the City, the Authority, and their respective directors, officers and employees and the Trustee, indemnifying and defending such parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Leased Property. Such public liability and property damage insurance shall be in the form of a single limit policy in the amount of not less than three million dollars (\$3,000,000), subject to a deductible clause of not to exceed \$400,000, covering all such risks; and

(5) a CLTA standard coverage leasehold policy of title insurance issued by a company of recognized standing duly authorized to issue the same on any Substituted Property, in an amount at least equal to the aggregate principal amount of unpaid Base Rental Payments. The title policy or policies shall insure the City's leasehold estate hereunder with respect to such Leased Property, subject only to Permitted Encumbrances.

Insurance coverage required by paragraphs (1), (2), (3) and (4) may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers agency created for such purpose or other program providing pooled insurance.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraphs (1), (2) and (4) above, the City may provide a self-insurance method or plan of protection. Any such self-insurance maintained by the City pursuant to the foregoing sections, shall be similar in nature and scope to self-insurance programs maintained by other California cities of comparable size and operations, and shall be reviewed annually by an Insurance Consultant.

The City is not required to maintain or cause to be maintained any insurance which is not available from reputable insurers on the open market or more insurance than is specifically required under this Lease.

Any fire and extended coverage insurance policy issued shall be so written or endorsed as to make losses, if any, payable to the City, the Authority, and the Trustee as their respective interests may appear and the net proceeds of such insurance shall be applied as provided in the Lease. The net proceeds, if any, of rental interruption insurance shall be payable to the Trustee and deposited in the Lease Revenue Fund. Each insurance policy shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority or the Trustee without first giving written notice thereof to the Authority and the Trustee at least sixty (60) days in advance of such intended cancellation or modification; provided, that the Trustee shall not be responsible for the sufficiency

of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

Damage, Destruction and Condemnation; Application of Net Proceeds

If prior to the termination of the term hereof (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the City or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the City shall, as expeditiously as possible, continuously and diligently cause the repair or replacement thereof (unless the City elects not to repair or replace), and the City and the Authority will cause the Net Proceeds remaining after such work has been completed to be paid to the City; provided, that the City, at its option and provided the Net Proceeds together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of principal of and interest on the Bonds attributable to the portion of the Leased Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the fair rental value of the entire Leased Property bears to the fair rental value of the remaining portion of the Leased Property, and such that the fair rental value of the remaining portion of the Leased Property is sufficient to pay the Principal Components and Interest Components), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Leased Property and thereupon shall cause said Net Proceeds to be used for the redemption of Outstanding Bonds pursuant to the provisions of the Indenture.

Default

The following events shall be events of default under this Lease:

(a) the City shall fail to pay any item of Additional Rental as and when the same shall become due and payable pursuant to the Lease; or

(b) the City shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, provided, that failure to pay any Base Rental Payments abated shall not constitute an event of default;

(c) the City shall breach any other terms, covenants or conditions contained herein, and shall fail to remedy any such breach with all reasonable dispatch within a period of thirty (30) days after written notice thereof from the Authority or the Trustee to the City; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within such period and is diligently pursued until the default is corrected.

In addition to any default resulting from breach by the City of any agreement, condition, covenant or term of the Lease, if (1) the City's interest in the Lease or any part thereof be assigned, sublet or transferred without the written consent of the Authority, either voluntarily or by operation of law; or (2) the City or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal,

dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the City shall make a general or any assignment for the benefit of its creditors; or (3) the City shall abandon or vacate the Leased Property or any portion thereof; then in each and every such case the City shall be deemed to be in default hereunder.

Upon the happening of any of the events specified in subsection (a) or (b) above (in either case an "Event of Default"), then it shall be lawful for the Authority to exercise any and all remedies available or granted to it pursuant to law or hereunder. Upon the breach of any agreement, condition, covenant or term contained herein required to be observed or performed by the City, the Authority may exercise any and all rights of entry upon or repossession of the Leased Property, and also, at its option, with or without such entry, may terminate this Lease; *provided*, that no termination shall be effected either by operation of law or acts of the parties hereto except upon express written notice from the Authority to the City terminating the Lease, as provided below. In the event of such default and notwithstanding any entry by the Authority, the Authority may at any time thereafter (with or without notice and demand and without limiting any other rights or remedies the Authority may have):

(1) Maintain this Lease in full force and effect and recover rent and other monetary charges as they become due without terminating the City's right to possession of the Leased Property, regardless of whether or not the City has abandoned the Leased Property. In the event the Authority elects not to terminate this Lease, it shall have the right and the City irrevocably appoints the Authority as its agent and attorney-in-fact for such purpose to attempt to relet the Lease Property at such rent, upon such conditions and for such term, so long as the Trustee is furnished an Opinion of Counsel that the tax-exempt status of the interest components of Base Rental Payments will be preserved, and to do all other acts to maintain or preserve the Leased Property, including removal of persons or property therefrom or taking possession thereof, as the Authority deems desirable or necessary, and the City hereby waives any and all claims for any damages that may result to the Leased Property thereby; *provided*, that no such actions shall be deemed to terminate this Lease and the City shall continue to remain liable for any deficiency that may arise out of such reletting, taking into account expenses incurred by the Authority due to such reletting, payable at the same time and manner as provided for Base Rental Payments.

(2) Terminate the City's right to possession of the Leased Property by giving a written notice of termination to the City. On the date specified in such notice (which shall be not less than three (3) days after the giving of such notice) the City's right to possession under this Lease shall terminate and the City shall surrender possession of the Leased Property, as the case may be, to the Authority, unless on or before such date all arrears of rental and all other sums payable by the City under the Lease, and all costs and expenses incurred by or on behalf of the Authority thereunder, including attorney's fees incurred in connection with such defaults, shall have been paid by the City and all other defaults or breaches thereunder by the City at the time existing shall have been fully remedied to the satisfaction of the Authority. Upon such termination, the Authority may recover, in addition to all other damages available by contract or at law, to the extent permitted by law, from the City: (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination; and (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the

amount of such rental loss that the City proves could have been reasonably avoided. The “worth at the time of award” of the amounts referred to in clauses (i) and (ii) above is computed by allowing interest at the rate of twelve per cent (12%) per annum.

Without otherwise limiting any of the rights or remedies of the Authority set forth herein, the Authority expressly waives the right to receive any amount from the City pursuant to Section 1951.2(a)(3) of the California Civil Code.

Each and all of the remedies given to the Authority under the Lease or by any law now existing or hereafter enacted are cumulative and the exercise of any one remedy shall not impair the right of the Authority to any or all other remedies.

Neither the City nor the Authority shall be in default in the performance of any of its obligations under the Lease (except for the obligation to pay Base Rental Payments and Additional Rental) unless and until it shall have failed to perform such obligation within thirty (30) day after notice by the City or the Authority, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

Prepayment

Prepayment from Net Proceeds. The City may prepay, from Net Proceeds received by it pursuant to the Lease, all or any portion of the components of Base Rental Payments relating to any portion of the Leased Property then unpaid, in whole or in part on any date in Authorized Denominations.

Optional Prepayment. Subject to the terms and conditions of the Lease, the Authority hereby grants an option to the City to prepay in whole or in part the principal components of Base Rental Payments relating to the Leased Property, to the extent, on the dates and at the redemption prices provided in the Indenture. The City shall execute said option by giving written notice to the Trustee thereof at least 45 days (or such shorter period acceptable to the Trustee) prior to the date of redemption of Bonds from such prepayment and by depositing prior to the date of redemption cash in the minimum amount of (1) accrued interest on the principal component of Base Rental Payments to be prepaid to the date of redemption of Bonds with the proceeds of such prepayment, plus (2) the principal component of any Base Rental Payments to be prepaid, plus (3) the applicable redemption premium (if any) described in the Indenture.

Liens

In the event the City shall at any time during the term of the Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the City shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens (except for Permitted Encumbrances) against the Leased Property or the Authority's interest therein. In the event any such lien attaches to the Leased Property, the City shall cause such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay

thereafter expires, the City shall forthwith pay and discharge or cause to be paid and discharged such judgment. The City shall, to the maximum extent permitted by law, indemnify and hold the Authority, the Trustee, and their respective directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Quiet Enjoyment

The parties hereto mutually covenant that the City, so long as it keeps and performs the covenants and agreements contained in the Lease, shall at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Assignment

The parties understand that certain of the rights of the Authority, as assignee under the Lease, will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the City agrees to make all payments due thereunder to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach thereof or otherwise) that the City may from time to time have against the Authority or the Trustee. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Lease.

Abatement of Rental

Except to the extent (i) amounts held by the Trustee in the Lease Revenue Fund, (ii) amounts received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect or condemnation there is substantial interference with the use and possession by the City of any portion of the Leased Property, rental payments due under the Lease with respect to such portion of the Leased Property shall be abated proportionately by an amount such that the portion of Base Rental Payments remaining unabated represents the fair rental value of the remaining portion of the Leased Property, as calculated by the City and set forth in writing to the Authority and the Trustee. Any such abatement of rental payments shall not be considered an event of default. The City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, due to damage, destruction, title defect or condemnation of any part of the Leased Property and the City is unable to repair, replace or rebuild the Leased Property from the proceeds of insurance, if any, the City agrees to apply for and obtain, if reasonably available, any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDING JUNE 30, 2006**

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City of Pismo Beach, California



Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2006

CITY OF PISMO BEACH, CALIFORNIA

**Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2006
*Prepared By The Administrative Services Department***

Introductory Section



CITY OF PISMO BEACH
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2006

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Administrative Services Department

760 Mattie Road

Pismo Beach CA 93449

Ph: 805-773-4655 Fax: 805-773-7065

October 20, 2006

To the Honorable Mayor, Members of
the City Council and Citizens of the City
of Pismo Beach

The City follows a policy of preparing a complete set of financial statements in conformity with U. S. generally accepted accounting principles after the end of each fiscal year. This report is published to fulfill that policy for the fiscal year ended June 30, 2006.

Management of the City of Pismo Beach assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive frame-work of internal control that the City has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the City's financial statements are free of material misstatements.

The firm of Terry E. Krieg, Certified Public Accountant, has issued an unqualified independent auditor's report on the City of Pismo Beach's financial statements for the fiscal year ended June 30, 2006. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY AND ITS OPERATIONS

The City of Pismo Beach was incorporated 1946. The City is located on the Central Coast of California about 200 miles north of Los Angeles. The city is visited annually by a substantial number of tourists seeking to enjoy the area's moderate climate, ocean views and sunsets, fine restaurants, and the relaxing atmosphere unique to coastal communities. The City's downtown core area and hotel areas are anchored by the City owned Pier extending into the Pacific Ocean. The City is home to about 8,700 individuals, and most of the City is residential with a continuing trend of new homes being built with spectacular ocean views.

The City operates under a council-manager form of government. Policy making and legislative authority are vested in the City Council consisting of the Mayor and four other elected Council members. The Council is responsible, among other matters, for passing ordinances, adopting the City budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the daily operations of the City, and for appointing other employees and otherwise managing daily operations of the City. The Council is elected to four year staggered terms, with two members elected every two years.

The City provides a full range of municipal services including fire and police protection, construction and maintenance of City streets, storm drains, bridges and similar infrastructure type assets; park maintenance; community recreation activities and public facilities. In terms of business-type activities, the City provides water, wastewater, pier and transit services through the operation of its utility enterprises. The City's redevelopment agency and public financing authority are blended component units and are reported in this report as part of the City's operations.

The City's annual budget serves as the foundation for the City of Pismo Beach's financial planning and control system. All departments of the City submit requests for appropriations to the City Manager each year. The Manager uses these requests as a starting point for developing a proposed budget. The Manager presents a proposed budget to the City Council each year. The Council holds public hearings on the proposed budget and then ultimately adopts a formal budget. The budget is adopted by fund, function, department and object. The Council periodically reviews during the fiscal year the City's actual financial activity in relationship to the original budget, and as necessary amends the original budget to reflect changing conditions.

The general fund's comparison, a major governmental type fund under the new reporting standards, is presented as required supplementary information in a separate section of this report immediately following the notes to the financial statements. For the City's other governmental-type funds a budget to actual comparison schedule is presented as optional information in the section of this report containing combining financial statements and individual fund schedules.

Local Economy

About 74 percent of the City's general fund revenues come from the local hotel tax, sales tax revenues, and local property taxes. In fiscal 2006, tax revenues increased by about \$870,000 despite state mandated revenue shifts. The hotel tax was strong and increased about \$374,400 or about 7.6 percent in fiscal 2006.

The City expects that hotel tax and sales tax revenues will not grow significantly in the 2007 fiscal year; but we do expect that these revenues will remain stable with modest growth. The City plans to monitor closely these revenue sources in 2007 given recent economic and national events in order to evaluate the viability of the City's 2007 financial plan.

Long-Term Financial Planning

The City, in fiscal year 2006, expects the local economy to remain stable with no significant drop offs in major City revenue sources.

The City has identified some \$25 million in capital projects to be completed by the year 2010. These include about \$12 million for the wastewater system improvements (already in progress), and about \$6 million for the Dinosaurs Caves Bluff Stabilization (an open space project), \$3.6 million in street improvements, and \$6.4 million in parks and other improvements. While the general fund ended fiscal 2006 with about a \$6.18 million fund balance, the City believes that some of this can be used for future capital improvements. There was also about \$4.17 million available in the City's impact fee funds with most of this restricted for street improvements. While some financial resources are currently available to meet the City's long-range needs, the City will need to evaluate its capital and infrastructure improvement needs and may find it necessary to obtain long-term debt financing to be able to complete the planned projects.

Major Initiatives

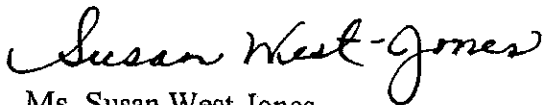
The State Budget situation was such in fiscal 2006 that the City did experience a reduction in property tax revenues as a result of mandated State reductions. However, this was offset by growth in our property tax revenues. There were additional reductions to our local sales tax and motor vehicle in lieu fee revenues in fiscal 2006. However, these reductions were also offset by State mandated sales tax in lieu payments and motor vehicle in lieu payments. There was no overall adverse impact as a result of these State mandated reductions and offsets. However, the extent to which they may affect the 2007 fiscal year is of concern to the City and will be monitored closely as part of the budget review process.

Awards and Acknowledgments

The Government Finance Officers Association(GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pismo Beach for its comprehensive annual financial report(CAFR) for the fiscal year ended June 30, 2005. In order to receive this award, the City published an easily readable and efficiently organized CAFR. This report satisfied both U.S. generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a one year period only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration departments. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the Members of the City Council , and the City Manager for their continued support for maintaining the highest standards of professionalism in the management of the City of Pismo Beach's financial affairs.

Respectfully Submitted,

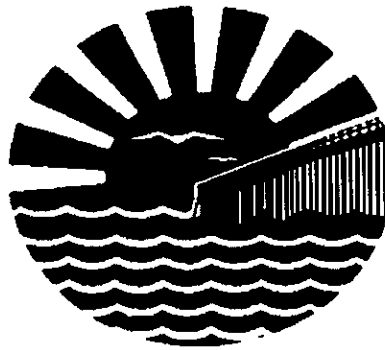


Ms. Susan West-Jones
Accounting Manager

CITY COUNCIL

Mary Ann Reiss, Mayor
Arlene Gonzales-Gee, Mayor Pro-Tempore

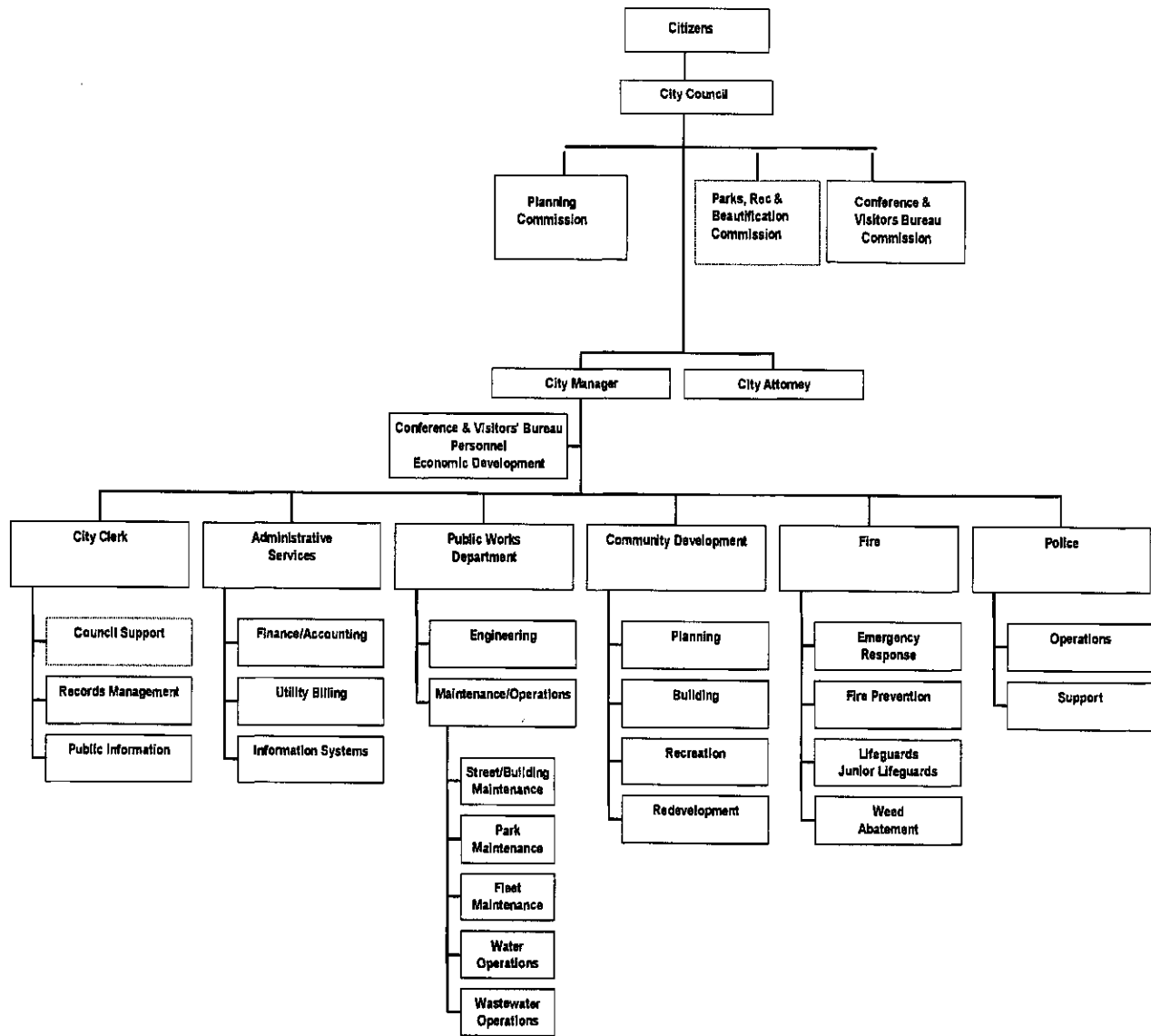
	Council Members	
Shelly Higginbotham	Rudy Natoli	Bill Rabenaldt



CITY OF PISMO BEACH CITY STAFF

City Manager
City Attorney
City Clerk
Administrative Services Director
Public Works Director/City Engineer
Community Development Director
Police Chief
Fire Chief
Accounting Manager

Kevin Rice
Dave Fleishman
Lori Grigsby
George Edes
Dennis Delzeit
Randy Bloom
Joe Cortez
Matt Jenkins
Susan West-Jones



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pismo Beach
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald H. Hahn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Pismo Beach

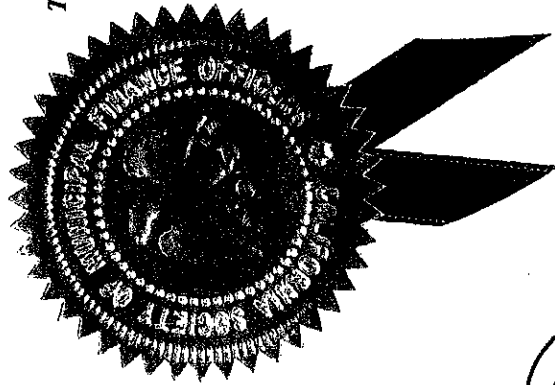
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

William A. Stand

**Bill Thomas, Chair
Professional & Technical Standards Committee**

Dedicated to Excellence in Municipal Financial Management



Financial Section

Management's Discussion and Analysis,
Basic Financial Statements,
and Notes to the Financial Statements





Terry E. Krieg, CPA

Certified Public Accountant

50 Old Courthouse Square, Suite 603, Santa Rosa, CA 95404

(707) 544-5684
FAX (707) 544-5686

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Pismo Beach
Pismo Beach, 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 Pismo Beach, California, (the City) as of and for the 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 of Pismo Beach's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that 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 opinion.

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 Pismo Beach, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 11 and pages 40 through 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Pismo Beach's basic financial statements. The accompanying introductory section, combining nonmajor fund financial statements and schedules, and statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2006 on our consideration of the City of Pismo Beach's internal control over financial reporting and on our 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 and 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 considered in assessing the results of our audit.

The City in the 2006 fiscal year implemented the provisions of Statement Number 44 of the Governmental Accounting Standards Board, titled Economic Condition Reporting: The Statistical Section, which Statement changed the format and content of information presented in the statistical section.

A handwritten signature in dark ink, appearing to read 'Terry E. Krieg', is written over the printed name and title.
Terry E. Krieg
Certified Public Accountant
October 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The government-wide financial statements of the City are reported in two categories:

- *Governmental activities* – All of the City's basic services are included here, such as general government, police, fire, streets, public works, and community services. Property taxes, sales taxes, transient occupancy taxes, special and other taxes, user charges and fees and state, local and federal grants help to finance these activities.
- *Business-Type activities* - The City charges fees to customers to help cover the costs of certain services. The City's water, wastewater, pier and transit enterprises are reported here.

Fund Financial Statements

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

- Some funds are required by State law such as the State Gas Tax Fund and Redevelopment Low and Moderate Income Housing Funds.
- The City Council establishes other funds to control and manage money for particular purposes (such as the City's Capital Project Fund).
- Some funds are maintained to demonstrate that the City is properly using certain specific fees for their intended purpose (such as the City's Impact Fee Funds).
- Other funds are maintained for similar purposes but in addition demonstrate the City's ability to repay its long-term debt obligations such as the revenue bonds and tax allocation bonds.

The City has two kinds of funds:

- *Governmental funds* – The City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* - The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions reported as business-type activities in the government-wide financial statements; the City's water, wastewater, pier and transit operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Pismo Beach's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The proprietary fund statements provide separate information for the City's water and wastewater operations, both of which are considered to be major funds of the City. The vehicle internal service fund is presented in a separate column alongside the totals for the City's proprietary enterprise funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's *combined* net assets increased about \$3.16 million between fiscal years 2005 and 2006. (See Table A-1.)

Table A-1
City of Pismo Beach's Net Assets
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$18.96	\$18.17	\$9.22	\$9.46	\$28.18	\$27.63	2.0%
Capital assets	<u>37.32</u>	<u>36.18</u>	<u>29.45</u>	<u>24.72</u>	<u>66.77</u>	<u>60.95</u>	9.5%
Total assets	56.28	54.35	38.67	34.23	94.95	88.58	7.2%
Long-term debt outstanding	5.82	6.09	17.27	13.36	23.09	19.45	18.7%
Other liabilities	<u>2.03</u>	<u>2.16</u>	<u>.71</u>	<u>1.01</u>	<u>2.74</u>	<u>3.17</u>	-13.6%
Total liabilities	7.85	8.25	17.98	14.37	25.83	22.62	14.2%
Net assets							
Invested in capital assets	31.51	30.09	15.28	14.96	46.79	45.05	3.9%
Restricted	8.20	8.33	0.68	0.60	8.88	8.93	0.6%
Unrestricted	<u>8.72</u>	<u>7.68</u>	<u>4.70</u>	<u>4.30</u>	<u>13.42</u>	<u>11.98</u>	12.0%
Total net assets	<u>\$48.43</u>	<u>\$46.10</u>	<u>\$20.66</u>	<u>\$19.86</u>	<u>\$69.09</u>	<u>\$65.96</u>	4.7%

Net assets of the City's governmental and business-type activities increased 4.7 percent to \$69.09 million. About 70% of the net assets of the City is represented by the City's net investment in its capital assets such as buildings, land, equipment, street systems, and facilities. The remaining 30% is essentially represented by cash, investments and receivables. About 89% of the City's total liabilities are represented by long-term obligations including revenue bonds, tax allocation bonds, employee compensated absences, and self-insured portions of claims.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

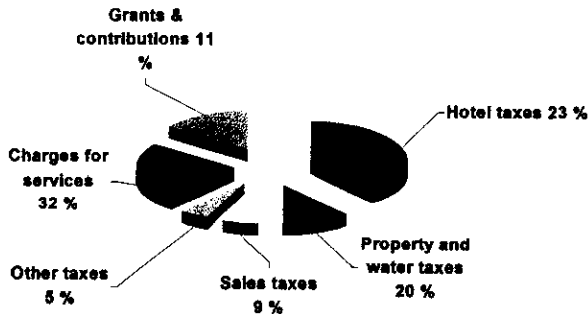
Changes in net assets. The City's 2006 total revenues of about \$22.71 million was about \$1.3 million more than in 2005; about a 6.19 percent increase. (See Table A-2.) About 56 percent of the City's revenue comes from some type of taxes including property, sales, transient occupancy taxes (the hotel tax) and other taxes. The rest comes from fees charged for services, state, local and federal aid, and contributions.

The total cost of all programs and services in 2006 was about \$19.55 million and includes a wide range of services such as police and fire protection, streets, public works, general administration, community services, water, wastewater and the pier operations.

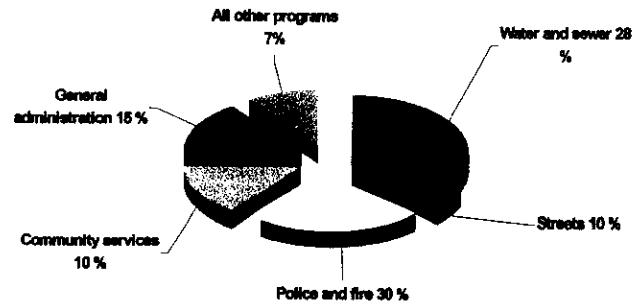
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Sources of Revenue for Fiscal Year 2006



Functional Expenses for Fiscal Year 2006



Governmental Activities

Revenues from all governmental type activities in fiscal year 2006 increased by about \$1.04 million compared to fiscal 2005. About \$370,000 of the increase was from higher transient occupancy tax revenues; and \$1 million was from Property, Sales, and other taxes.

As the above graph shows, the City's primary source of revenue comes from some kind of tax. About 56% of all City revenues come from taxes such as property, sales, transient occupancy and other taxes.

Because the City of Pismo Beach is a tourist community, about 33% of all governmental-type revenues come from the local hotel tax. There was about a \$370,000 increase in such tax revenues in fiscal 2006 as a result of hotel rate changes and occupancy rates.

The majority of the City's governmental-type operating expenses are incurred to provide police protection and fire protection services with these two departments accounting for about 41 percent of the City's total 2006 governmental operating expenses. Another 14% of the City's 2006 governmental activities operating expenses were incurred to provide a variety of cultural and recreation services including planning, and the remaining 45% was spent on general administration, public works and streets.

When all operations were concluded, the governmental activities function generated a \$2.25 million decrease in net assets for 2006 compared to \$3.22 million in 2005. The reason for the decrease in profitability was related to higher costs related to negotiations for salaries and benefits and additional retirement costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table A-2
Changes in the City of Pismo Beach's Net Assets
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program revenues							
Charges for services	\$2.25	\$2.48	\$5.07	\$4.80	\$7.32	\$7.28	.55%
Operating grants and contributions	.63	.65	.01	.51	.64	1.16	-44.8%
Capital grants and contributions	1.38	1.15	.37	.35	1.75	1.50	16.7%
General revenues							
Transient occupancy taxes	5.29	4.92	-	-	5.29	4.92	7.5%
Property, sales and other taxes	6.38	5.15	1.04	.57	7.42	5.72	2.3%
Other	.29	.83	-	-	.29	.83	-65.1%
Total revenues	16.22	15.18	6.49	6.23	22.71	21.41	6.1%
Expenses							
General government	3.03	2.54	-	-	3.03	2.54	19.3%
Public safety	5.77	5.33	-	-	5.77	5.33	8.3%
Streets	1.90	1.63	-	-	1.90	1.63	16.6%
Public works	.73	.72	-	-	.73	.72	1.4%
Community services	2.05	1.31	-	-	2.05	1.31	55.7%
Water	-	-	3.22	3.08	3.22	3.08	4.5%
Wastewater	-	-	2.27	1.80	2.27	1.80	26.1%
Other	.49	.43	.09	.09	.58	.52	11.5%
Total expenses	13.97	11.96	5.58	4.97	19.55	16.93	15.5%
Excess (deficiency) before transfers	2.25	3.22	0.91	1.26	3.16	4.48	-29.5%
Transfers	0.08	-0.07	-0.08	.07	-	-	-
Increase (decrease) in net assets	\$2.33	\$ 3.15	\$0.83	\$1.33	\$3.16	\$4.48	-29.5%

Table A-3 presents the cost of each of the City's governmental-activities largest programs -- administration or general government, public safety, community services, and streets.

- The cost of *all programs* this year was \$13.97 million, compared to \$11.96 million in fiscal 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

- While users and contributors funded about \$4.26 million of the costs of the city's governmental activity programs through related program revenues, the City still had to make up the short fall from general revenues such as taxes and this short fall was about \$9.71 million. Major sources of program revenues were:
 - Those who directly benefited from or used the programs (\$2.25 million), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (about \$2.01 million).
- The City paid for the \$9.71 million "public benefit" portion out of the \$11.96 million in general revenues such as property taxes, transient occupancy taxes, sales taxes, and with other tax revenues and investment earnings.

Table A-3
Cost of City of Pismo Beach's Programs
(In millions of dollars)

	Total Cost of Services		Percentage Change
	2006	2005	2005-2006
General Government	\$3.03	\$2.54	19.3%
Public Safety	5.77	5.33	8.3%
Community services	2.05	1.31	56.5%
Streets	1.90	1.63	16.6%
All other	1.22	1.15	6.1%
Total	\$13.97	\$11.96	16.8%

Expenses increased in the general government function as a result of higher salary and benefit costs resulting from negotiations. Safety costs increased as a result of higher employer pension costs (about \$97,000), higher fire contract costs (about \$91,000) and higher operating expenses.

Business-Type Activities

The City's business-type activities (primarily water and wastewater) were responsible for about \$0.83 million of the total \$3.16 million increase in net assets of the City in 2005. Revenues in total increased in 2006 by a net \$260,000 primarily because of the rate increases in the wastewater fund to pay for the debt service costs related to the new Wastewater Treatment Plant. Overall, operating expenses increased by about \$610,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$14.6 million, about \$593,879 more than the last fiscal year. The City's general fund operations generated about \$1.43 million more in revenues than was spent on governmental activities. From this excess, the City transferred a total of \$1.4 million out of the general fund and into other funds. About \$356,140 of those transfers went to the debt service funds for the revenue bonds, another \$365,700 was transferred to the vehicle internal service fund, and another \$619,000 was transferred out to fund capital projects. At year end, the City's general fund had a fund balance of about \$6.18 million. Of the \$6.18 million, about \$2.1 million was designated for future use such as projects and unanticipated emergencies.

In addition, the City's nonmajor governmental funds ended the 2006 fiscal year with a combined fund balance of \$ 8.44 million. Of this \$8.44 million, about \$323,000 is in debt service funds used to pay principal and interest on the revenue and tax allocation bonds, \$4.99 million is restricted for use for only impact fee-related projects. Another \$2.4 million can only be used for redevelopment projects, the remaining \$1 million is also set aside for specific uses.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories: changes made at the midyear budget review for unanticipated revenues and costs; and increases in appropriations to prevent budget overruns. Even with these adjustments, actual general fund expenditures were \$2.5 million less than final budget amounts. The more significant budget changes were \$303,000 more for police and fire services and a \$100,000 increase in Administration for professional services expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had invested \$66.73 million in a broad range of capital assets, including land, vehicles, equipment, the City Pier, water and wastewater system, streets, and other capital assets. (See Table A-4.) This amount represents a net increase (including additions and deductions) of about \$5.81 million, or about 9.5% percent, over last year.

Table A-4
Pismo Beach's Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land and right of ways	\$12.01	\$12.01	\$.37	\$.37	\$12.38	\$12.38	0.0%
Construction in progress	1.50	.70	14.6	9.72	16.10	10.42	54.5%
Buildings	4.30	4.16	.33	.33	4.63	4.49	3.1%
Machinery and equipment	1.50	1.50	1.18	1.14	2.68	2.64	1.5%
Vehicles	3.00	2.74	0.0	0.0	3.00	2.74	9.5%
Improvements	4.74	4.38	0.0	0.0	4.74	4.38	8.2%
Tanks, wells, and system	0.0	0.0	6.74	6.73	6.74	6.73	0.15%
Pipelines/collection system	0.0	0.0	14.79	14.42	14.79	14.42	2.6%
Pier	0.0	0.0	1.92	1.92	1.92	1.92	0.0%
Infrastructure-streets	28.90	27.61	-	-	28.90	27.61	4.7%
Accumulated depreciation	-18.61	-16.92	-10.54	-9.86	-29.15	-26.78	8.8%
Total	\$37.34	\$36.18	\$29.39	\$24.77	\$66.73	\$60.95	9.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included:

The City in fiscal 2006 added \$2.82 million in capital assets for governmental operational purposes and about \$5.36 in water and wastewater improvements. The more significant additions were:

- *Added about \$4,623,016 to construction in progress in the wastewater fund as part of the plant upgrade project*
- *Added about \$1 million to construction in progress in the Governmental Funds of which is primarily for overlay and slurry projects, Promenade 4, and the Fire Station 2 Upgrade*

Additional information on capital assets of the City can be found starting on page 29 of the notes to the financial statements.

Long - Term Debt

At the end of fiscal 2006, the City had \$4,140,000 in revenue bonds, \$1,565,000 in redevelopment tax allocation bonds, and \$ 110,000 in special assessment bonds outstanding. Debt outstanding on those three bond issues was reduced by \$221,000 during the fiscal year. The revenue bonds are being retired from general fund revenues and special assessments, and the tax allocation bonds are paid for from the Agency's incremental property taxes. During fiscal 2006, the City received \$4,069,151 in loan proceeds from the State Revolving Loan Fund as part of a \$10,154,284 State Loan provided to help the City finance the wastewater treatment plant upgrade project. Additional information on the City's long-term debt can be found starting on page 34 of the notes to the financial statements.

Under previous arrangements, the City was self-insured for the first \$300,000 for each workers compensation claim and \$50,000 for each general liability claim, the statement of net assets also shows a liability of about \$487,000 for estimated claim obligations. This liability was fully funded at the end of 2006, as the \$809,056 in deposits in the statement of net assets is set aside to pay such claims. The City's general fund pays all insurance related costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the 2007 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- Overall general fund revenues are projected to increase by a net 4.0 percent over fiscal year 2006. There are no significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City
- The City expects that general fund revenues will exceed general fund spending in fiscal 2007 by about \$200,000.
- The City expects to complete its wastewater treatment plant upgrade project in 2007
- In 2007, the Water Rates will increase by 5% in June, and the Wastewater Rates will increase by 2.5% in June
- In 2007, all Impact Fees and User Fees will be increased according to the Consumer Price Index for the designated month and area as indicated by Council Ordinance or Resolution.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Director, City of Pismo Beach, 760 Mattie Road, Pismo Beach, California, 93449.

CITY OF PISMO BEACH
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
City government				
Governmental activities:				
General government	\$ 3,028,986	\$ 446,454	\$ 17,007	\$ -
Public safety:				
Police protection	4,095,962	276,477	126,616	-
Fire protection	1,673,442	33,174	-	-
Public works	732,548	-	-	-
Streets	1,901,366	143,034	407,876	1,375,100
Community services	2,053,754	1,067,802	2,720	-
Redevelopment and housing	168,091	285,503	75,557	-
Interest on long-term debt	324,013	-	-	-
Total governmental activities	<u>13,978,162</u>	<u>2,252,444</u>	<u>629,776</u>	<u>1,375,100</u>
Business-Type Activities:				
Water	3,223,335	2,446,613	-	244,357
Wastewater	2,266,350	2,500,567	-	125,844

**Net (Expenses) Revenue and
Changes in Net Assets**

City Government

Governmental Activities	Business-type Activities	Total
\$ (2,565,525)	\$ -	\$ (2,565,525)
(3,692,869)	-	(3,692,869)
(1,640,268)	-	(1,640,268)
(732,548)	-	(732,548)
24,644	-	24,644
(983,232)	-	(983,232)
192,969	-	192,969
(324,013)	-	(324,013)
<u>(9,720,842)</u>	<u>-</u>	<u>(9,720,842)</u>
-	(532,365)	(532,365)
-	459,149	459,149
-	(64,712)	(64,712)
-	6,092	6,092
<u>-</u>	<u>(131,836)</u>	<u>(131,836)</u>
<u>(9,720,842)</u>	<u>(131,836)</u>	<u>(9,852,678)</u>
\$ 2,937,753	\$ -	\$ 2,937,753
570,689	-	570,689
2,134,638	-	2,134,638
-	1,038,399	1,038,399
5,295,777	-	5,295,777
738,257	-	738,257
58,595	-	58,595
201,501	-	-
34,751	-	34,751
78,977	(78,977)	-
<u>12,050,938</u>	<u>959,422</u>	<u>13,010,360</u>
2,330,096	827,586	3,157,682
46,104,057	19,864,017	65,968,074
<u>\$ 48,434,153</u>	<u>\$ 20,691,603</u>	<u>\$ 69,125,756</u>

CITY OF PISMO BEACH
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 6,062,892	\$ 8,297,876	\$ 14,360,768
Taxes receivable	962,099	9,186	971,285
Accounts receivable	205,075	17,936	223,011
Due from other governments	-	204,664	204,664
Accrued interest receivable	15,848	76,280	92,128
Prepayments	25,249	-	25,249
Internal balances-due from other funds	45,303	-	45,303
Special assessments receivable	-	110,000	110,000
Total assets	<u>\$ 7,316,466</u>	<u>\$ 8,715,942</u>	<u>\$ 16,032,408</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 439,279	\$ 116,353	\$ 555,632
Accrued liabilities	238,552	979	239,531
Internal balances-due to other funds	-	45,303	45,303
Deposits	458,120	2,000	460,120
Deferred revenue	-	110,000	110,000
Total liabilities	<u>1,135,951</u>	<u>274,635</u>	<u>1,410,586</u>
Fund balances:			
Reserved	495,570	828,046	1,323,616
Unreserved, designated for:			
Other purposes	2,069,630	-	2,069,630
Unreserved, undesignated	3,615,315	-	3,615,315
Unreserved reported in nonmajor:			
Special revenue funds	-	3,681,329	3,681,329
Capital projects funds	-	3,608,605	3,608,605
Debt service fundds	-	323,327	323,327
Total fund balances	<u>6,180,515</u>	<u>8,441,307</u>	<u>14,621,822</u>
Total liabilities and fund balances	<u>\$ 7,316,466</u>	<u>\$ 8,715,942</u>	<u>\$ 16,032,408</u>
Total Governmental Fund Balances			\$ 14,621,822
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			36,278,529
Long-term receivables used in governmental activities are not current financial resources and, therefore, are deferred in the funds			110,000
Deposits with insurance pools used in governmental activities are not current financial resources and, therefore, not reported in the funds			809,056
The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets			3,184,505
Some liabilities, including bonds, leases, compensated absences, claims and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds			(6,569,759)
Net Assets of Governmental Activities			<u>\$ 48,434,153</u>

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,937,753	\$ 570,689	\$ 3,508,442
Sales taxes	2,134,638	-	2,134,638
Transient occupancy taxes	5,295,777	-	5,295,777
Other taxes	738,257	-	738,257
Special assessments	-	36,494	36,494
Licenses and permits	496,717	-	496,717
Fines and forfeits	142,390	-	142,390
Intergovernmental	104,175	845,989	950,164
Interest and rents	256,343	254,918	511,261
Charges for services	824,702	464,422	1,289,124
Miscellaneous	113,379	105,977	219,356
Total revenues	<u>13,044,131</u>	<u>2,278,489</u>	<u>15,322,620</u>
EXPENDITURES			
Current:			
General government	2,843,670	-	2,843,670
Public safety	5,725,715	2,426	5,728,141
Highways and streets	557,761	316,609	874,370
Community services	1,750,662	-	1,750,662
Public works	732,548	-	732,548
Redevelopment	-	168,091	168,091
Debt service:			
Principal	-	221,000	221,000
Interest	-	328,131	328,131
Capital outlay	-	1,576,001	1,576,001
Total expenditures	<u>11,610,356</u>	<u>2,612,258</u>	<u>14,222,614</u>
Excess (deficiency) of revenues over expenditures	<u>1,433,775</u>	<u>(333,769)</u>	<u>1,100,006</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	291,132	1,646,343	1,937,475
Transfers out	(1,381,693)	(1,061,909)	(2,443,602)
Total other financing sources (uses)	<u>(1,090,561)</u>	<u>584,434</u>	<u>(506,127)</u>
Net change in fund balances	343,214	250,665	593,879
Fund balances, July 1	<u>5,837,301</u>	<u>8,190,642</u>	<u>14,027,943</u>
Fund balances, June 30	<u>\$ 6,180,515</u>	<u>\$ 8,441,307</u>	<u>\$ 14,621,822</u>

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 593,879</u>
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Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,736,018) exceed depreciation (\$1,507,931) in the current period.	228,087
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Capital assets contributed by developers are not current financial resources and are therefore not reported in the funds	937,661
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Proceeds of long-term debt provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount of debt repayments during the period on the bonds and leases.	221,000
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Some expenses in the statement of activities for noncurrent liabilities such as long-term compensated absences and accrued interest do not require the use of or provide current financial resources and, therefore, are not reported as expenditures or revenues in the governmental funds.	10,079
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Some expenses in the statement of activities for self-insured claims do not require the use of current financial resources and are not reported as expenditures in the governmental funds: changes in liabilities and deposits	(2,809)
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Internal service funds are used by management to charge the costs of certain activities, such as vehicle pool management and operation, to individual funds. Investment income of the internal service fund and net transfers are reported with governmental activities.	585,104
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Internal service funds are closed by charging additional amounts or reducing charges to participating governmental activities to completely cover the internal service fund's costs for the year.	(211,905)
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Special assessments are deferred in the funds until collected and available, and are not reported as revenues in the statement of activities.	<u>(31,000)</u>
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Net differences	<u>1,736,217</u>
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Change in Net Assets of Governmental Activities	<u>\$ 2,330,096</u>
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See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Other Funds	Totals	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,797,191	\$ 430,135	\$ 15,112	\$ 3,242,438	\$ 2,141,865
Receivables(net)	363,432	370,932	893	735,257	21,153
Prepayments	1,071,098	-	-	1,071,098	-
Total current assets	4,231,721	801,067	16,005	5,048,793	2,163,018
Noncurrent assets:					
Other assets:					
Restricted cash and cash equivalents	-	3,855,909	-	3,855,909	-
Debt issuance costs, net	-	319,303	-	319,303	-
Total other noncurrent assets	-	4,175,212	-	4,175,212	-
Capital assets:					
Capital assets not being depreciated:					
Land	129,591	209,759	33,425	372,775	-
Construction in progress	405,910	14,232,039	-	14,637,949	-
Total	535,501	14,441,798	33,425	15,010,724	-
Capital assets being depreciated:					
Improvements and buildings	1,645,294	513,102	127,357	2,285,753	2,995,284
Distribution and collection systems	7,801,921	12,027,650	-	19,829,571	-
Pier	-	-	1,922,411	1,922,411	-
Capacity rights	939,838	-	-	939,838	-
Less accumulated depreciation	(4,888,060)	(4,765,635)	(881,550)	(10,535,245)	(1,952,385)
Net capital assets being depreciated	5,498,993	7,775,117	1,168,218	14,442,328	1,042,899
Net capital assets	6,034,494	22,216,915	1,201,643	29,453,052	1,042,899
Total noncurrent assets	6,034,494	26,392,127	1,201,643	33,628,264	1,042,899
Total assets	\$10,266,215	\$ 27,193,194	\$ 1,217,648	\$ 38,677,057	\$ 3,205,917
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 91,783	\$ 239,719	\$ 4,455	\$ 335,957	\$ 17,709
Compensated absences	27,499	22,999	-	50,498	2,231
Accrued interest payable	-	148,653	-	148,653	-
Other current liabilities	13,123	13,441	-	26,564	1,472
Capital leases and revenue bonds	-	-	-	-	-
Total current liabilities	132,405	424,812	4,455	561,672	21,412
Noncurrent liabilities:					
Deposits	54,654	-	-	54,654	-
Fines and penalties	-	96,750	-	96,750	-
State revolving loan	-	9,994,932	-	9,994,932	-
Revenue bonds	-	7,300,000	-	7,300,000	-
Loss on advance refunding	-	(22,554)	-	(22,554)	-
Total noncurrent liabilities	54,654	17,369,128	-	17,423,782	-
Total liabilities	187,059	17,793,940	4,455	17,985,454	21,412
NET ASSETS					
Invested in capital assets, net of related debt	6,034,494	8,043,677	1,201,643	15,279,814	1,042,899
Restricted for capital improvements	-	677,773	-	677,773	-
Unrestricted	4,044,662	677,804	11,550	4,734,016	2,141,606
Total net assets	\$10,079,156	\$ 9,399,254	\$ 1,213,193	\$ 20,691,603	\$ 3,184,505

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Enterprise Funds				Governmental Activities Internal- Service Fund
	Water	Wastewater	Other Funds	Totals	
OPERATING REVENUES					
Sales of water	\$ 1,994,991	\$ -	\$ -	\$ 1,994,991	\$ -
Service fees	289,143	2,424,053	19,512	2,732,708	352,669
Miscellaneous	41,105	84,616	-	125,721	4,487
Total operating revenues	2,325,239	2,508,669	19,512	4,853,420	357,156
OPERATING EXPENSES					
Salaries and benefits	540,071	763,953	-	1,304,024	100,463
Purchased power	125,738	200,257	-	325,995	-
Services and supplies	421,875	667,221	49,405	1,138,501	249,293
Customer accounting	46,191	14,928	-	61,119	-
Joint operating expenses	1,764,329	-	-	1,764,329	-
Depreciation and amortization	325,131	314,212	40,882	680,225	285,919
Total operating expenses	3,223,335	1,960,571	90,287	5,274,193	635,675
Operating income (loss)	(898,096)	548,098	(70,775)	(420,773)	(278,519)
NON-OPERATING REVENUES (EXPENSES)					
Property and special taxes	1,038,399	-	-	1,038,399	-
Operating subsidies	-	-	12,000	12,000	-
Interest and investment revenue	121,374	90,898	155	212,427	67,247
Interest expense	-	(305,688)	-	(305,688)	(633)
Net nonoperating revenues (expenses)	1,159,773	(214,790)	12,155	957,138	66,614
Income (loss) before contributions and transfers	261,677	333,308	(58,620)	536,365	(211,905)
Contributions and transfers:					
Capital contributions	244,357	125,841	-	370,198	-
Transfers in	43,539	13,346	22,167	79,052	585,104
Transfers out	(71,564)	(86,465)	-	(158,029)	-
Net contributions and transfers	216,332	52,722	22,167	291,221	585,104
Change in net assets	478,009	386,030	(36,453)	827,586	373,199
Total net assets, July 1	9,601,147	9,013,224	1,249,646	19,864,017	2,811,306
Total net assets, June 30	\$ 10,079,156	\$ 9,399,254	\$ 1,213,193	\$ 20,691,603	\$ 3,184,505

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Other Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 2,183,120	\$ 2,495,604	\$ 19,280	\$ 4,698,004	\$ -
Payments to suppliers	(2,267,613)	(1,007,406)	(48,811)	(3,323,830)	(248,901)
Payments to other funds for services	(130,926)	(84,658)	-	(215,584)	-
Payments from other funds for services	-	-	-	-	357,155
Payments of fines and penalties	-	(32,250)	-	(32,250)	-
Payments to employees	(527,275)	(760,070)	-	(1,287,345)	(102,053)
Net cash provided by (used for) operating activities	(742,694)	611,220	(29,531)	(161,005)	6,201
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies	-	-	12,000	12,000	-
Property and special taxes	1,017,761	-	-	1,017,761	-
Transfers from other funds	43,539	13,346	22,167	79,052	585,104
Transfers to other funds	(71,564)	(86,465)	-	(158,029)	-
Net cash provided by (used for) noncapital financing activities	989,736	(73,119)	34,167	950,784	585,104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds of State Revolving Fund Loan	-	4,069,151	-	4,069,151	-
Payments on long-term debt principal	-	(159,503)	-	(159,503)	(58,182)
Interest paid on long-term debt	-	(302,034)	-	(302,034)	(633)
Purchases of capital assets	(362,324)	(4,622,916)	-	(4,985,240)	(257,640)
Net cash provided by (used for) capital and related financing activities	(362,324)	(1,015,302)	-	(1,377,626)	(316,455)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest receipts	112,601	60,160	47	172,808	59,237
Net cash provided by investing activities	112,601	60,160	47	172,808	59,237
Net increase (decrease) in cash and cash equivalents	(2,681)	(417,041)	4,683	(415,039)	334,087
Balances-beginning of the year	2,799,872	4,703,085	10,429	7,513,386	1,807,778
Balances-end of the year	<u>\$ 2,797,191</u>	<u>\$ 4,286,044</u>	<u>\$ 15,112</u>	<u>\$ 7,098,347</u>	<u>\$ 2,141,865</u>

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Other Funds	Totals	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (898,096)	\$ 548,098	\$(70,775)	\$ (420,773)	\$(278,519)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	325,131	309,008	40,882	675,021	285,919
Change in assets and liabilities:					
Decrease (increase) in prepayments	(101,474)	-	-	(101,474)	-
Decrease (increase) in accounts receivable	(14,816)	(13,065)	(232)	(28,113)	-
Increase (decrease) in other liabilities	12,796	(23,163)	-	(10,367)	(1,590)
Increase (decrease) in accounts payable	61,068	(209,658)	594	(147,996)	391
Increase (decrease) in deposits	(127,303)	-	-	(127,303)	-
Net cash provided by (used for) operating activities	<u><u>\$ (742,694)</u></u>	<u><u>\$ 611,220</u></u>	<u><u>\$(29,531)</u></u>	<u><u>\$ (161,005)</u></u>	<u><u>\$ 6,201</u></u>

Noncash capital financing activities:

During the 2006 fiscal year, the City recognized as capital contributions \$244,357 in the water enterprise and \$125,841 in the wastewater enterprise related to system improvements completed by developers and dedicated to the City.

See accompanying notes to the basic financial statements

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Pismo Beach is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government, its component units, entities for which the government is considered to be financially accountable.

The Pismo Beach Public Financing Authority, Public Facilities Corporation, and Pismo Beach Redevelopment Agency are legally separate Corporate entities for which the City is financially accountable and they are governed by the elected City Council. The Authority and Corporation were formed to provide a method of financing public improvements. The financial activities of the Authority, Corporation and Agency are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system.

The *wastewater fund* accounts for the operation of the City's wastewater treatment plant and collection facilities.

Additionally, the City reports the following fund type:

The internal service fund is used to account for the City's vehicle fleet and services provided to other City departments on a cost reimbursement basis.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, and time deposits and savings and demand accounts.

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

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

2. Receivables and Payables

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

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

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

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

3. Inventories and Prepaid Items

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

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

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 2 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2002 at the date these new financial reporting standards were implemented. The City has recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15 - 40
Public domain infrastructure	50
System infrastructure	50
Vehicles and equipment	7 - 10

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All vacation pay and applicable sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

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

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

8. Comparative Data

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

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$36,278,529 difference are as follows:

Capital assets	\$ 52,935,721
Less: Accumulated depreciation	<u>(16,657,192)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 36,278,529</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and, therefore, are not reported in the funds. The details of this \$6,569,759 difference are as follows:

<u>Long-Term Debt Obligations and Related Interest</u>	
Revenue bonds	\$ (4,140,000)
Tax allocation bonds	(1,565,000)
Special assessment bonds	(110,000)
Compensated absences	(224,362)
Accrued interest on bonds	(43,397)
Claims covered by self-insurance	<u>(487,000)</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (6,569,759)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 1,736,217 difference and other significant components of the difference are as follows:

Capital outlay	\$ 1,736,018
Depreciation expense	(1,507,931)
Repayment of long-term debt principal	221,000
Contributed capital assets	937,661
Other items	<u>349,469</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,736,217</u>

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2006 consisted of the following:

Pooled demand deposits	\$ 1,423,433
Pooled investments	21,245,805
Investments with trustees	<u>931,742</u>
Total deposits and investments	<u>\$ 23,600,980</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2006, \$2,101,282 of the City's bank balances of \$ 2,266,283 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 2,101,282</u>
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Investments - At June 30, 2006, the City had the following investments.

Type Investment	Average Maturity	Fair Value
State Investment Pool (LAIF)	152 Days	\$ 16,618,941
FHLMC, FHLB, and FNMA	3.16 Years	4,628,260
Corporate commercial paper	6 months	455,059
Mutual funds	10 months	<u>475,287</u>
		<u>\$ 22,177,547</u>

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

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated AAA by Moody's Investor Service. All government agency investments were rated AAA by Standard and Poors and Moody's Investor Services. The State Investment Pool is unrated.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$ 5,558,606 investment other than the State Pool, the entire \$5,558,606 in underlying securities are held by the investment's counterparty in the name of the City. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible.

B. Receivables

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

	General Fund	Internal Service	Nonmajor Funds	Total Governmental	Water Wastewater	Nonmajor Proprietary
Accounts	\$ 205,075	\$21,153	\$ 17,936	\$ 244,164	\$ 633,478	\$ 785
Taxes	962,099	-	9,186	971,285	26,659	-
Interest	15,848	-	76,280	92,128	74,227	108
Governments	-	-	204,664	204,664	-	-
Totals	<u>\$1,183,022</u>	<u>\$21,153</u>	<u>\$ 308,066</u>	<u>\$ 1,512,241</u>	<u>\$ 734,364</u>	<u>\$ 893</u>

C. Interfund Transfers, Receivables and Payables

1. The composition of interfund transfers of June 30, 2006 is as follows:

	General Fund	Non-Major Funds	Internal Service Fund	Pier Enterprise Fund	Major Enterprise Funds	Total Transfers Out
Transfers In:						
Transfers Out:						
General fund	\$ -	\$ 976,906	\$ 382,620	\$22,167	\$ -	\$1,381,693
Nonmajor funds	291,132	669,437	44,455	-	56,885	1,061,909
Water/wastewater	-	-	158,029	-	-	158,029
Totals	<u>\$ 291,132</u>	<u>\$ 1,646,343</u>	<u>\$ 585,104</u>	<u>\$ 22,167</u>	<u>\$ 56,885</u>	<u>\$2,601,631</u>

The primary purpose of the transfers out of the general fund were to provide \$356,138 for debt service requirements, \$976,906 for capital projects and to provide \$22,167 to subsidize pier operational costs.

2. The composition of internal balances was:

Receivable Fund	Payable Fund	Amount
General:		
For cash flow needs:		
	Special revenue CDBG	\$ 2,956
	Leeward Windward debt service	5,181
	Reassessment debt service	37,166
	Total	<u>\$ 45,303</u>

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 6,957,294	\$ -	\$ -	6,957,294
Rights of way-street system	5,068,528	-	-	5,068,528
Construction in progress	<u>698,030</u>	<u>1,038,779</u>	<u>(256,641)</u>	<u>1,480,168</u>
Total capital assets, not being depreciated	<u>12,723,852</u>	<u>1,038,779</u>	<u>(256,641)</u>	<u>13,505,990</u>
Capital assets, being depreciated:				
Buildings	4,157,738	113,448	-	4,271,186
Machinery and equipment	1,501,149	82,198	(110,638)	1,472,709
Vehicles- internal service fund	2,737,644	257,640	-	2,995,284
Improvements	4,381,193	354,675	-	4,735,868
Infrastructure-street system	<u>27,606,487</u>	<u>1,343,481</u>	<u>-</u>	<u>28,949,968</u>
Total capital assets being depreciated	<u>40,384,211</u>	<u>2,151,442</u>	<u>(110,638)</u>	<u>42,425,015</u>
Less accumulated depreciation for:				
Buildings	(1,629,583)	(59,686)	-	(1,689,269)
Machinery and equipment	(1,040,341)	(77,780)	108,198	(1,009,923)
Vehicles	(1,666,467)	(285,918)	-	(1,952,385)
Improvements	(507,076)	(225,339)	-	(732,415)
Infrastructure-street system	<u>(12,080,459)</u>	<u>(1,145,126)</u>	<u>-</u>	<u>(13,225,585)</u>
Total accumulated depreciation	<u>(16,923,926)</u>	<u>(1,793,849)</u>	<u>108,198</u>	<u>(18,609,577)</u>
Total capital assets, being depreciated, net	<u>23,460,285</u>	<u>357,593</u>	<u>(2,440)</u>	<u>23,815,438</u>
Governmental activities capital assets, net	<u>\$ 36,184,137</u>	<u>\$ 1,396,372</u>	<u>\$ (259,081)</u>	<u>\$ 37,321,428</u>

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

D. Capital Assets(Continued)

Capital asset activity relating to business-type activities for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 372,775	\$ -	\$ -	\$ 372,775
Construction in progress	9,714,741	5,279,061	(355,853)	14,637,949
Total capital assets, not being depreciated	10,087,516	5,279,061	(355,853)	15,010,724
Capital assets, being depreciated:				
Buildings	333,726	-	-	333,726
Capacity rights	939,838	-	-	939,838
Tanks, wells and improvements	5,783,906	21,200	-	5,805,106
Equipment	1,142,681	40,834	-	1,183,515
Pipelines and collection system	14,422,779	370,198	-	14,792,977
Pier	1,922,411	-	-	1,922,411
Total capital assets being depreciated	24,545,341	432,232	-	24,977,573
Less accumulated depreciation for:				
Buildings	(333,726)	-	-	(333,726)
Tanks, wells, and improvements	(3,037,266)	(332,991)	-	(3,370,257)
Equipment	(510,979)	(28,520)	-	(539,499)
Pipelines and collection system	(5,138,577)	(271,636)	-	(5,410,213)
Pier	(840,668)	(40,882)	-	(881,550)
Total accumulated depreciation	(9,861,216)	(674,029)	-	(10,535,245)
Total capital assets, being depreciated, net	14,684,125	(241,797)	-	14,442,328
Business-type activities capital assets, net	\$ 24,771,641	\$ 5,037,264	\$ (355,853)	\$ 29,453,052

Construction in progress in the proprietary funds relates primarily to the Wastewater Treatment Plant Expansion Project. In connection with the operation of the wastewater facility, regulatory agencies had originally assessed \$750,000 in penalties against the City for alleged violations of discharge regulations. The City had accrued a liability for these amounts in its wastewater enterprise; and expects to cure the cause of such discharge problems in connection with its expansion and modernization project. During the 2005 fiscal year, the City and regulatory agencies reached an agreement whereby the \$750,000 in penalties were reduced by \$507,000 to a total of \$243,000. The City paid \$ 114,000 of those penalties during the 2005 fiscal year and \$32,250 during the 2006 fiscal year.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 6,068
Public safety	107,274
Parks	249,463
Infrastructure-Streets	1,145,126
Vehicles- Internal service fund	<u>285,918</u>
Total depreciation expense-governmental activities	<u><u>\$ 1,793,849</u></u>
 Business-type activities:	
Water	\$ 325,131
Wastewater	308,016
Pier	<u>40,882</u>
Total depreciation expense-governmental activities	<u><u>\$ 674,029</u></u>

E. Capital Leases

The City has entered into lease agreement for \$239,520 as lessee for financing the acquisition of vehicles and equipment for the vehicle internal service fund and the wastewater fund. The lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. The assets have been capitalized in the respective funds and the related accumulated depreciation is recorded also in such funds. This lease obligation was completely liquidated in the 2006 fiscal year with a \$58,182 principal payment by the internal service fund and a \$4,503 principal payment by the wastewater enterprise fund.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt

Revenue Bonds

1999 Series

The City's Financing Authority in 1999 issued \$4,950,000 in lease revenue refunding bonds to advance refund and retire prior revenue bonds. The bonds bear interest at rates from 3.15 to 5.25 percent, and principal on the bonds is due each December 1. The bonds consisted of \$3,505,000 in term bonds due 2024 and \$1,445,000 in serial bonds maturing each December 1 through 2009. The bonds are secured by a covenant of the City to make provisions in its annual budget to provide for funding the retirement of principal and payment of interest on the bonds. The City uses its general fund to provide for the debt service payments. A lease payable by the City and City receivable by the City's Financing Authority have been eliminated from these financial statements. The term bonds due in 2024 are subject to redemption prior to maturity commencing 2010 as specified in the bond resolution. Future debt service on the lease revenue refunding bonds is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 150,000	\$ 207,398	\$ 357,398
2008	155,000	201,220	356,220
2009	160,000	194,682	354,682
2010	170,000	187,668	357,668
2011	175,000	179,419	354,419
2012-2016	1,030,000	744,713	1,774,713
2017-2021	1,350,000	434,439	1,784,439
2022-2025	950,000	82,424	1,032,424
Totals	\$ 4,140,000	\$ 2,231,963	\$ 6,371,963

State Revolving Fund Loan

The City entered into an agreement with the State Water Resources Control Board for a \$10,154,284 loan with an effective interest rate of about 1.8 percent for the purpose of financing wastewater system improvements. At June 30, 2006, \$9,994,932 of the loan proceeds had been drawn down by the City. Future debt service on the total loan amount is estimated at:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 426,178	\$ 183,081	\$ 609,259
2008	433,862	175,397	609,259
2009	441,684	167,575	609,259
2010	449,648	159,611	609,259
2011	457,755	151,504	609,259
2012-2016	2,415,592	630,703	3,046,295
2017-2021	2,641,353	404,942	3,046,295
2022-2026	2,888,212	158,083	3,046,295
Totals	\$ 10,154,284	\$ 2,030,896	\$ 12,185,180

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Special Assessment Bonds

The special assessment bonds, originally issued for \$370,139 are payable from assessments levied against property owners within the assessment districts and from monies advanced or provided by the City. The City has a history of providing monies to pay such debt service on special assessment bonds when necessary. The bonds consist of the obligations related to the Indio/El Portal and Windward/Leeward areas, bear interest at rates of 4.25 to 7.0 percent and are payable each March 2 and September 2 through 2009. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 25,000	\$ 6,523	\$ 31,523
2008	25,000	4,867	29,867
2009	30,000	3,031	33,031
2010	30,000	1,013	31,013
Totals	<u>\$ 110,000</u>	<u>\$ 15,434</u>	<u>\$ 125,434</u>

Tax Allocation Bonds

On June 1, 2001, The City's Redevelopment Agency issued \$1,795,000 in tax allocation bonds, series 2001A, to advance refund and retire a long-term loan payable by the Agency to the City's Financing Authority. The tax allocation bonds bear interest at an average of 7.15 percent payable each March and September 15 through 2023. Term bonds maturing September 15, 2011, 2020, and 2023 are subject to mandatory early redemption from sinking payments on or after 2004, 2017, and 2021 respectively. The bonds are secured by a pledge of the Agency's Incremental Property Tax Revenues excluding amounts required to be set aside in the Agency's Low and Moderate Income Housing Fund. Future debt service requirements are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 50,000	\$ 87,428	\$ 137,428
2008	50,000	84,928	134,928
2009	55,000	82,303	137,303
2010	55,000	79,553	134,553
2011	55,000	76,802	131,802
2012-2016	345,000	333,567	678,567
2017-2021	445,000	221,234	666,234
2022-2024	510,000	57,300	567,300
Totals	<u>\$ 1,565,000</u>	<u>\$1,023,115</u>	<u>\$ 2,588,115</u>

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

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

Revenue Bonds 2004, Series A

The revenue bonds were issued by the Pismo Beach Financing Authority (a component unit of the City) in an original amount of \$7,500,000 to obtain financing to advance refund an installment agreement and obtain additional funding for the City's wastewater treatment plant expansion project. The Authority entered into a lease arrangement with the City wherein the City is obligated to make all debt service payments on the revenue bonds. The transactions between the Authority and the City have been eliminated from these financial statements and the debt and related proceeds are reported within the City's wastewater enterprise fund. The obligation is secured by a pledge of the net revenues of the City's wastewater enterprise, bears interest at rates of 2.0 to 4.5 percent, and is payable in semi-annual installments each July and January 1 through 2026. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 155,000	\$ 297,305	\$ 452,305
2008	160,000	294,205	454,205
2009	160,000	291,005	451,005
2010	170,000	287,005	457,005
2011	175,000	282,330	457,330
2012-2016	940,000	1,324,320	2,264,320
2017-2021	1,140,000	1,133,248	2,273,248
2022-2026	1,405,000	837,980	2,242,980
2027-2031	1,745,000	583,520	2,328,520
2032-2034	1,250,000	114,076	1,364,076
Totals	\$ 7,300,000	\$ 5,444,994	\$ 12,744,994

The advance refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$22,557 which amount is reported as a deduction from long-term debt and is being amortized to expense through 2034.

Changes in Long-term liabilities

Long-term debt activity for the 2006 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental					
Activities:					
Capital leases-internal service	\$ 58,182	\$ -	\$ 58,182	\$ -	\$ -
Revenue bonds	4,285,000	-	145,000	4,140,000	150,000
Tax allocation bonds	1,610,000	-	45,000	1,565,000	50,000
Special assessment bonds	141,000	-	31,000	110,000	25,000
Compensated absences	233,722	78,185	85,314	226,593	78,185
Claims	487,000	22,182	22,182	487,000	200,000
Total	\$ 6,814,904	\$ 100,367	\$ 386,678	\$ 6,528,593	\$ 503,185
Business-type					
Activities:					
Compensated absences	\$ 41,360	\$ 50,498	\$ 41,360	\$ 50,498	\$ 50,498
Capital leases	4,503	-	4,503	-	-
Revenue bonds	7,455,000	-	155,000	7,300,000	155,000
State revolving loan	5,925,781	4,069,151	-	9,994,932	426,178
Total	\$ 13,426,644	\$ 4,119,649	\$ 200,863	\$ 17,345,430	\$ 631,676

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$2,231 of the internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City, due to the costs of available coverage, participated as a member in the Central Coast Cities Self-Insurance Fund(CCCSIF) through June 30, 2003 for general liability insurance and through June 30, 2004 for workers compensation insurance. Thereafter, the City joined the California Joint Powers Insurance Authority(California JPIA). The California JPIA provides general liability insurance to the City with a \$50 million per occurrence and \$50 million per year aggregate limit and workers compensation insurance with statutory benefits and \$10 million employer's liability coverage. The risk of loss is transferred to the California JPIA. The City is subject to retrospective premium adjustments under the arrangement. Insurance transactions are accounted for in the general fund.

The City is responsible for payment of its respective claims that were outstanding with the CCCSIF at the time the City elected to insure with the California JPIA . The uninsured risk for these claims, referred to as tail-end claims, retained by the City was \$300,000 per incident for workers compensation claims, \$50,000 per incident for general liability claims, and \$ 5,000 per property damage claim. The CCCSIF periodically obtains actuarial studies and valuations of the tail-end claim liabilities, and the City reports such estimated amounts payable as claim liabilities in the statement of net assets.

Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years.

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

	Year Ended 6/30/2006	Year Ended 6/30/2005
Unpaid claims, beginning of fiscal year	\$ 487,000	\$ 704,600
Incurred claims (including IBNRs)	22,182	(170,691)
Claim payments	(22,182)	(46,909)
Unpaid claims, end of fiscal year	<u>\$ 487,000</u>	<u>\$ 487,000</u>

B. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

5. Other Information (Continued)

C. Jointly Governed Organizations and Operating Agreements

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

South County Area Transit and San Luis Obispo Regional Transit Authority. The City is a member of these two Joint Powers Agencies formed to provide fixed route and regional transit services within the member cities and the County. The City's obligation to these entities is limited to the assignment of its Local Transportation Fund allocations to the joint powers agencies.

The City has the following water treatment and supply agreements:

Water Treatment and Facilities Agreement. The City has an agreement with the San Luis Obispo County Flood Control and Water Conservation District wherein the District and The Central Coast Water Authority constructed and operate a joint water treatment facility and water conveyance system. The Authority financed the plant and system by selling revenue bonds, and in 1997, issued \$ 198 million in refunding revenue bonds. The agreement is a take-or-pay obligation, and the City is obligated to pay amounts specified in the agreement whether or not water is treated or delivered. The amounts paid by the City are pledged by the Authority for repayment of the Authority's debt obligations. The City records these payments as operating expenses in its water enterprise fund.

Water Supply Agreement. The City has entered into an agreement with the same Water Conservation District for the purpose of obtaining additional water for municipal purposes. The City is obligated to make payments even if the City fails or refuses to accept water deliveries. The Conservation's source for such additional water supplies is the California State Water Project(SWP). The SWP has constructed facilities to extend the California Aqueduct to the Central Coast and to the facilities owned by the Central Coast Water Authority. The City has recorded as long-term prepayments in its water enterprise payments made under this agreement while the SWP expansion was under construction and prior to its ability to convey water under the arrangement. These prepayments are being amortized to expense as operating expenses over the term of the agreement.

Lopez Dam Agreement. This agreement between the Conservation District and the City relates to the Lopez Dam, storage reservoir, water treatment plant, main conduits, and related facilities built for the primary purpose of providing a municipal water supply to cities in the County. This agreement is also a take-or-pay arrangement and the City is obligated to make payments regardless of water deliveries. In 2000, voters in Zone 3 of the District, authorized the District to issue \$13.2 million in general obligation bonds to provide funds to construct seismic improvements to the Lopez Dam and facilities. The District is to receive such tax revenues under the voter approved arrangement and is to also receive payments from the City and other participating governments in amounts sufficient to pay debt service on the bonds and related operating and capital costs. The City records these joint operating costs as expenses in its water enterprise.

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

5. Other Information (Continued)

D. Public Employees Retirement System

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

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the City are established by and may be amended by PERS. The City's annual pension cost for the most recent year and related information for each plan is as follows:

Annual Pension Cost and Related Information

	<u>Regular Employees</u>	<u>Police Employees</u>	<u>Fire Employees</u>
Contribution rates:			
City	36.692%	11.819%	74.908%
Plan members	7.00%	9.00%	9.00%
Annual pension cost	\$ 603,528	\$ 426,606	\$ 76,495
Contributions made	\$ 603,528	\$ 426,606	\$ 76,495
Actuarial valuation date	June 30, 2004	June 30, 2004	June 30, 2004
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level % pay, closed	Level % pay, closed	Level % pay, closed
Remaining amortization period	14 years	14 years	14 years
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	7.75%
Projected salary increases	3.25 to 14.45%	3.25 to 14.45%	3.25 to 14.45%
Payroll growth	3.25%	3.25%	3.25%
Inflation	3.0%	3.0%	3.0%

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

5. Other Information (Continued)

D. Public Employees Retirement System

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>	6/30/04	\$ 46,970	100%	\$ -
	6/30/05	\$ 231,129	100%	\$ -
	6/30/06	\$ 603,528	100%	\$ -
<i>Police employees</i>	6/30/04	\$ 240,774	100%	\$ -
	6/30/05	\$ 388,219	100%	\$ -
	6/30/06	\$ 426,606	100%	\$ -
<i>Fire Employees</i>	6/30/04	\$ 20,929	100%	\$ -
	6/30/05	\$ 25,389	100%	\$ -
	6/30/06	\$ 76,495	100%	\$ -

E. Restricted Net Assets and Designated Fund Balances

The \$8,203,443 restricted amount in the governmental activities and the \$677,773 in the business-type activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Reserved fund balances consisted of the following:

Purpose	General Fund	Nonmajor Funds
Encumbrances	\$ 425,018	\$ 245,894
Debt service requirements		582,152
Prepayments (primarily insurance)	25,249	-
Internal balances due from other funds	45,303	-
	<u>\$ 495,570</u>	<u>\$ 828,046</u>

Portions of unreserved fund balances in the fund financial statements may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances were:

Purpose	General Fund
Contingencies	\$ 2,069,630
Totals	<u>\$ 2,069,630</u>

CITY OF PISMO BEACH
Notes to the Basic Financial Statements
June 30, 2006

5. Other Information (Continued)

F. Contractual Commitments

At June 30, 2006, there were \$48,565 in uncompleted contractual obligations in regard to the City's wastewater construction project.

Required Supplemental Information Section



Required Supplementary Information
CITY OF PISMO BEACH
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Fund Balance, July 1	\$ 5,837,301	\$ 5,837,301	\$ 5,837,301	\$ -
Resources (inflows):				
Property taxes	2,745,900	2,745,900	2,937,753	191,853
Sales taxes	2,039,000	2,039,000	2,134,638	95,638
Transient occupancy taxes	4,892,500	4,892,500	5,295,777	403,277
Other taxes	649,000	649,000	738,257	89,257
License and permits	436,000	436,000	496,717	60,717
Fines and forfeits	107,000	107,000	142,390	35,390
Interest and rents	114,900	114,900	256,343	141,443
Intergovernmental	101,680	150,430	104,175	(46,255)
Charges for services	814,260	814,260	824,702	10,442
Miscellaneous	10,000	10,000	113,379	103,379
Transfers in	305,000	305,000	291,132	(13,868)
Amounts available for charges to appropriations	18,052,541	18,101,291	19,172,564	1,071,273
Charges to appropriations:				
<i>General Government:</i>				
City Council	231,365	226,436	234,838	(8,402)
Visitor Information Center	74,724	74,724	74,724	-
Administration	526,199	626,644	515,154	111,490
Human Resources	-	85,377	100,103	(14,726)
Legal	184,200	184,200	199,913	(15,713)
Conference and Visitors Bureau	474,056	490,586	470,067	20,519
Finance	495,116	528,163	486,800	41,363
Nondepartmental	1,014,718	934,343	518,662	415,681
Government buildings	350,849	358,105	243,409	114,696
<i>Public Safety:</i>				
Police	3,948,321	4,131,987	3,891,143	240,844
Fire	1,688,486	1,807,486	1,721,068	86,418
Weed Abatement	11,300	11,300	9,036	2,264
Lifeguards	99,068	99,068	104,468	(5,400)
<i>Public Works</i>				
Park maintenance	747,452	752,252	732,548	19,704
<i>Community Services:</i>				
Building	455,441	472,242	333,078	139,164
Planning	605,638	729,151	590,131	139,020
Recreation City Supported	206,093	217,957	199,296	18,661
Recreation Fee Supported	67,011	67,011	48,255	18,756
Pismo Beach Veterans hall	33,241	33,241	34,834	(1,593)
Shell Beach Veterans Hall	18,815	18,815	13,762	5,053
Margo Dodd Park	2,997	2,997	2,844	153
Engineering	502,780	546,315	528,462	17,853
<i>Streets:</i>				
Maintenance and construction	609,776	618,744	557,761	60,983
Transfers out	2,413,629	2,478,179	1,381,693	1,096,486
Total charges to appropriations	14,761,275	15,495,323	12,992,049	2,503,274
Fund Balance, June 30	\$ 3,291,266	\$ 2,605,968	\$ 6,180,515	\$ 3,574,547

CITY OF PISMO BEACH

**Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2006**

Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule: \$ 19,172,564

Differences - budget to GAAP:

The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes (5,837,301)

Transfers in from other funds are inflows of budgetary resources but are revenues for financial reporting purposes (291,132)

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds \$ 13,044,131

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule \$ 12,992,049

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (1,381,693)

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds \$ 11,610,356

Required Supplementary Information
CITY OF PISMO BEACH
Regular Employees Retirement System
Schedule of Funding Progress
June 30, 2006
(Amounts in Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age (b)</u>	<u>Unfunded (overfunded) AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL (Excess) as a Percentage of Covered Payroll [(b-a)/c]</u>
Miscellaneous Plan						
6/30/2002	\$ 7,300	\$ 6,779	\$ (521)	107.7%	\$ 2,684	-19.4%
6/30/2003	\$ 2,372,879	\$ 2,596,967	\$ 224,088	91.4%	\$ 725,020	30.9%
6/30/2004	\$ 2,460,945	\$ 2,746,096	\$ 285,151	89.6%	\$ 743,692	38.3%
Police Plan						
6/30/2002	\$ 6,715	\$ 7,922	\$ 1,207	84.80%	\$ 1,409	85.60%
6/30/2003	\$ 1,083,690	\$ 1,218,083	\$ 134,393	89.00%	\$ 184,098	73.00%
6/30/2004	\$ 4,424,587	\$ 5,383,922	\$ 959,335	82.20%	\$ 575,296	166.80%
Fire Plan						
6/30/2002	\$ 1,151	\$ 1,411	\$ 260	81.60%	\$ 123	211.38%
6/30/2003	\$ 1,083,690	\$ 1,218,083	\$ 134,393	89.00%	\$ 184,098	73.00%
6/30/2004	\$ 885,550	\$ 996,203	\$ 110,653	88.90%	\$ 149,408	74.10%

Note to Schedule of Funding Progress:

Prior to 6/30/2003, this schedule presents data for the specific plan of the City. After 6/30/2002, this schedule presents data for the funded status and funding progress of the entire PERS Risk Pool for the Plans of the PERS. Since the City had less than 100 active members in its plans, it is required to participate in risk pools.

Supplemental Information Section

Non-Major Governmental and Proprietary Funds
Combining Financial Statements and Schedules
and Schedules of Capital Assets used in Governmental Activities



NONMAJOR GOVERNMENTAL AND PROPRIETARY FUNDS

SPECIAL REVENUE FUNDS

State Gas Tax fund for revenues allocated by the State of California and restricted as to use for expenditure only for street and highway purposes

Redevelopment Agency Project Fund of the for tax increment revenues restricted for use to redevelopment activities of the Agency

Redevelopment Agency Low and Moderate Income Housing Fund for the 20 percent set-aside of Agency incremental property taxes restricted for use to improving housing for low and moderate income individuals

Local Transportation Street Fund for revenues allocated to the City under the Transportation Development Act and restricted in use to street related purposes

Community Development Block Grant Fund for Federal Grant revenues restricted for specific purposes as specified in related grant agreements

Noncapital Grants Fund for specific grant revenues allocated to the City for operational programs. Housing In Lieu Fee Fund for in lieu fees restricted for use to affordable housing

CAPITAL PROJECTS FUNDS

Civic Center Fund for resources used to make improvements to the City's police facilities

Computer Systems Fund for the acquisition and major improvements to the City's computerized financial and management systems

Park Development Fund to account for the financing of major improvements to the City park facilities

Capital Projects Fund used to account for major capital improvements to City facilities financed by transfers in from other governmental funds and by State and Federal Capital purpose grants

Circulation Improvement Fund used to account for impact fees to be used major improvements to the City's Street and Highway infrastructure

Impact Fee Fund used to account for impact fees to be used for major capital improvements to different types of City facilities. Leeward/Windward and Freeway/Foothills Funds used to account for improvements to street systems in these specific areas. Developer Impact Fee Fund for impact fees to be used for specific capital projects

DEBT SERVICE FUNDS

City of Pismo Beach Financing Authority Fund used to account for the accumulation of monies for payment of principal and interest on the Series 1992 and 1999 revenue bonds

Indio El Portal, Visalia, Leeward Windward and South Palisades C and C Funds used to account for special assessments levied and collected for use in paying principal and interest on the related special assessment bonds

Freeway Foothills Streets 1992-1, 1992-2, Hanford Lemoore 1992-3 Streets, and Spyglass Price 1992-4 Street Reassessment Districts to account for special assessments levied and collected for the specific purpose of providing monies for the payment of principal and interest on the Financing Authorities 1992 Revenue Bonds.

NONMAJOR PROPRIETARY FUNDS

Pier Enterprise - The pier enterprise fund is used to account for the operations and maintenance of the City's Pier located on the Ocean Front in downtown Pismo Beach.

Transit Enterprise - The transit enterprise fund is used to account for the financial activities of the City's subsidized dial-a-ride system.

CITY OF PISMO BEACH
Combining Balance Sheets
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds			
	State Gas Tax	Redevelopment Agency Project	Redevelopment Agency Low and Moderate Income Housing	Local Transportation Streets
Assets				
Cash and investments	\$ 16,881	\$ 837,970	\$ 1,525,113	\$ 255,771
Receivables:				
Accounts	-	-	-	-
Taxes	-	9,186	-	-
Intergovernmental	30,622	-	-	45,803
Interest	601	6,444	16,591	2,740
Special assessments	-	-	-	-
Total assets	<u>\$ 48,104</u>	<u>\$ 853,600</u>	<u>\$ 1,541,704</u>	<u>\$ 304,314</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,598
Accrued liabilities	-	-	308	-
Deposits	-	-	-	-
Deferred revenue	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>308</u>	<u>1,598</u>
Fund balances:				
Reserved for encumbrances	-	-	19,144	30,343
Reserved for debt service	-	211,101	-	-
Unreserved:				
Undesignated	48,104	642,499	1,522,252	272,373
Total fund balances	<u>48,104</u>	<u>853,600</u>	<u>1,541,396</u>	<u>302,716</u>
Total liabilities and fund balances	<u>\$ 48,104</u>	<u>\$ 853,600</u>	<u>\$ 1,541,704</u>	<u>\$ 304,314</u>

Special Revenue Funds

Capital Projects Funds

Community Development Block Grant	Noncapital Grants	Housing in Lieu	Public Facilities	Park Development	Capital Projects
\$ -	\$ 13,135	\$ 1,176,428	\$ -	\$ 364,355	\$ 418,079
-	-	-	-	16,600	-
-	-	-	-	-	-
-	1,069	12,096	-	4,208	128,239
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 14,204</u>	<u>\$ 1,188,524</u>	<u>\$ -</u>	<u>\$ 385,163</u>	<u>\$ 546,318</u>
\$ -	\$ -	\$ -	\$ -	\$ 35,805	\$ 78,905
-	-	671	-	-	-
-	-	-	-	2,000	-
-	-	-	-	-	-
<u>2,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,956</u>	<u>-</u>	<u>671</u>	<u>-</u>	<u>37,805</u>	<u>78,905</u>
-	-	-	-	25,932	170,475
-	-	-	-	-	-
<u>(2,956)</u>	<u>14,204</u>	<u>1,187,853</u>	<u>-</u>	<u>321,426</u>	<u>296,938</u>
<u>(2,956)</u>	<u>14,204</u>	<u>1,187,853</u>	<u>-</u>	<u>347,358</u>	<u>467,413</u>
<u>\$ -</u>	<u>\$ 14,204</u>	<u>\$ 1,188,524</u>	<u>\$ -</u>	<u>\$ 385,163</u>	<u>\$ 546,318</u>

CITY OF PISMO BEACH
Combining Balance Sheets
Nonmajor Governmental Funds
June 30, 2006

	Capital Projects			
	<u>Circulation Improvement</u>	<u>Impact Fees</u>	<u>Freeway Foothills Project</u>	<u>Developer Impact Fees</u>
Assets				
Cash and investments	\$ 734,990	\$ 1,952,308	\$ 3,271	\$ 271,527
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Intergovernmental	-	-	-	-
Interest	7,530	14,832	-	2,783
Special assessments	-	-	-	-
Total assets	<u>\$ 742,520</u>	<u>\$ 1,967,140</u>	<u>\$ 3,271</u>	<u>\$ 274,310</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Deposits	-	-	-	-
Deferred revenue	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Unreserved:				
Undesignated	742,520	1,967,140	3,271	274,310
Total fund balances	<u>742,520</u>	<u>1,967,140</u>	<u>3,271</u>	<u>274,310</u>
Total liabilities and fund balances	<u>\$ 742,520</u>	<u>\$ 1,967,140</u>	<u>\$ 3,271</u>	<u>\$ 274,310</u>

Debt Service					Total Nonmajor- Funds
Financing Authority	Indio/EI Portal	Visalia	Leeward- Windward	Reassessments	
\$ 200,095	\$ 85,431	\$ 80,563	\$ -	\$ 361,959	\$ 8,297,876
-	1,336	-	-	-	17,936
-	-	-	-	-	9,186
-	-	-	-	-	204,664
1,986	860	825	-	3,715	76,280
-	110,000	-	-	-	110,000
<u>\$ 202,081</u>	<u>\$ 197,627</u>	<u>\$ 81,388</u>	<u>\$ -</u>	<u>\$ 365,674</u>	<u>\$ 8,715,942</u>
\$ -	\$ 45	\$ -	\$ -	\$ -	\$ 116,353
-	-	-	-	-	979
-	-	-	-	-	2,000
-	110,000	-	-	-	110,000
-	-	-	5,181	37,166	45,303
-	110,045	-	5,181	37,166	274,635
-	-	-	-	-	245,894
202,081	87,582	81,388	-	-	582,152
-	-	-	(5,181)	328,508	7,613,261
<u>202,081</u>	<u>87,582</u>	<u>81,388</u>	<u>(5,181)</u>	<u>328,508</u>	<u>8,441,307</u>
<u>\$ 202,081</u>	<u>\$ 197,627</u>	<u>\$ 81,388</u>	<u>\$ -</u>	<u>\$ 365,674</u>	<u>\$ 8,715,942</u>

CITY OF PISMO BEACH
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	Special Revenue			
	State Gas Tax	Redevelopment Agency Project	Redevelopment Agency Low and Moderate Income Housing	Local Transportation Streets
Revenues:				
Property taxes	\$ -	\$ 570,689	\$ -	\$ -
Intergovernmental	171,823	-	-	227,472
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Interest	945	23,916	51,641	7,614
Total revenues	172,768	594,605	51,641	235,086
Expenditures:				
Current:				
Public safety	-	-	-	-
Highways and streets	-	-	-	1,000
Community development	-	97,960	31,380	-
Capital outlay	-	-	-	62,787
Debt service:				
Principal	-	45,000	-	-
Interest and fiscal charges	-	93,253	-	-
Total expenditures	-	236,213	31,380	63,787
Excess of revenues over (under) expenditures	172,768	358,392	20,261	171,299
Other financing sources (uses):				
Transfers in	-	-	176,737	-
Transfers out	(142,247)	(176,737)	-	(260,000)
Total other financing sources (uses)	(142,247)	(176,737)	176,737	(260,000)
Net change in fund balances	30,521	181,655	196,998	(88,701)
Fund balances, July 1	17,583	671,945	1,344,398	391,417
Fund balances, June 30	\$ 48,104	\$ 853,600	\$ 1,541,396	\$ 302,716

Special Revenue			Capital Projects		
Community Development Block Grant	Noncapital Grants	Housing In Lieu	Public Facilities	Park Development	Capital Projects
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	105,607	-	-	16,600	324,487
-	-	249,532	-	44,780	-
-	-	-	-	-	-
-	-	-	-	25,848	79,915
22	3,310	35,971	-	15,431	-
22	108,917	285,503	-	102,659	404,402
-	2,426	-	-	-	-
-	-	-	-	-	-
-	-	38,751	-	-	-
-	1,902	-	-	137,491	1,373,321
-	-	-	-	-	-
-	-	-	-	-	-
-	4,328	38,751	-	137,491	1,373,321
22	104,589	246,752	-	(34,832)	(968,919)
-	-	-	-	-	880,767
-	(188,359)	-	-	(4,980)	-
-	(188,359)	-	-	(4,980)	880,767
22	(83,770)	246,752	-	(39,812)	(88,152)
(2,978)	97,974	941,101	-	387,170	555,565
\$ (2,956)	\$ 14,204	\$ 1,187,853	\$ -	\$ 347,358	\$ 467,413

CITY OF PISMO BEACH
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	Capital Projects			
	Circulation Improvement	Impact Fees	Freeway Foothills Project	Developer Impact Fees
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	170,110	-	-
Special assessments	-	-	-	-
Miscellaneous	214	-	-	-
Interest	19,873	56,439	-	12,213
Total revenues	20,087	226,549	-	12,213
Expenditures:				
Current:				
Public safety	-	-	-	-
Highways and streets	-	-	-	315,609
Community development	-	-	-	-
Capital outlay	500	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	500	-	-	315,609
Excess of revenues over (under) expenditures	19,587	226,549	-	(303,396)
Other financing sources (uses):				
Transfers in	232,701	-	-	-
Transfers out	-	(289,586)	-	-
Total other financing sources (uses)	232,701	(289,586)	-	-
Net change in fund balances	252,288	(63,037)	-	(303,396)
Fund balances, July 1	490,232	2,030,177	3,271	577,706
Fund balances, June 30	\$ 742,520	\$ 1,967,140	\$ 3,271	\$ 274,310

Debt Service					
Financing Authority	Indio/EI Portal	Visalia	Leeward-Windward	Reassessments	Total Nonmajor-Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 570,689
-	-	-	-	-	845,989
-	-	-	-	-	464,422
-	36,494	-	-	-	36,494
-	-	-	-	-	105,977
13,297	1,954	2,235	-	10,057	254,918
13,297	38,448	2,235	-	10,057	2,278,489
-	-	-	-	-	2,426
-	-	-	-	-	316,609
-	-	-	-	-	168,091
-	-	-	-	-	1,576,001
145,000	25,000	-	6,000	-	221,000
222,911	11,591	-	376	-	328,131
367,911	36,591	-	6,376	-	2,612,258
(354,614)	1,857	2,235	(6,376)	10,057	(333,769)
356,138	-	-	-	-	1,646,343
-	-	-	-	-	(1,061,909)
356,138	-	-	-	-	584,434
1,524	1,857	2,235	(6,376)	10,057	250,665
200,557	85,725	79,153	1,195	318,451	8,190,642
\$ 202,081	\$ 87,582	\$ 81,388	\$ (5,181)	\$ 328,508	\$ 8,441,307

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Gas Tax
Special Revenue Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
State Gas Tax	\$160,000	\$ 160,000	\$ 171,823	\$ 11,823
Interest	-	-	945	945
Total revenues	<u>160,000</u>	<u>160,000</u>	<u>172,768</u>	<u>12,768</u>
Expenditures:				
Current:				
Streets:				
Street maintenance	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>160,000</u>	<u>160,000</u>	<u>172,768</u>	<u>12,768</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(160,000)	(160,000)	(142,247)	17,753
Total other financing sources(uses)	<u>(160,000)</u>	<u>(160,000)</u>	<u>(142,247)</u>	<u>17,753</u>
Net change in fund balances	-	-	30,521	30,521
Fund balance, July 1	<u>17,583</u>	<u>17,583</u>	<u>17,583</u>	<u>-</u>
Fund balance, June 30	<u>\$ 17,583</u>	<u>\$ 17,583</u>	<u>\$ 48,104</u>	<u>\$ 30,521</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Redevelopment Agency Projects
Special Revenue Fund

	<u>Budgeted Amounts</u>			<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes:				
Incremental property taxes	\$ 400,000	\$ 400,000	\$ 570,689	\$ 170,689
Interest	5,000	5,000	23,916	18,916
Total revenues	<u>405,000</u>	<u>405,000</u>	<u>594,605</u>	<u>189,605</u>
Expenditures:				
Current:				
Redevelopment:				
Professional services	15,000	15,000	4,160	10,840
Property tax administration	19,000	17,000	24,988	(7,988)
Payments to other agencies	60,180	106,673	46,492	60,181
Administration	23,912	22,678	22,320	358
Debt service:				
Principal	45,000	45,000	45,000	-
Interest	93,303	95,053	93,253	1,800
Total expenditures	<u>256,395</u>	<u>301,404</u>	<u>236,213</u>	<u>65,191</u>
Excess(deficiency) of revenues over (under) expenditures	<u>148,605</u>	<u>103,596</u>	<u>358,392</u>	<u>254,796</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(120,000)	(120,000)	(176,737)	(56,737)
Total other financing sources(uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>(176,737)</u>	<u>(56,737)</u>
Net change in fund balances	28,605	(16,404)	181,655	198,059
Fund balance, July 1	<u>671,945</u>	<u>671,945</u>	<u>671,945</u>	<u>-</u>
Fund balance, June 30	<u>\$ 700,550</u>	<u>\$ 655,541</u>	<u>\$ 853,600</u>	<u>\$ 198,059</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Redevelopment Agency Low and Moderate Income Housing
Special Revenue Fund

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest	\$ 20,000	\$ 20,000	\$ 51,641	\$ 31,641
Total revenues	20,000	20,000	51,641	31,641
Expenditures:				
Current:				
Redevelopment:				
Administration	14,140	16,078	17,709	(1,631)
Administrative overhead	13,671	13,671	13,671	-
Contract services	269,144	269,143	-	269,143
Total expenditures	296,955	298,892	31,380	267,512
Excess(deficiency) of revenues over (under) expenditures	(276,955)	(278,892)	20,261	299,153
Other financing sources (uses):				
Transfers in	120,000	120,000	176,737	56,737
Transfers out	-	-	-	-
Total other financing sources (uses)	120,000	120,000	176,737	56,737
Net change in fund balances	(156,955)	(158,892)	196,998	355,890
Fund balance, July 1	1,344,398	1,344,398	1,344,398	-
Fund balance, June 30	\$ 1,187,443	\$ 1,185,506	\$ 1,541,396	\$ 355,890

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Local Transportation
Special Revenue Fund

	Budgeted Amounts			Variance
	Original	Final	Actual	With Final Budget Positive (Negative)
Revenues:				
Intergovernmental:				
TDA streets	\$ 138,655	\$ 138,655	\$ 146,866	\$ 8,211
TDA bikepaths	5,982	5,982	6,858	876
Traffic congestion	-	36,124	73,748	37,624
Interest	-	-	7,614	7,614
Total revenues	144,637	180,761	235,086	54,325
Expenditures:				
Current:				
Streets:				
Professional services	21,000	21,000	1,000	20,000
Capital outlay:				
Street projects	526,877	176,877	62,787	114,090
Total expenditures	547,877	197,877	63,787	134,090
Excess(deficiency) of revenues over (under) expenditures	(403,240)	(17,116)	171,299	188,415
Other financing sources (uses):				
Transfers in	152,000	17,000	-	(17,000)
Transfers out	(45,000)	(296,124)	(260,000)	36,124
Total other financing sources (uses)	107,000	(279,124)	(260,000)	19,124
Net change in fund balances	(296,240)	(296,240)	(88,701)	207,539
Fund balance, July 1	391,417	391,417	391,417	-
Fund balance, June 30	\$ 95,177	\$ 95,177	\$ 302,716	\$ 207,539

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Community Development Block Grant
Special Revenue Fund

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u> <u>Positive (Negative)</u>
Revenues:				
Intergovernmental:				
CDBG grants	\$ -	\$ -	\$ -	\$ -
Interest	-	-	22	22
Miscellaneous	-	-	-	-
	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Total revenues	-	-	22	22
Expenditures:				
Capital outlay:				
Capital projects	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	-	-	-	-
Excess(deficiency) of revenues over (under) expenditures	-	-	22	22
Other financing sources (uses):				
Transfers in	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources(uses)	-	-	-	-
Net change in fund balances	-	-	22	22
Fund balance, July 1	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>-</u>
Fund balance, June 30	<u>\$ (2,978)</u>	<u>\$ (2,978)</u>	<u>\$ (2,956)</u>	<u>\$ 22</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Non-Capital Grants
Special Revenue Fund

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u> <u>Positive (Negative)</u>
Revenues:				
Intergovernmental:				
State local law enforcement allocation	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
State technology grant	-	-	-	-
Other state grants	87,223	87,223	5,607	(81,616)
Interest	-	-	3,310	3,310
Total revenues	<u>187,223</u>	<u>187,223</u>	<u>108,917</u>	<u>(78,306)</u>
Expenditures:				
Current:				
Public safety:				
Interagency contracts	87,223	87,223	2,426	84,797
Capital outlay:				
Police equipment	<u>1,902</u>	<u>1,902</u>	<u>1,902</u>	<u>-</u>
Total expenditures	<u>89,125</u>	<u>89,125</u>	<u>4,328</u>	<u>84,797</u>
Excess(deficiency) of revenues over (under) expenditures	<u>98,098</u>	<u>98,098</u>	<u>104,589</u>	<u>6,491</u>
Other financing sources (uses):				
Transfers out	<u>(120,000)</u>	<u>(120,000)</u>	<u>(188,359)</u>	<u>(68,359)</u>
Total other financing sources (uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>(188,359)</u>	<u>(68,359)</u>
Net change in fund balances	(21,902)	(21,902)	(83,770)	(61,868)
Fund balance, July 1	<u>97,974</u>	<u>97,974</u>	<u>97,974</u>	<u>-</u>
Fund balance, June 30	<u>\$ 76,072</u>	<u>\$ 76,072</u>	<u>\$ 14,204</u>	<u>\$ (61,868)</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Housing In Lieu
Special Revenue Fund

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget Positive (Negative)</u>
Revenues:				
Charges for services				
Housing in Lieu impact fees	250,540	250,540	249,532	(1,008)
Interest	-	-	35,971	35,971
Total revenues	<u>250,540</u>	<u>250,540</u>	<u>285,503</u>	<u>34,963</u>
Expenditures:				
Current:				
Community development:				
Affordable housing	<u>40,000</u>	<u>40,000</u>	<u>38,751</u>	<u>1,249</u>
Total expenditures	<u>40,000</u>	<u>40,000</u>	<u>38,751</u>	<u>1,249</u>
Excess(deficiency) of revenues over (under) expenditures	<u>210,540</u>	<u>210,540</u>	<u>246,752</u>	<u>36,212</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	210,540	210,540	246,752	36,212
Fund balance, July 1	<u>941,101</u>	<u>941,101</u>	<u>941,101</u>	<u>-</u>
Fund balance, June 30	<u><u>\$ 1,151,641</u></u>	<u><u>\$ 1,151,641</u></u>	<u><u>\$ 1,187,853</u></u>	<u><u>\$ 36,212</u></u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Public Facilities
Capital Projects Fund

	Budgeted Amounts			Variance
	Original	Final	Actual	With Final Budget Positive (Negative)
Revenues:				
Interest	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Capital outlay				
Public improvements	1,693	1,693	-	1,693
Total expenditures	1,693	1,693	-	1,693
Excess(deficiency) of revenues over (under) expenditures	(1,693)	(1,693)	-	1,693
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(1,693)	(1,693)	-	1,693
Fund balance, July 1	-	-	-	-
Fund balance, June 30	<u>\$ (1,693)</u>	<u>\$ (1,693)</u>	<u>\$ -</u>	<u>\$ 1,693</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

**Park Development
Capital Projects Fund**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services:				
Park development fees	\$ 243,740	\$ 243,740	\$ 44,780	\$ (198,960)
Intergovernmental	16,600	16,600	16,600	-
Interest	10,000	10,000	15,431	5,431
Miscellaneous	-	25,323	25,848	525
	<u>270,340</u>	<u>295,663</u>	<u>102,659</u>	<u>(193,004)</u>
Total revenues				
Expenditures:				
Capital outlay:				
Professional services	10,000	10,000	-	10,000
Contributions	1,000	1,000	-	1,000
Capital construction projects	136,212	187,535	137,491	50,044
	<u>147,212</u>	<u>198,535</u>	<u>137,491</u>	<u>61,044</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>123,128</u>	<u>97,128</u>	<u>(34,832)</u>	<u>(131,960)</u>
Other financing sources (uses):				
Transfers out	<u>(175,812)</u>	<u>(189,180)</u>	<u>(4,980)</u>	<u>184,200</u>
Total other financing sources (uses)	<u>(175,812)</u>	<u>(189,180)</u>	<u>(4,980)</u>	<u>184,200</u>
Net change in fund balances	(52,684)	(92,052)	(39,812)	52,240
Fund balance, July 1	<u>387,170</u>	<u>387,170</u>	<u>387,170</u>	<u>-</u>
Fund balance, June 30	<u>\$ 334,486</u>	<u>\$ 295,118</u>	<u>\$ 347,358</u>	<u>\$ 52,240</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

City-Wide
Capital Projects Fund

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
Intergovernmental:				
Local agency	\$ -	\$ 220,000	\$ (13,581)	\$ (233,581)
State park bonds	65,000	65,000	-	(65,000)
Coastal conservatory	17,703	17,703	34,953	17,250
Other state grants	10,537	10,537	-	(10,537)
State Transportation program	401,673	401,673	49,814	(351,859)
TEA 1 federal grants	81,530	81,530	123,297	41,767
TEA 3 federal grants	252,000	252,000	-	(252,000)
TEA 21 federal grants	60,000	60,000	54,234	(5,766)
Federal grant	-	99,450	75,770	(23,680)
High Priority CAPP's	720,000	720,000	-	(720,000)
Miscellaneous	84,812	74,133	79,915	5,782
Total revenues	<u>1,693,255</u>	<u>2,002,026</u>	<u>404,402</u>	<u>(1,597,624)</u>
Expenditures:				
Capital outlay:				
Government bldgs -City hall	204,705	204,705	-	204,705
Police department	90,000	90,000	-	90,000
Fire Department	866,088	966,588	166,502	800,086
Pismo Veteran's Hall	27,165	27,165	500	26,665
Parks	89,674	89,674	-	89,674
Park Development	343,050	565,739	128,772	436,967
Street construction and reconstruction	<u>2,266,625</u>	<u>2,740,649</u>	<u>1,077,547</u>	<u>1,663,102</u>
Total expenditures	<u>3,887,307</u>	<u>4,684,520</u>	<u>1,373,321</u>	<u>3,311,199</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(2,194,052)</u>	<u>(2,682,494)</u>	<u>(968,919)</u>	<u>1,713,575</u>
Other financing sources (uses):				
Transfers out	-	-	-	-
Transfers in	<u>2,337,591</u>	<u>2,788,133</u>	<u>880,767</u>	<u>(1,907,366)</u>
Total other financing sources (uses)	<u>2,337,591</u>	<u>2,788,133</u>	<u>880,767</u>	<u>(1,907,366)</u>
Net change in fund balances	143,539	105,639	(88,152)	(193,791)
Fund balance, July 1	<u>555,565</u>	<u>555,565</u>	<u>555,565</u>	<u>-</u>
Fund balance, June 30	<u>\$ 699,104</u>	<u>\$ 661,204</u>	<u>\$ 467,413</u>	<u>\$ (193,791)</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Circulation Impact Fee
Capital Projects Fund

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
Miscellaneous	\$ -	\$ -	\$ 214	\$ 214
Interest	10,000	10,000	19,873	9,873
Total revenues	10,000	10,000	20,087	10,087
Expenditures:				
Capital outlay:				
Street construction	500	500	500	-
Total expenditures	500	500	500	-
Excess (deficiency) of revenues over (under) expenditures	9,500	9,500	19,587	10,087
Other financing sources (uses):				
Transfers in	-	-	232,701	232,701
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	232,701	232,701
Net change in fund balances	9,500	9,500	252,288	242,788
Fund balance, July 1	490,232	490,232	490,232	-
Fund balance, June 30	<u>\$ 499,732</u>	<u>\$ 499,732</u>	<u>\$ 742,520</u>	<u>\$ 242,788</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Impact Fee
Capital Projects Fund

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Charges for services:				
Impact fees:				
4th street bridge	\$ -	\$ -	\$ 19,306	\$ 19,306
James way extension	-	-	4,645	4,645
Civic Center	-	-	13,815	13,815
WWTP upgrade	-	-	31,683	31,683
Station three	-	-	18,666	18,666
Other impact fees	-	-	81,995	81,995
Interest	40,000	40,000	56,439	16,439
Total revenues	40,000	40,000	226,549	186,549
Expenditures:				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	40,000	40,000	226,549	186,549
Other financing sources (uses):				
Transfers out	(1,021,198)	(1,021,198)	(289,586)	731,612
Total other financing sources (uses)	(1,021,198)	(1,021,198)	(289,586)	731,612
Net change in fund balances	(981,198)	(981,198)	(63,037)	918,161
Fund balance, July 1	2,030,177	2,030,177	2,030,177	-
Fund balance, June 30	<u>\$ 1,048,979</u>	<u>\$ 1,048,979</u>	<u>\$ 1,967,140</u>	<u>\$ 918,161</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Freeway Foothills
Capital Projects Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital outlay				-
Other projects	<u>4,037</u>	<u>4,037</u>	<u>-</u>	<u>4,037</u>
Total expenditures	<u>4,037</u>	<u>4,037</u>	<u>-</u>	<u>4,037</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,037)</u>	<u>(4,037)</u>	<u>-</u>	<u>4,037</u>
Other financing sources (uses):				
Transfers in	<u>3,731</u>	<u>3,731</u>	<u>-</u>	<u>(3,731)</u>
Total other financing sources (uses)	<u>3,731</u>	<u>3,731</u>	<u>-</u>	<u>(3,731)</u>
Net change in fund balances	(306)	(306)	-	306
Fund balance, July 1	<u>3,271</u>	<u>3,271</u>	<u>3,271</u>	<u>-</u>
Fund balance, June 30	<u>\$ 2,965</u>	<u>\$ 2,965</u>	<u>\$ 3,271</u>	<u>\$ 306</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Developer Impact Fee Capital Projects Fund				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Interest	-	-	12,213	12,213
Total revenues	-	-	12,213	12,213
Expenditures:				
Current:				
Highways and streets -refunds	151,036	151,036	315,609	(164,573)
Total expenditures	151,036	151,036	315,609	(164,573)
Excess (deficiency) of revenues over (under) expenditures	(151,036)	(151,036)	(303,396)	(152,360)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(151,036)	(151,036)	(303,396)	(152,360)
Fund balance, July 1	577,706	577,706	577,706	-
Fund balance, June 30	<u>\$426,670</u>	<u>\$ 426,670</u>	<u>\$ 274,310</u>	<u>\$ (152,360)</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Pismo Beach Financing Authority
Debt Service Fund

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>With Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
Interest	\$ 10,000	\$ 10,000	\$ 13,297	\$ 3,297
Total revenues	10,000	10,000	13,297	3,297
Expenditures:				
Debt service:				
Professional services	14,450	14,450	-	14,450
Overhead	5,086	5,086	5,086	-
1999 Revenue bonds:				
Professional services	4,800	4,800	4,600	200
Principal	145,000	145,000	145,000	-
Interest	213,225	213,225	213,225	-
Total expenditures	382,561	382,561	367,911	14,650
Excess (deficiency) of revenues over (under) expenditures	(372,561)	(372,561)	(354,614)	17,947
Other financing sources (uses):				
Transfers out to Pier enterprise fund	-	-	-	-
Transfers out to reassessments	-	-	-	-
Transfers in from reassessments	-	-	-	-
Transfers in from general fund	358,225	358,225	356,138	(2,087)
Total other financing sources (uses)	358,225	358,225	356,138	(2,087)
Net change in fund balances	(14,336)	(14,336)	1,524	15,860
Fund balance, July 1	200,557	200,557	200,557	-
Fund balance, June 30	<u>\$ 186,221</u>	<u>\$ 186,221</u>	<u>\$ 202,081</u>	<u>\$ 15,860</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Indio/El Portal Debt Service Fund				
	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for services:				
Special assessments	\$ 36,160	\$ 36,160	\$ 36,494	\$ 334
Interest	-	-	1,954	1,954
Total revenues	<u>36,160</u>	<u>36,160</u>	<u>38,448</u>	<u>2,288</u>
Expenditures:				
Debt service:				
Principal	25,000	25,000	25,000	-
Interest and fiscal charges	11,049	11,049	11,591	(542)
Total expenditures	<u>36,049</u>	<u>36,049</u>	<u>36,591</u>	<u>(542)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>111</u>	<u>111</u>	<u>1,857</u>	<u>1,746</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	111	111	1,857	1,746
Fund balance, July 1	<u>85,725</u>	<u>85,725</u>	<u>85,725</u>	<u>-</u>
Fund balance, June 30	<u><u>\$ 85,836</u></u>	<u><u>\$ 85,836</u></u>	<u><u>\$ 87,582</u></u>	<u><u>\$ 1,746</u></u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Visalia Debt Service Fund			
	Budgeted Amounts		Variance
	Original	Final	With Final Budget Positive (Negative)
Revenues:			
Charges for services:			
Special assessments	\$ -	\$ -	\$ -
Interest	-	-	2,235
	<u>-</u>	<u>-</u>	<u>2,235</u>
Total revenues	<u>-</u>	<u>-</u>	<u>2,235</u>
Expenditures:			
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>2,235</u>
Other financing sources (uses):			
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	2,235
Fund balance, July 1	79,153	79,153	79,153
	<u>79,153</u>	<u>79,153</u>	<u>-</u>
Fund balance, June 30	<u>\$ 79,153</u>	<u>\$ 79,153</u>	<u>\$ 81,388</u>
			<u>\$ 2,235</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

Leeward- Windward
Debt Service Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services:				
Special assessments	\$ 7,043	\$ 7,043	\$ -	\$ (7,043)
Interest	-	-	-	-
Total revenues	<u>7,043</u>	<u>7,043</u>	<u>-</u>	<u>(7,043)</u>
Expenditures:				
Debt service:				
Principal	6,000	6,000	6,000	-
Interest and fiscal charges	<u>2,063</u>	<u>2,063</u>	<u>376</u>	<u>1,687</u>
Total expenditures	<u>8,063</u>	<u>8,063</u>	<u>6,376</u>	<u>1,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,020)</u>	<u>(1,020)</u>	<u>(6,376)</u>	<u>(5,356)</u>
Other financing sources (uses):				
Transfers out to Financing Authority	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(1,020)	(1,020)	(6,376)	(5,356)
Fund balance, July 1	<u>1,195</u>	<u>1,195</u>	<u>1,195</u>	<u>-</u>
Fund balance, June 30	<u>\$ 175</u>	<u>\$ 175</u>	<u>\$ (5,181)</u>	<u>\$ (5,356)</u>

CITY OF PISMO BEACH
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual
Fiscal Year Ended June 30, 2006

	Reassessment Districts Debt Service Fund			
	Budgeted Amounts			Variance With final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Charges for services:				
Special assessments	\$ -	\$ -	\$ -	\$ -
Interest	-	-	10,057	10,057
Total revenues	-	-	10,057	10,057
Expenditures:				
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	10,057	10,057
Other financing sources (uses):				
Transfers in from Financing Authority	-	-	-	-
Transfers out to Financing Authority	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	10,057	10,057
Fund balance, July 1	318,451	318,451	318,451	-
Fund balance, June 30	<u>\$318,451</u>	<u>\$ 318,451</u>	<u>\$ 328,508</u>	<u>\$ 10,057</u>

CITY OF PISMO BEACH
Combining Balance Sheet
Nonmajor Proprietary Funds
June 30, 2006

	<u>Enterprises</u>		
	<u>Pier</u>	<u>Transit</u>	<u>Totals</u>
Assets			
Current assets:			
Cash and investments	\$ 2,921	\$ 12,191	\$ 15,112
Receivables:			
Interest	-	108	108
Accounts	785	-	785
Total current assets	<u>3,706</u>	<u>12,299</u>	<u>16,005</u>
Fixed assets:			
Land	33,425	-	33,425
Buildings	102,960	-	102,960
Improvements	24,397	-	24,397
Pier	1,922,411	-	1,922,411
Total fixed assets	<u>2,083,193</u>	<u>-</u>	<u>2,083,193</u>
Less accumulated depreciation	<u>(881,550)</u>	<u>-</u>	<u>(881,550)</u>
Net fixed assets	<u>1,201,643</u>	<u>-</u>	<u>1,201,643</u>
Total assets	<u>\$ 1,205,349</u>	<u>\$ 12,299</u>	<u>\$ 1,217,648</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 3,706	\$ 749	\$ 4,455
Total current liabilities	<u>3,706</u>	<u>749</u>	<u>4,455</u>
Net Assets			
Invested in capital assets, net of related debt	1,201,643	-	1,201,643
Unrestricted	-	11,550	11,550
Total net assets	<u>\$ 1,201,643</u>	<u>\$ 11,550</u>	<u>\$ 1,213,193</u>

CITY OF PISMO BEACH
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For The Fiscal Year Ended June 30, 2006

	<u>Enterprises</u>		
	<u>Pier</u>	<u>Transit</u>	<u>Totals</u>
Operating revenues:			
Other operating revenues	\$ 18,216	\$ 1,296	\$ 19,512
Total operating revenues	<u>18,216</u>	<u>1,296</u>	<u>19,512</u>
Operating expenses:			
Maintenance and operations	42,046	7,359	49,405
Depreciation and amortization	<u>40,882</u>	<u>-</u>	<u>40,882</u>
Total operating expenses	<u>82,928</u>	<u>7,359</u>	<u>90,287</u>
Operating income (loss)	<u>(64,712)</u>	<u>(6,063)</u>	<u>(70,775)</u>
Nonoperating revenues (expenses):			
Operating subsidy	-	12,000	12,000
Interest revenue	<u>-</u>	<u>155</u>	<u>155</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>12,155</u>	<u>12,155</u>
Net income (loss) before transfers	<u>(64,712)</u>	<u>6,092</u>	<u>(58,620)</u>
Transfers			
Transfers in	<u>22,167</u>	<u>-</u>	<u>22,167</u>
Total transfers	<u>22,167</u>	<u>-</u>	<u>22,167</u>
Net income (loss)	<u>(42,545)</u>	<u>6,092</u>	<u>(36,453)</u>
Net assets, July 1	<u>1,244,188</u>	<u>5,458</u>	<u>1,249,646</u>
Net assets, June 30	<u>\$ 1,201,643</u>	<u>\$ 11,550</u>	<u>\$ 1,213,193</u>

CITY OF PISMO BEACH
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For The Fiscal Year Ended June 30, 2006

	<u>Enterprises</u>		
	<u>Pier</u>	<u>Transit</u>	<u>Totals</u>
Cash flows from operating activities:			
Cash received from customers	\$ 17,984	\$ 1,296	\$ 19,280
Cash payments to suppliers for goods and services	<u>(41,506)</u>	<u>(7,305)</u>	<u>(48,811)</u>
Net cash provided by (used for) operating activities	<u>(23,522)</u>	<u>(6,009)</u>	<u>(29,531)</u>
Cash flows from noncapital financing activities:			
Operating subsidies	-	12,000	12,000
Transfers in	<u>22,167</u>	<u>-</u>	<u>22,167</u>
Net cash provided by (used for) noncapital financing activities	<u>22,167</u>	<u>12,000</u>	<u>34,167</u>
Cash flows from investing activities:			
Interest on investments	<u>-</u>	<u>47</u>	<u>47</u>
Net cash provided by investing activities	<u>-</u>	<u>47</u>	<u>47</u>
Net change in cash and cash equivalents	(1,355)	6,038	4,683
Cash and cash equivalents, July 1	<u>4,276</u>	<u>6,153</u>	<u>10,429</u>
Cash and cash equivalents, June 30	<u>\$ 2,921</u>	<u>\$ 12,191</u>	<u>\$ 15,112</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (64,712)	\$ (6,063)	\$ (70,775)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	40,882	-	40,882
Change in assets and liabilities:			
Decrease (increase) in receivables	(232)	-	(232)
Increase (decrease) in accounts payable	<u>540</u>	<u>54</u>	<u>594</u>
Net cash provided by (used for) operating activities	<u>\$ (23,522)</u>	<u>\$ (6,009)</u>	<u>\$ (29,531)</u>

CITY OF PISMO BEACH
Comparative Schedule of Capital Fixed Assets Used In Governmental Operations
By Source

	June 30	
	2006	2005
Governmental Funds Capital Assets		
Land	\$ 6,957,294	\$ 6,957,294
Buildings	4,271,186	4,157,738
Improvements	4,735,868	4,381,194
Equipment	1,472,709	1,501,149
Vehicles-internal service	2,995,284	2,737,644
Infrastructure -street system:		
Right of way	5,068,528	5,068,528
Pavement system	23,533,552	22,190,071
Medians	73,232	73,232
Curbs and gutters	521,095	521,095
Sidewalks	313,961	313,961
Traffic signals	229,723	229,723
Street lights	1,212,168	1,212,168
Highway 101 interchange	2,726,214	2,726,214
Bridges	26,829	26,829
Infrastructure -beach stairways	313,194	313,194
Construction in progress	1,480,168	698,030
Total general fixed assets	\$ 55,931,005	\$ 53,108,064
Investment in governmental funds capital assets from:		
General fund	\$ 1,920,146	\$ 1,920,146
Special revenue funds	2,255,407	2,255,407
Contributions	2,165,303	1,227,642
Internal service fund	2,995,284	2,665,217
Capital projects funds	46,594,865	45,039,652
Total investment in capital assets assets	\$ 55,931,005	\$ 53,108,064

CITY OF PISMO BEACH
Schedule of Changes in Capital Assets Used In Governmental Operations
By Source
For the Fiscal Year Ended June 30, 2006

	Right of Way and Land	Infrastructure	Buildings	Equipment, Vehicles, Improvements CIP	Total Cost
Capital assets July 1, 2005	\$ 12,025,822	\$ 27,606,487	\$ 4,157,738	\$ 9,318,017	\$ 53,108,064
Additions from:					
Contributions	-	937,661	-	-	937,661
General fund	-	-	-	-	-
Special revenue funds	-	-	-	-	-
Capital projects	-	405,820	113,448	1,475,653	1,994,921
Internal service	-	-	-	257,640	257,640
Deduct:					
Fixed assets retired/transferred	-	-	-	(367,281)	(367,281)
Capital assets June 30, 2006	<u>\$ 12,025,822</u>	<u>\$ 28,949,968</u>	<u>\$ 4,271,186</u>	<u>\$ 10,684,029</u>	<u>\$ 55,931,005</u>

CITY OF PISMO BEACH
Schedule of Capital Assets Used In Governmental Operations
By Function and Activity
June 30, 2006

<u>Function and Activity</u>	<u>Right of Ways and Land</u>	<u>Infrastructure</u>	<u>Buildings</u>	<u>Equipment, Vehicles Improvements and CIP</u>	<u>Total Cost</u>
General government:					
General operations	\$ 319,942	\$ -	\$ 1,747,590	\$ 3,812,722	\$ 5,880,254
Public safety	5,566	-	1,584,196	505,839	2,095,601
Parks and recreation	4,376,379	-	939,400	5,257,096	10,572,875
Street system	5,068,528	28,636,774	-	1,108,372	34,813,674
Beach stairway system	-	313,194	-	-	313,194
Open space	2,255,407	-	-	-	2,255,407
Total capital assets	<u>\$ 12,025,822</u>	<u>\$ 28,949,968</u>	<u>\$ 4,271,186</u>	<u>\$ 10,684,029</u>	<u>\$ 55,931,005</u>

CITY OF PISMO BEACH
Schedule of Changes in Capital Assets Used In Governmental Operations
By Function and Activity
For the Fiscal Year Ended June 30, 2006

<u>Function and Activity</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
General government:				
General operations	<u>\$ 5,622,614</u>	<u>\$ 368,279</u>	<u>\$ (110,639)</u>	<u>\$ 5,880,254</u>
Public safety	<u>2,095,601</u>	<u>-</u>	<u>-</u>	<u>2,095,601</u>
Parks and recreation	<u>10,459,427</u>	<u>113,448</u>	<u>-</u>	<u>10,572,875</u>
Street system	<u>32,361,821</u>	<u>2,451,853</u>	<u>-</u>	<u>34,813,674</u>
Beach stairway system	<u>313,194</u>	<u>-</u>	<u>-</u>	<u>313,194</u>
Open space	<u>2,255,407</u>	<u>-</u>	<u>-</u>	<u>2,255,407</u>
Total capital assets	<u><u>\$ 53,108,064</u></u>	<u><u>\$ 2,933,580</u></u>	<u><u>\$ (110,639)</u></u>	<u><u>\$ 55,931,005</u></u>

Statistical Section



STATISTICAL SECTION

This part of the City of Pismo Beach's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Financial Trends	Schedules 1 -4
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These schedules contain trend information to help understand how the city's financial performance and well-being have changed over time.

Revenue Capacity	Schedules 5-8F
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These schedules contain information to help assess the city's most significant local revenue sources, which for the City is sales transient occupancy tax revenues.. The City has also elected to provide revenue capacity information about its property tax revenues, sales tax revenues, and its water enterprise revenues, and the City's wastewater enterprise service fee revenues.

Debt Capacity	Schedules 9-13
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These schedules present information to help assess the afford ability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

Demographic and Economic Information	Schedules 14-16
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These schedules offer demographic and economic indicators to help understand the environment within which the city's financial activities take place.

Operating Information	Schedules 17-18
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These schedules contain service and infrastructure data to help understand how the information in the city's financial report relates to services the city provides and the activities it performs.

Schedule 1
City of Pismo Beach
Net Assets by Component
Last Four Fiscal Years
(Accrual basis of accounting)

	For The Fiscal Years Ended June 30			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 25,016,049	\$ 27,998,557	\$ 30,089,956	\$ 46,786,242
Restricted	7,897,227	8,045,195	8,331,642	8,881,216
Unrestricted	7,915,287	6,911,501	7,682,459	13,458,298
Total governmental activities net assets	\$ 40,828,563	\$ 42,955,253	\$ 46,104,057	\$ 69,125,756
Business-type activities:				
Invested in capital assets, net of related debt	\$ 11,581,292	\$ 14,423,785	\$ 14,962,938	\$ 15,279,814
Restricted	3,367,670	405,194	590,373	677,773
Unrestricted	3,076,327	3,702,199	4,310,707	4,734,016
Total business-type activities	\$ 18,025,289	\$ 18,531,178	\$ 19,864,018	\$ 20,691,603
Primary government (City wide totals)				
Invested in capital assets, net of related debt	\$ 36,597,341	\$ 42,422,342	\$ 45,052,894	\$ 62,066,056
Restricted	11,264,897	8,450,389	8,922,015	9,558,989
Unrestricted	10,991,614	10,613,700	11,993,166	18,192,314
Total primary government net assets	\$ 58,853,852	\$ 61,486,431	\$ 65,968,075	\$ 89,817,359

Note: The City implemented GASB Statement Number 34 in the 2003 fiscal year. The information in this schedule is therefore set forth prospectively from the year of implementation.

Schedule 2
City of Pismo Beach
Changes in Net Assets, Last Four Fiscal Years
(Accrual Basis of Accounting)

For The Fiscal Years Ended June 30				
	2003	2004	2005	2006
Expenses:				
Governmental activities:				
General government	\$ 2,613,234	\$ 2,594,461	\$ 2,539,424	\$ 3,028,986
Police	3,317,869	3,518,246	3,832,070	4,095,962
Fire	1,214,640	1,384,161	1,495,581	1,673,442
Public works	282,628	647,194	719,645	732,548
Streets	1,538,148	1,603,741	1,632,643	1,901,366
Community Services	1,477,899	1,742,328	1,306,349	2,053,754
Redevelopment and Housing	120,526	108,900	35,018	168,091
Interest on long-term debt	414,367	450,991	393,703	324,013
Total governmental activities expenses	10,979,311	12,050,022	11,954,433	13,978,162
Business-type activities:				
Water	2,576,260	2,946,087	3,081,788	3,223,335
Wastewater	2,498,667	2,006,667	1,804,309	2,266,259
Pier	94,690	93,325	73,588	82,928
Transit	14,495	14,450	18,610	7,359
Total business-type activities expenses	5,184,112	5,060,529	4,978,295	5,579,881
Total City government expenses	<u>\$ 16,163,423</u>	<u>\$ 17,110,551</u>	<u>\$ 16,932,728</u>	<u>\$ 19,558,043</u>
Program Revenues:				
Governmental activities:				
Charges for services:				
General government	\$ 316,247	\$ 371,936	\$ 369,459	\$ 446,454
Police protection	219,036	255,789	254,525	276,477
Fire protection	8,389	67,653	55,942	33,174
Public works	331,858	-	-	-
Streets	516,639	294,297	285,855	143,034
Community Services	926,271	981,657	1,101,284	1,067,802
Redevelopment and Housing	191,559	89,786	413,236	285,503
Operating grants and contributions	566,061	549,856	645,873	629,776
Capital grants and contributions	1,814,646	1,599,636	1,146,038	1,375,100
Total governmental activities program revenues	4,890,706	4,210,610	4,272,212	4,257,320
Business-type activities:				
Charges for services:				
Water	2,504,678	2,360,764	2,482,658	2,446,613
Wastewater	1,829,865	2,015,245	2,294,407	2,599,567
Pier	11,742	19,021	13,810	18,216
Transit	5,845	4,921	6,886	1,451
Operating grants and contributions	11,000	12,000	519,000	12,000
Capital grants and contributions	543,309	730,636	351,129	370,198
Total business-type activities programs revenues	4,906,439	5,142,587	5,667,890	5,448,045
Total City government program revenues	<u>\$ 9,797,145</u>	<u>\$ 9,353,197</u>	<u>\$ 9,940,102</u>	<u>\$ 9,705,365</u>

Continued)

Schedule 2 -Continued
City of Pismo Beach
Changes in Net Assets, Last Four Fiscal Years
(Accrual Basis of Accounting)

For The Fiscal Years Ended June 30				
	2003	2004	2005	2006
Net(Expense)Revenue:				
Governmental activities	\$ (6,088,605)	\$ (7,839,412)	\$ (7,682,221)	\$ (9,720,842)
Business-type activities	(277,673)	82,058	689,595	(131,836)
Total City government	<u>\$ (6,366,278)</u>	<u>\$ (7,757,354)</u>	<u>\$ (6,992,626)</u>	<u>\$ (9,852,678)</u>
General Revenues and Other Changes in in Net Assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 1,816,986	\$ 1,979,620	\$ 2,012,536	\$ 2,937,753
Incremental property taxes	361,246	409,142	428,709	570,689
Sales taxes	1,661,091	1,867,519	2,014,060	2,134,638
Transient occupancy taxes	4,342,969	4,652,128	4,921,356	5,295,777
Other taxes	576,629	622,092	692,511	738,257
Unrestricted grants and contributions	513,206	388,244	707,015	58,595
Investment earnings	202,692	-	-	201,501
Miscellaneous	325,536	5,745	129,044	34,751
Transfers	(77,165)	41,612	(74,206)	78,977
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>9,723,190</u>	<u>9,966,102</u>	<u>10,831,025</u>	<u>12,050,938</u>
Business-type activities				
Special Water Taxes	755,248	465,440	569,039	1,038,399
Transfers	77,165	(41,612)	74,206	(78,977)
Total business-type activities	<u>832,413</u>	<u>423,828</u>	<u>643,245</u>	<u>959,422</u>
Total City government	<u>\$ 10,555,603</u>	<u>\$ 10,389,930</u>	<u>\$ 11,474,270</u>	<u>\$ 13,010,360</u>
Change in net assets:				
Governmental activities	\$ 3,634,585	\$ 2,126,690	\$ 3,148,804	\$ 2,330,096
Business-type activities	<u>554,740</u>	<u>505,886</u>	<u>1,332,840</u>	<u>827,586</u>
Total City government	<u>\$ 4,189,325</u>	<u>\$ 2,632,576</u>	<u>\$ 4,481,644</u>	<u>\$ 3,157,682</u>

Note: The city implemented GASB Statement Number 34 in the 2003 fiscal year. The information in this schedule is therefore set forth prospectively from the year of implementation.

**Schedule 3
City of Pismo Beach
Fund Balances, Governmental Funds
Last Four Fiscal Years**

Fiscal Year	General Fund			All Other Governmental Funds				
	Reserved	Unreserved	Total General Fund	Unreserved, reported in				Total
				Reserved	Special Revenue	Capital Projects	Debt Service	
2006	\$ 495,570	\$ 5,684,945	6,180,515	\$ 828,046	\$ 3,681,329	\$ 3,608,605	\$ 323,327	8,441,307
2005	329,866	5,507,435	5,837,301	969,723	3,172,562	3,729,906	318,451	8,190,642
2004	1,076,426	4,158,720	5,235,146	2,058,420	2,035,182	4,125,993	-	8,219,595
2003	124,610	6,916,413	7,041,023	2,022,372	2,470,520	3,647,380	-	8,140,272

Note: The City implemented GASB statement Number 34 in the 2003 fiscal year. The information in this schedule is therefore set forth prospectively from the year of implementation.

Schedule 4
City of Pismo Beach
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(In Rounded Thousands of Dollars)
(Modified accrual basis of accounting)

	Fiscal Years Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Taxes	\$ 5,750	\$ 6,205	\$ 6,892	\$ 7,480	8,215	\$ 8,630	\$ 8,759	\$ 9,531	\$ 10,069	\$ 11,677
Licenses and permits	139	342	414	642	495	607	782	747	848	497
Fines and forfeits	73	56	103	106	106	98	92	119	122	142
Charges for services	702	493	562	333	328	391	579	304	884	1,289
Special assessments										36
Intergovernmental	779	842	1,301	943	1,161	1,209	1,229	915	1,317	950
Investment earnings	198	81	133	240	386	266	299	207	307	511
Other revenues	103	205	143	17	481	258	307	190	40	219
Total revenues	7,744	8,224	9,548	9,761	11,172	11,459	12,047	12,013	13,587	15,321
Expenditures:										
General government	1,826	1,903	1,350	1,859	1,991	2,277	2,474	2,304	2,529	2,844
Public safety	2,641	2,727	3,057	3,216	3,516	4,073	4,258	4,655	5,231	5,728
Parks										
Planning and public works	1,252	863	1,402	1,015	1,614	2,194	2,439	3,267	3,805	3,526
Recreation	153	148	293	420	530	580	679	809	1,007	
Capital outlay	133	232	97	139	369	156	290	302	27	1,576
Debt service:										
Payment to escrow agent										
Costs of issuance										
Principal										221
Interest										328
Total expenditures	6,005	5,873	6,199	6,649	8,020	9,280	10,140	11,337	12,599	14,223
Excess of revenues over (under) expenditures	1,739	2,351	3,349	3,112	3,152	2,179	1,907	676	988	1,098
Other Financing Sources (Uses)										
Proceeds from borrowing	4,250	-	-	-	-	6,935	4,230	-	8,105	
Payments to escrow agent	-	-	-	-	-	-	(3,663)	-	(6,355)	
Transfers in	716	664	705	877	1,394	4,296	2,006	1,313	2,552	1,937
Transfers out	(331)	(949)	(770)	(990)	(1,492)	(9,234)	(1,998)	(1,176)	(2,433)	(2,444)
Total other financing sources (uses)	4,635	(285)	(65)	(113)	(98)	1,997	575	137	1,869	(507)
Net change in fund balances	\$ 6,374	2,066	3,284	2,999	3,054	4,176	\$ 2,482	\$ 813	\$ 2,857	\$ 591
Debt service as a percentage of noncapital expenditures	4.30%	7.17%	9.77%	6.56%	5.50%	7.00%	8.00%	7.50%	6.00%	6.00%

Schedule 5
City of Pismo Beach
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In thousands of dollars)

Fiscal Year	Assessed Taxable Values			Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Real Property	Personal Property	Totals			
1996-1997	\$ 903,581	\$ 16,404	\$ 919,985	1.00%	\$ 2,282,387	40.31%
1997-1998	930,732	18,310	949,042	1.00%	2,352,987	40.33%
1998-1999	976,719	18,392	995,111	1.00%	2,468,072	40.32%
1999-2000	1,042,995	19,662	1,062,657	1.00%	2,635,576	40.32%
2000-2001	1,144,892	19,127	1,164,019	1.00%	2,889,554	40.28%
2001-2002	1,230,407	21,463	1,251,870	1.00%	3,106,679	40.30%
2002-2003	1,341,629	22,414	1,364,043	1.00%	3,386,093	40.28%
2003-2004	1,478,818	28,887	1,507,705	1.00%	3,738,312	40.33%
2004-2005	1,605,842	31,369	1,637,211	1.00%	4,059,418	40.33%
2005-2006	1,807,024	24,837	1,831,861	1.00%	4,553,041	40.23%

Source: SLO County Assessors Office

Schedule 6
City of Pismo Beach
Direct and Overlapping Property Tax Rates
For The Last ten Fiscal Years
(Rates per \$100 of assessed value)

Fiscal Year	Direct Rate			Overlapping Rates		
	Basic Rate	General Obligation Debt Rate	Total	School Districts	Special Districts	Total
1996-1997	1.00%	0.00%	1.00%	0.0000%	0.0000%	1.0000%
1997-1998	1.00%	0.00%	1.00%	0.0234%	0.0000%	1.0234%
1998-1999	1.00%	0.00%	1.00%	0.0224%	0.0000%	1.0224%
1999-2000	1.00%	0.00%	1.00%	0.0168%	0.0000%	1.0168%
2000-2001	1.00%	0.00%	1.00%	0.0188%	0.0279%	1.0467%
2001-2002	1.00%	0.00%	1.00%	0.0167%	0.0198%	1.0365%
2002-2003	1.00%	0.00%	1.00%	0.0138%	0.0191%	1.0329%
2003-2004	1.00%	0.00%	1.00%	0.0325%	0.0138%	1.0463%
2004-2005	1.00%	0.00%	1.00%	0.0325%	0.0138%	1.0463%
2005-2006	1.00%	0.00%	1.00%	0.0202%	0.0133%	1.0335%

Note: The direct property tax rates can only be changed with specific voter approval.

Schedule 7
City of Pismo Beach
Principal Property Tax Payers - Top Ten Payers
Last Ten Fiscal Years
(Dollar Amounts in Thousands)

2006			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Second Horizon Group LP	\$ 21,100	1	1.13%
Pismo Coast Plaza LLC	12,540	2	0.67%
Pismo Medical Campus LLC	10,689	3	0.57%
Pacplaza Properties LP	7,504	4	0.40%
Martin Resorts, Inc.	30,781	5	1.64%
Pismo Beach Mobilehome Park	26,929	6	1.44%
Big 5 Corporation	3,950	7	0.21%
Osh Properties LLC	3,920	8	0.21%
Radiology Associates of SLO	3,089	9	0.17%
Coastal Surgical Specialists	2,974	10	0.16%
Total	\$ 123,456		6.60%

2004			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Second Horizon Group LP	\$ 19,000	1	1.25%
Pismo Property Partners LP	10,174	2	0.67%
Ralphs Grocery Store	7,699	3	0.51%
Martin Resorts, Inc.	29,660	4	1.95%
Pacplaza Properties LP	4,343	5	0.29%
Orchard Supply Hardware	3,888	6	0.26%
Pismo Beach Mobile Home Park	19,820	7	1.30%
Charles H. Kamm Trust	2,879	8	0.19%
Longs Drugs Stores	2,745	9	0.18%
John A. Benson Trust	2,682	10	0.17%
Total	\$ 102,860		6.77%

2002			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Info. Not Available		1	
		2	
		3	
		4	
		5	
		6	
		7	
		8	
		9	
		10	
Total	\$ -		0.00%

2000			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Second Horizon LLP	21,003	1	1.93%
Pismo Property Partners	8,776	2	1.70%
Richard N. Racouillet	3,987	3	1.05%
Albertsons, Inc.	3,722	4	0.81%
Orchard Supply Hardware	3,548	5	0.78%
Tokyo Masuwaya Corp.	18,517	6	0.73%
Longs Drug Stores	2,671	7	0.73%
Mission Land Company	2,619	8	0.66%
Pismo Hotel Properties	1,909	9	0.65%
Pismo Beach Mobile Home Park	11,412	10	0.60%
Total	\$ 78,164		9.64%

1998			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Info. not available	-	1	
	-	2	
	-	3	
	-	4	
	-	5	
	-	6	
	-	7	
	-	8	
	-	9	
	-	10	
Total	\$ -		0.00%

2005			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Second Horizon Group LP	\$ 19,000	1	1.14%
Pismo Coast Plaza LLC	10,354	2	0.62%
Nicholas & Kathleen Tomkins	7,847	3	0.46%
Charles H. Kamm	7,357	4	0.44%
Martin Resorts Inc.	30,106	5	1.81%
Orchard Supply Hardware	3,829	6	0.23%
Pismo Beach Mobile Home Park	22,553	7	1.35%
Longs Drugs Stores	2,976	8	0.18%
John A. Benson Trust	2,702	9	0.16%
Robert & Tracie Tachovsky	2,400	10	0.14%
Total	\$ 109,014		6.52%

2003			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Second Horizon Group LP	\$ 19,000	1	1.36%
Pismo Property Partners LP	10,028	2	0.72%
Ralphs Grocery Company	7,509	3	0.54%
Charles H. Kamm Trust	7,081	4	0.51%
Martin Resorts, Inc.	27,985	5	2.01%
Orchard Supply Hardware	3,889	6	0.28%
Pismo Beach Mobile Home Park	17,336	7	1.24%
Longs Drugs Stores	2,737	8	0.20%
La Noria IMS LLC	12,627	9	0.91%
DKB Trust	1,831	10	0.13%
Total	\$ 110,023		7.89%

2001			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Info. Not Available		1	
		2	
		3	
		4	
		5	
		6	
		7	
		8	
		9	
		10	
Total	\$ -		0.00%

1999			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Info. not available		1	
		2	
		3	
		4	
		5	
		6	
		7	
		8	
		9	
		10	
Total	\$ -		0.00%

1997			
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
MCG Outlet Centers LP	19,806	1	2.15%
Merrill M. Williams Trust	7,617	2	0.83%
Richard N. Racouillet, Etia Al	4,000	3	0.43%
Tokyo Masuwaya Co. Corp.	22,139	4	2.41%
Albertsons, Inc.	3,728	5	0.41%
Orchard Supply Hardware Corp.	3,385	6	0.37%
San Luis Medical Clinic Limited	3,142	7	0.34%
Vons Companies	2,015	8	0.22%
Longs Drug Stores	2,356	9	0.26%
McDonald's Corporation	1,802	10	0.20%
Total	\$ 69,990		7.61%

**Schedule 8
City of Pismo Beach
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Taxes Levied For The Fiscal Year	Collected Within The Fiscal Year of The Levy	
		Amount	Percentage of Levy
1997	\$ 1,251,868	\$ 1,218,116	97%
1998	1,283,349	1,252,589	98%
1999	1,348,795	1,293,024	96%
2000	1,435,500	1,412,683	98%
2001	1,556,948	1,533,966	99%
2002	1,668,959	1,643,259	98%
2003	1,754,130	1,730,129	99%
2004	1,979,620	1,979,620	100%
2005	2,012,536	2,012,536	100%
2006	2,937,753	2,937,753	100%

Note: Source is City of Pismo Beach Tax Collection records and San Luis Obispo County Assessor records. Property taxes are levied and collected pursuant to an arrangement commonly referred to as the Teeter Plan. Under the Teeter Plan, the County allocates and remits to the City the full amount of each years tax levy, and the County then retains any delinquencies as collected by the County.

Schedule 8 - A
City of Pismo Beach
Sales Tax Revenue Base Data
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Base City-Wide Retail Sales Subject to Tax</u>	<u>Total Retail Sales Tax Rate</u>	<u>City Direct Tax Rate</u>	<u>Revenue Recognized By the City</u>
1997	\$ 116,428,400	7.25%	1.00%	\$ 1,314,381
1998	120,546,000	7.25%	1.00%	1,366,708
1999	120,156,900	7.25%	1.00%	1,395,217
2000	132,156,200	7.25%	1.00%	1,530,857
2001	140,292,800	7.25%	1.00%	1,623,170
2002	144,422,300	7.25%	1.00%	1,708,960
2003	150,524,500	7.25%	1.00%	1,661,091
2004	160,415,900	7.25%	1.00%	1,867,519
2005	177,224,300	7.25%	1.00%	2,014,060
2006	185,660,400	7.25%	1.00%	2,134,638

Note: The City's direct retail sales tax rate is established pursuant to the City's Municipal Code.
Any increase in the City's direct tax rate requires voter approval. Revenue Base Information
provided by HDL. Revenue information from City of Pismo Beach records.

Schedule B - B
City of Palm Beach
Revenue Base Concentration Data - Principal Sales Tax Generators By Industry
Last Ten Fiscal Years
(Dollar Amounts in Thousands)

2006				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 52,815	1	25.30%	
Apparel Stores	38,123	2	18.33%	
All Other Outlets	35,859	3	17.25%	
Other Retail Stores	30,248	4	14.55%	
Service Stations	25,892	5	12.45%	
Food Chains and Markets	9,218	6	4.43%	
Building Materials	8,364	7	4.02%	
Automobile Dealerships	7,532	8	3.62%	
General Merchandise	74	9	0.04%	
	-	10	0.00%	
Total	\$ 207,925		100.00%	

2004				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 41,753	1	24.09%	
Apparel Stores	32,842	2	18.95%	
Other Retail Stores	27,215	3	15.70%	
All Other Outlets	25,498	4	14.71%	
Service Stations	18,335	5	10.58%	
Food Chains and Markets	11,017	6	6.38%	
Building Materials	8,391	7	4.84%	
Automobile Dealerships	8,108	8	4.68%	
General Merchandise	135	9	0.08%	
	-	10	0.00%	
Total	\$ 173,284		100.00%	

2002				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 39,818	1	24.62%	
Other Retail Stores	27,612	2	17.07%	
All Other Outlets	27,567	3	17.05%	
Apparel Stores	27,382	4	16.93%	
Service Stations	13,859	5	8.57%	
Food Chains and Markets	10,161	6	6.28%	
Building Materials	8,489	7	5.25%	
Automobile Dealerships	6,781	8	4.19%	
General Merchandise	49	9	0.03%	
	-	10	0.00%	
Total	\$ 161,716		100.00%	

2000				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 32,316	1	22.08%	
Apparel Stores	26,331	2	17.98%	
Other Retail Stores	25,748	3	17.58%	
All Other Outlets	25,042	4	17.10%	
Service Stations	12,318	5	8.41%	
Food Chains and Markets	12,287	6	8.39%	
Building Materials	8,239	7	5.62%	
Automobile Dealerships	3,929	8	2.68%	
General Merchandise	267	9	0.18%	
	-	10	0.00%	
Total	\$ 146,477		100.00%	

1998				
Taxpayer	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 28,147	1	20.89%	
Apparel Stores	24,925	2	18.50%	
Other Retail Stores	22,998	3	17.07%	
All Other Outlets	22,408	4	16.63%	
Food Chains and Markets	13,083	5	9.71%	
Service Stations	11,704	6	8.69%	
Building Materials	7,936	7	5.89%	
Automobile Dealerships	3,510	8	2.61%	
General Merchandise	14	9	0.01%	
	-	10	0.00%	
Total	\$ 134,725		100.00%	

2005				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 47,928	1	24.80%	
Apparel Stores	34,725	2	17.87%	
All Other Outlets	30,941	3	16.01%	
Other Retail Stores	27,975	4	14.48%	
Service Stations	23,659	5	12.24%	
Food Chains and Markets	11,435	6	5.92%	
Building Materials	8,525	7	4.41%	
Automobile Dealerships	7,991	8	4.14%	
General Merchandise	82	9	0.03%	
	-	10	0.00%	
Total	\$ 193,241		100.00%	

2003				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 40,654	1	24.79%	
Apparel Stores	30,851	2	18.61%	
Other Retail Stores	26,965	3	16.44%	
All Other Outlets	25,427	4	15.50%	
Service Stations	13,698	5	8.35%	
Food Chains and Markets	10,077	6	6.14%	
Building Materials	9,534	7	5.81%	
Automobile Dealerships	6,748	8	4.11%	
General Merchandise	64	9	0.04%	
	-	10	0.00%	
Total	\$ 184,018		100.00%	

2001				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 37,122	1	23.70%	
Apparel Stores	27,233	2	17.36%	
Other Retail Stores	27,233	3	17.36%	
All Other Outlets	26,332	4	16.81%	
Service Stations	14,911	5	9.52%	
Food Chains and Markets	10,691	6	6.82%	
Building Materials	8,134	7	5.19%	
Automobile Dealerships	4,815	8	3.14%	
General Merchandise	78	9	0.05%	
	-	10	0.00%	
Total	\$ 156,649		100.00%	

1999				
Industry	Retail Sales Generated	Rank	Percentage of Total City Retail Sales Dollars	
Restaurants	\$ 26,533	1	21.81%	
Apparel Stores	24,748	2	18.27%	
Other Retail Stores	23,974	3	17.70%	
All Other Outlets	22,666	4	16.74%	
Food Chains and Markets	12,005	5	8.86%	
Service Stations	10,938	6	8.06%	
Building Materials	8,493	7	6.27%	
Automobile Dealerships	3,031	8	2.24%	
General Merchandise	37	9	0.03%	
	-	10	0.00%	
Total	\$ 135,425		100.00%	

1997				
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	
Restaurants	\$ 27,365	1	20.85%	
All Other Outlets	24,437	2	18.62%	
Other Retail Stores	23,010	3	17.54%	
Apparel Stores	22,616	4	17.24%	
Food Stores	13,618	5	10.53%	
Service Stations	10,931	6	8.33%	
Building Materials	6,665	7	5.10%	
Auto Dealers and Supplies	2,338	8	1.78%	
General Merchandise	9	9	0.01%	
	-	10	0.00%	
Total	\$ 131,219		100.00%	

Schedule 8 B-1
City of Pismo Beach
Principal Sales Tax Payers - Top 25
Last Ten Fiscal Years
(In Alphabetical Order)

Fiscal Years Ended June 30

2006	2005	2004	2003
7 Eleven	7 Eleven	Brad's Restaurant	Brad's Restaurant
Brad's Restaurant	Brad's Restaurant	Carter's Childrenswear	Carter's Childrenswear
Cliffs At Shell Beach	Cliffs At Shell Beach	Central Coast Oil	Central Coast Oil
Five Cities Chevron	F McLintocks	Cliffs At Shell Beach	Cliffs At Shell Beach
Giuseppe's Cucina	Five Cities Chevron	F McLintocks	F McLintocks
Jones New York	Giuseppe's Cucina	Five Cities Co Brand	Giuseppe's Cucina
Longs Drug	Jones New York	Giuseppe's Cucina	Levis Outlet By Most
Marie Callenders	Levis Outlet	Jones New York	Longs Drug
F McLintocks	Longs Drug	Levis Outlet	Marie Callenders
Miller's Unocal	Marie Callenders	Longs Drug	Miller's Unocal
Orchard Supply Hardware	Miller's Unocal	Marie Callenders	Orchard Supply Hardware
Pacific Sunwear Outlet	Orchard Supply Hardware	Miller's Unocal	Oshkosh B Gosh
Pancho's Surf Shop	Pacific Sunwear Outlet	Orchard Supply Hardware	Pacific Sunwear Outlet
Pierside Seafood	Pancho's Surf Shop	Oshkosh B Gosh	Pancho's Surf Shop
Pismo Beach AM PM	Pierside Seafood	Pacific Sunwear Outlet	Pierside Seafood
Rite Aid	Pismo Beach AM PM	Pancho's Surf Shop	Pismo Beach AM PM
Rosa's Ristorante Italiano	Rite Aid	Pierside Seafood	Pismo Beach Mobile
Ross	Scolari's	Pismo Beach AM PM	Ralph's
Scolari's	Shell Beach Motel	Pismo Beach Mobile	Rite Aid
Shell Beach Motel	Splash Café	Ralph's	Rosa's Ristorante Italiano
Trailer Hitch RV Center	Spyglass Shell	Rite Aid	Scolari's
Valley Convenience Stores	Trailer Hitch RV Center	Scolari's	Shell Beach Motel
Van Heusen Direct	Valley Convenience Stores	Shell Beach Motel	Spyglass Restaurant
Walt's Mobil	Van Heusen Direct	Trailer Hitch RV Center	Trailer Hitch RV Center
Yanagi Sushi & Grill	Walt's Mobil	Van Heusen Direct	Van Heusen Direct

Fiscal Years Ended June 30

2002	2001	2000	1999
Best Western Shorecliff Lodge	Best Western Shorecliff Lodge	Albertson's	Albertson's
Brad's Restaurant	Brad's Restaurant	Best Western Shorecliff Lodge	Best Western Shorecliff Lodge
Central Coast Oil	Cliffs at Shell Beach	Brad's Restaurant	Brad's Restaurant
Cliffs at Shell Beach	Coco's	Cliffs at Shell Beach	Cliffs Resort Hotel & Restaurant
Coco's	Denny's	Coastal RV Brokers	Coco's
Denny's	Giuseppe's Cucina	Coco's	Denny's
Giuseppe's Cucinas	Levis Outlet	F McLintocks	Factory Brand Shoes
Levis Outlet	Longs Drug	Giuseppe's Cucina	Giuseppe's Cucina
Longs Drug	Marie Callenders	Levis Outlet	Levis Outlet
Marie Callenders	F McLintocks	Longs Drug	Longs Drug
F McLintocks	Miller's Unocal	Marie Callenders	Marie Callenders
Miller's Unocal	Orchard Supply Hardware	Mikasa Factory Store	F McLintocks
Orchard Supply Hardware	Ponchos Surf Shop	Miller's Unocal	Miller's Unocal
Pacific Sunwear Outlet	Pierside Seafood	Orchard Supply Hardware	Orchard Supply Hardware
Ponchos Surf Shop	Pismo Beach AM PM	Ponchos Surf Shop	Ponchos Surf Shop
Pierside Seafood	Ralph's	Pierside Seafood	Pierside Seafood
Pismo Beach AM PM	Rite aid	Pismo Beach AM PM	Pismo Beach AM PM
Ralph's	Rosa's Ristorante Italiano	Pismo Beach Mobile	Rite Aid
Rite aid	Scolari's	Ralph's	Scolari's
Rosa's Ristorante Italiano	Spy Glass Cheron	Rosa's Ristorante Italiano	Spyglass Restaurant
Scolari's	Spyglass Shell	Scolari's	Spyglass Shell
Spy Glass Restaurant	Tommy Hilfiger	Spy Glass Chevron	Trader Nicks
Trailer Hitch RV Center	Trailer Hitch RV Center	Spyglass Shell	Trailer Hitch RV Center
Van Heusen Direct	Van Heusen Direct	Trailer Hitch RV Center	Van Heusen Direct
Walt's Mobil	Walt's Mobil	Van Heusen Direct	Walt's Mobil

**Schedule 8 B-1
City of Pismo Beach
Principal Sales Tax Payers - Top 25
Last Ten Fiscal Years
(In Alphabetical Order)**

Fiscal Year Ended June 30	
1998	1997
Albertson's	Albertson's
Best Western Shorecliff Lodge	Best Western Shorecliff Lodge
Brad's Restaurant	Brad's Restaurant
Cliffs Resort Hotel & Restaurant	Cliffs Resort Hotel & Restaurant
Coastal RV Brokers	Denny's
Coco's	Giuseppe's Cucina
Giuseppe's Cucina	Jones New York
Levis Outlet	Levis Outlet
Longs Drug	Longs Drug
Marie Callenders	Marie Callenders
F McLintocks	F McLintocks
Mikasa Factory Store	Mikasa Factory Store
Miller's Unocal	Miller's Unocal
Orchard Supply Hardware	Orchard Supply Hardware
Ponchos Surf Shop	Ponchos Surf Shop
Pismo Beach AM PM	Pappy's
Rite Aid	Pierside Seafood
Scolari's	Pismo Beach AM PM
Spyglass Chevron	Rite Aid
Spyglass Shell	Spy Glass Chevron
Trader Nicks	Spyglass Shell
Trailer Hitch RV Center	Trailer Hitch RV Center
Van Heusen Direct	Van Heusen Direct
Von's Misallocation	Von's Misallocation
Walt's Mobil	Walt's Mobil

Note: Principal Sales Tax payers provided by HDL.

Schedule 8 - C
City of Pismo Beach
Transient Occupancy Tax Revenue Base Data
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Base Room Revenues Subject to Tax</u>	<u>City Direct Tax Rate</u>	<u>Revenue Recognized By the City</u>
1997	\$ 29,595,250	10.00%	\$ 2,959,525
1998	29,903,170	10.00%	2,990,317
1999	34,459,930	10.00%	3,445,993
2000	37,405,450	10.00%	3,740,545
2001	41,522,580	10.00%	4,152,258
2002	42,922,640	10.00%	4,292,264
2003	43,429,690	10.00%	4,342,969
2004	46,521,280	10.00%	4,652,128
2005	49,213,560	10.00%	4,921,356
2006	52,954,765	10.00%	5,295,476

Note: The transient occupancy tax can only be changed by approval of the voters, and the rate was increased in 1992. Revenue information provided by City of Pismo Beach records.

Schedule 8 - D
City of Pismo Beach
Transient Occupancy Tax - Principal Payers and Other Data
Last Ten Fiscal Years

Fiscal Year	City-Wide Occupancy Rate	Average Daily Room Rates	Transient Occupancy Tax Revenues In Dollars	
			Concentration By Hotel Size Based on Number of Rooms	
			Number Hotels	Number Hotels
			50 or More Rooms	Under 50 Rooms
2004	No Data	No Data	\$ 3,926,052	\$ 338,305
			19	17
2005	No Data	No Data	\$ 4,159,280	\$ 474,156
			22	19
2006	No Data	No Data	4,482,261	525,028
			20	20

Note:

Data not available for City-Wide Occupancy Rate and Average Daily Room Rates.
Data not available for number of rooms prior to 2003-04 fiscal year.

Schedule 8 D-1
City of Pismo Beach
Principal Transient Occupancy Tax Payers - Top Ten
Last Ten Fiscal Years
(In Alphabetical Order)

Fiscal Years Ended June 30			
2006	2005	2004	2003
Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach
Cottage Inn	Cottage Inn	Cottage Inn	Cottage Inn
Kon Tiki Motel	Kon Tiki Motel	Kon Tiki Motel	Kon Tiki Motel
Pismo Coast Village	Oxford Suites Resort	Oxford Suites Resort	Oxford Suites Resort
Pismo Lighthouse Suites	Pismo Coast Village	Pismo Coast Village	Pismo Coast Village
Sandcastle Inn	Pismo Lighthouse Suites	Pismo Lighthouse Suites	Sandcastle Inn
Seacrest Motel	Sandcastle Inn	Sandcastle Inn	Seacrest Motel
Seaventure Motel	Seacrest Motel	Seacrest Motel	Seaventure Motel
Shorecliff Inn	Seaventure Motel	Seaventure Inn	Shorecliff Inn
Spyglass Inn Motel	Shorecliff Inn	Shorecliff Inn	Spyglass Inn Motel

Fiscal Years Ended June 30			
2002	2001	2000	1999
Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach
Cottage Inn	Cottage Inn	Cottage Inn	Kon Tiki Motel
Kon Tiki Motel	Kon Tiki Motel	Kon Tiki Motel	Oxford Suites Resort
Oxford Suites Resort	Oxford Suites Resort	Oxford Suites Resort	Pismo Coast Village
Sandcastle Inn	Pismo Coast Village	Pismo Coast Village	Sandcastle Inn
Seacrest Motel	Sandcastle Inn	Sandcastle Inn	Seacrest Motel
Seaventure Motel	Seacrest Motel	Seacrest Motel	Seaventure Motel
Shelter Cove Motel	Seaventure Motel	Seaventure Motel	Shelter Cove Motel
Shorecliff Inn	Shorecliff Inn	Shorecliff Inn	Shorecliff Inn
Spyglass Inn Motel	Spyglass Inn Motel	Spyglass Inn Motel	Spyglass Inn Motel

Fiscal Year Ended June 30	
1998	1997
No data available	No data available

Note: Principal Transient Occupancy Tax Payers provided by City of Pismo Beach records.
Information for fiscal years 1997 and 1998 is unavailable.

Schedule 8 -E
City of Pismo Beach
Water and Sewer Rates for Single Family Residents
Last Ten Fiscal Years

Fiscal Year	Water		Sewer	
	Monthly Base Rate	Rate Per 1000 Gallons	Monthly Base Rate	Rate Per 1000 Gallons*
1997	\$ 5.91	\$ 0.75	\$ 13.56	\$ -
1998	6.01	0.76	13.79	-
1999	7.83	0.77	14.04	-
2000	9.54	1.13	14.32	-
2001	9.54	1.13	17.18	-
2002	9.79	1.16	18.13	-
2003	10.08	1.19	19.99	-
2004	10.30	1.22	22.04	-
2005	10.77	1.27	24.00	-
2006	11.63	1.38	25.61	-

Source:

City of Pismo Beach Financial System Rate Records

*Sewer rate is based on Fixed Rate only.

Schedule 8 - F
City of Pismo Beach
Water and Wastewater Principal Payers - Revenue Concentration Data
Last Ten Fiscal Years

Water Revenue Concentration Data

Fiscal Year	Class of Customer			Totals
	Single Family	Non-Residential	Construction	
	Revenue in Dollars and Number of Customers			
1997	No data available			\$ -
1998	No data available			\$ -
1999	No data available			\$ -
2000	\$ 596,541 3,335	\$ 581,577 687	\$ 10,686 62	\$ 1,188,804 4,084
2001	\$ 546,795 3,358	\$ 501,820 659	\$ 9,265 80	\$ 1,057,880 4,097
2002	\$ 555,776 3,411	\$ 506,273 659	\$ 11,818 79	\$ 1,073,867 4,149
2003	\$ 580,369 3,474	\$ 516,419 663	\$ 13,488 66	\$ 1,110,276 4,203
2004	\$ 597,470 3,534	\$ 529,188 683	\$ 19,818 69	\$ 1,146,476 4,286
2005	\$ 589,014 3,592	\$ 538,536 699	\$ 12,774 50	\$ 1,140,324 4,341
2006	609,897 3607	561,182 709	11,755 61	1,182,834 4,377

Wastewater Revenue Concentration Data

Fiscal Year	Class of Customer					Total Revenue
	Residential	Other Residential	Hotel/Motel	Commercial	Other	
	Revenue in Dollars and Number of Customers					
1997	No data available					\$ -
1998	No data available					\$ -
1999	No data available					\$ -
2000	\$ 418,438 3,286	\$ 127,181 294	\$ 197,898 41	\$ 262,542 216	\$ 76,807 9	\$ 1,082,866 3,846
2001	\$ 457,640 3,341	\$ 137,320 292	\$ 244,411 41	\$ 292,881 216	\$ 62,344 7	\$ 1,194,596 3,897
2002	\$ 535,212 3,396	\$ 157,021 292	\$ 269,222 38	\$ 343,965 218	\$ 71,291 8	\$ 1,376,711 3,952
2003	\$ 595,831 3,460	\$ 168,192 293	\$ 292,523 38	\$ 364,878 218	\$ 69,488 7	\$ 1,490,912 4,016
2004	\$ 667,682 3,521	\$ 190,403 294	\$ 324,062 37	\$ 366,397 233	\$ 76,545 8	\$ 1,625,089 4,093
2005	\$ 746,381 3,580	\$ 236,870 292	\$ 344,788 38	\$ 418,290 245	\$ 95,837 7	\$ 1,842,166 4,162
2006	\$ 796,798 3,595	\$ 254,830 296	\$ 366,812 37	\$ 522,817 249	\$ 96,410 8	\$ 2,037,667 4,185

Schedule 8 F-1
City of Pismo Beach
Principal Water Sale Purchasers - Top Ten
Last Ten Fiscal Years
(In Alphabetical Order)

Fiscal Years Ended June 30

2006	2005	2004	2003
Cliffs of Shell Beach	Cal Trans	Cliffs of Shell Beach	Cliffs of Shell Beach
Hacienda Del Pismo	Cliffs of Shell Beach	Hacienda Del Pismo	Hacienda Del Pismo
Kon Tiki	Hacienda Del Pismo	Kon Tiki	Kon Tiki
Motel 6	Kon Tiki	Motel 6	Motel 6
Oxford Suites	Lucia Mar School Dist	Oxford Suites	Oxford Suites
Pismo Lighthouse Suites	Motel 6	Pismo Lighthouse Suites	Pismo Lighthouse Suites
Pismo Mobile Hm Pk	Oxford Suites	Pismo Mobile Hm Pk	Pismo Mobile Hm Pk
Seacrest Motel	Pismo Mobile Hm Pk	Pismo RV Park	Pismo RV Park
Seaventure Motel	Seacrest Motel	Seacrest Motel	Seacrest Motel
Shorecliff Lodge	Shorecliff Lodge	Shorecliff Lodge	Shorecliff Lodge

Fiscal Years Ended June 30

2002	2001	2000	1999
Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach	Cliffs of Shell Beach
Hacienda Del Pismo	Hacienda Del Pismo	Hacienda Del Pismo	Hacienda Del Pismo
Kon Tiki	Kon Tiki	Kon Tiki	Kon Tiki
Motel 6	Motel 6	Motel 6	Motel 6
Oxford Suites	Oxford Suites	Oxford Suites	Oxford Suites
Pismo Lighthouse Suites	Pismo Mobile Hm Pk	Pismo Mobile Hm Pk	Pismo Mobile Hm Pk
Pismo Mobile Hm Pk	Pismo RV Park	Pismo RV Park	Pismo RV Park
Pismo RV Park	Seacrest Motel	Seacrest Motel	Seacrest Motel
Seacrest Motel	Shorecliff Lodge	Shorecliff Lodge	Shorecliff Lodge
Shorecliff Lodge	Whaler's Inn	Whaler's Inn	Whaler's Inn

Fiscal Years Ended June 30

1998	1997
Cliffs of Shell Beach	Cliffs of Shell Beach
Hacienda Del Pismo	Hacienda Del Pismo
Kon Tiki	Kon Tiki
Motel 6	Motel 6
Oxford Suites	Oxford Suites
Pismo Mobile Hm Pk	Pismo Mobile Hm Pk
Pismo RV Park	Pismo RV Park
Seacrest Motel	Seacrest Motel
Shorecliff Lodge	Shorecliff Lodge
Whaler's Inn	Whaler's Inn

Schedule 9
City of Pismo Beach
Ratios of Outstanding Debt By Type
Last Ten Fiscal Years
(Dollars In Thousands except for Per Capita)

Fiscal Year	Governmental Activities					Business-Type Activities					Total City Debt as Percentage of Personal Income	Total City Debt Per Capita	From CAFR	
	General Obligation Bonds	Lease Revenue Bonds	Special Assessment Bonds	Reassessment & COP Revenue Bonds	Tax Allocation Bonds	Capital Lease Obligations	Capital Lease Obligations	Lease Revenue Bonds	State of California and Other Loans	Total City Debt			Population	PerCapita Personal Income
1997	\$ -	\$ 6,795	\$ 566	\$ 2,785	\$ -	\$ -	\$ 450	\$ 75	\$ -	\$ 10,671	6.36%	\$ 1,297	8225	20407
1998	-	6,700	533	2,445	-	-	410	-	-	10,088	5.97%	1,218	8275	20407
1999	-	6,710	499	2,085	-	-	370	-	-	9,664	5.84%	1,150	8400	20407
2000	-	6,655	465	1,650	-	-	325	-	-	9,095	3.45%	1,064	8551	30835
2001	-	4,800	416	1,380	1,785	124	364	-	2,787	11,668	4.39%	1,353	8625	30835
2002	-	4,680	222	1,110	1,740	94	268	-	2,665	10,779	4.03%	1,243	8675	30835
2003	-	4,550	198	865	1,700	109	73	-	2,536	10,031	3.74%	1,155	8687	30835
2004	-	4,420	172	-	1,655	74	49	7,500	-	13,870	5.16%	1,592	8710	30835
2005	-	4,285	141	-	1,610	58	5	7,455	5,926	19,480	7.25%	2,236	8716	30835
2006	-	4,140	110	-	1,565	-	-	7,300	9,995	23,110	8.65%	2,668	8662	30835

**Schedule 10
City of Pismo Beach
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years**

Fiscal Year	General Bonded Debt Outstanding				Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Lease Revenue Bonds	Tax Allocation Bonds	Total		
1997	\$ -	\$ 6,795,000	\$ -	\$ 6,795,000	0.74%	\$ 826.14
1998	-	6,700,000	-	6,700,000	0.71%	809.67
1999	-	6,710,000	-	6,710,000	0.67%	798.81
2000	-	6,655,000	-	6,655,000	0.62%	778.27
2001	-	4,800,000	1,795,000	6,595,000	0.57%	764.64
2002	-	4,680,000	1,740,000	6,420,000	0.51%	740.06
2003	-	4,550,000	1,700,000	6,250,000	0.45%	719.47
2004	-	4,420,000	1,655,000	6,075,000	0.40%	697.47
2005	-	4,285,000	1,610,000	5,895,000	0.36%	676.34
2006	-	4,140,000	1,565,000	5,705,000	0.31%	658.62

Note: Debt service on the lease revenue bonds and tax allocation bonds is financed by the use of general governmental financial resources available in the general fund and special revenue funds of the City.

Schedule 11
City of Pismo Beach
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<u>OVERLAPPING DEBT REPAID WITH PROPERTY TAXES:</u>			
San Luis Obispo County Certificates of Participation	\$ 42,085,000	5.784%	\$ 2,434,196
San Luis Obispo County Pension Obligations	135,199,398	5.784%	7,819,933
San Luis Obispo Community College District Certificates of Participation	2,955,000	5.767%	170,415
Lucia Mar Unified School District Certificates of Participation	7,695,000	16.986%	1,307,073
TOTAL DIRECT AND OVERLAPPING DEBT REPAID WITH PROPERTY TAXES			<u>\$ 11,731,617</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Luis Obispo County Flood Control and Water Conservation District, Zone No. 3	12,260,000	29.614%	3,630,676
Lucia Mar Unified School District	44,461,169	16.986%	7,552,174
City of Pismo Beach 1915 Act Bonds	85,000	100.00%	85,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 11,267,851</u>
<u>CITY DIRECT DEBT - GOVERNMENTAL ONLY:</u>			
City of Pismo Beach General Fund Obligations	4,140,000	100.00%	<u>\$ 4,140,000</u>
TOTAL DIRECT AND OVERLAPPING DEBT			<u><u>\$ 27,139,468</u></u>

Source: California Municipal Statistics, Inc.

**Schedule 12
City of Pismo Beach
Legal Debt Margin Information
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total Debt Applicable To Limit</u>	<u>Total Debt Applicable To Limit as Percentage of Debt Limit</u>
1997	\$ 34,499,436	\$ -	0%
1998	35,589,046	-	0%
1999	37,316,678	-	0%
2000	39,849,654	-	0%
2001	43,650,716	-	0%
2002	46,945,109	-	0%
2003	51,151,604	-	0%
2004	56,538,960	-	0%
2005	61,395,387	-	0%
2006	68,754,189	-	0%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 1,833,445,041
Conversion Percentage (25%)	25%
Adjusted Assessed Valuation	458,361,260
Debt Limit Percentage (15%)	15%
Debt Limit	68,754,189
Less debt applicable to limit:	
General obligation bonds	-
Total debt applicable to limit	-
Legal debt margin	<u>\$ 68,754,189</u>
Total debt applicable to the limit as a percentage of debt limit	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 15% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Source: California Municipal Statistics

**Schedule 13
City of Pismo Beach
Pledged Revenue Coverage
Last Ten Fiscal Years**

Special Assessment Bonds

Fiscal Year	Special Assessment Collections	Capital Impact Fees	Debt Service		
			Principal	Interest	Coverage
1997	\$ 496,620	\$ -	\$ 303,000	\$ 197,166	0.99
1998	500,153	-	318,000	197,166	0.97
1999	449,713	-	319,000	170,864	0.92
2000	338,390	-	449,000	130,781	0.58
2001	332,520	-	249,000	103,525	0.94
2002	265,735	-	404,552	76,487	0.55
2003	254,659	-	214,000	29,597	1.05
2004	243,071	-	236,000	30,452	0.91
2005	45,447	-	31,000	10,403	1.10
2006	36,494	-	31,000	8,370	0.93

2004 Revenue Bonds

	Wastewater Service Revenues	Capital Impact Fees	Less Operating Expenses	Net Available Revenue	Debt Service		
					Principal	Interest	Coverage
2005	\$2,214,107	\$ -	\$ 1,477,945	\$ 736,162	\$ 45,000	\$ 256,109	2.44
2006	2,424,053	-	1,646,359	777,694	155,000	300,405	1.71

Note: Wastewater revenues include service fees only.
Data for wastewater shown in fiscal 2005 and thereafter when proceeds of State of California SRF loan first where drawn down. Operating expenses exclude depreciation.

Schedule 14
City of Pismo Beach
Demographic and Economic Statistics
For The Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1997	8,225	\$ 167,847,575	\$ 20,407	4.30%
1998	8,275	168,867,925	20,407	3.80%
1999	8,400	171,418,800	20,407	3.00%
2000	8,551	263,670,085	30,835	3.40%
2001	8,625	265,951,875	30,835	3.40%
2002	8,675	267,493,625	30,835	3.90%
2003	8,687	267,863,645	30,835	3.90%
2004	8,710	268,572,850	30,835	3.80%
2005	8,716	268,757,860	30,835	3.50%
2006	8,662	267,092,770	30,835	3.20%

**Schedule 15
City of Pismo Beach
Principal Employers (Ten Largest)
Last Fiscal Year**

Fiscal Year Ended June 30, 2006

Employer	Number Employees	Rank	Percentage of Total City Employment
The Cliffs of Shell Beach	192	1	4.17%
McClintock's	130	2	2.83%
City of Pismo Beach	125	3	2.72%
Keller-Williams	120	4	2.61%
U.S. Postal Service	100	5	2.17%
United Staffing Associates	88	6	1.91%
Steamer's	85	7	1.85%
Pelican Pointe	83	8	1.80%
Brad's Restaurant	75	9	1.63%
Sea Venture	75	10	1.63%
Totals	1073		23.33%

Note: Information about principal employers was not previously provided by the City in the statistical section of its Comprehensive Annual Financial Report. The City implemented GASB Statement Number 44 in the 2006 fiscal year, and therefore information in this schedule is being provided prospectively from the year of implementation. Total City of Pismo Beach Employment for 2006 is 4,600 per the State of California website.

Schedule 16
City of Pismo Beach
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Full-Time Equivalent Employees as of June 30

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government:										
Administration	3	3.5	3.5	3.5	3.5	3.5	4.5	5	5	5
City council	5	5	5	5	5	5	5	5	5	5
City attorney - Contract	1	1	1	1	1	1	1	1	1	1
CVB	-	1	1	2	2	2	2	2	2	2
Administrative Services	3.7	3.7	6.2	6.2	6.7	6.7	7	7	7	7
Public safety:										
Police	25.5	27.5	31	31	31	32	33	34	34	34
Fire	4.5	4.5	6	6	6	8	-	-	-	-
Community Development:										
Planning	3.60	3.35	4.65	5.25	4.95	4.60	4.60	4.60	4.60	4.60
Building	2.60	3.68	3.68	3.68	3.68	4.10	4.10	4.10	4.10	4.10
Recreation	0.18	0.44	0.44	1.00	1.20	1.70	1.70	1.70	1.70	1.70
Public Works/Engineering:										
Engineering	3.34	2.84	3.34	3.74	3.70	4.95	4.95	4.95	4.95	4.95
Streets and Govt Bldgs	2.71	3.91	3.91	3.91	3.83	4.83	4.83	4.83	4.83	7.23
Park Maintenance	3.70	3.70	2.50	2.50	4.52	4.52	5.52	6.52	6.52	7.52
Vets Halls	0.18	0.18	0.18	0.18	0.18	-	-	-	-	-
Water:										
Treatment and distribution	4.67	4.97	4.97	4.52	5.30	5.58	5.58	4.63	4.63	4.63
Billing	0.51	0.51	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Wastewater:										
Collection and treatment	6.03	6.03	6.03	7.33	8.45	8.58	8.58	8.58	8.58	8.58
Billing	0.49	0.49	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
Motor Vehicle Operations										
Motor Vehicle Operations	1.05	1.05	1.05	2.20	2.20	2.05	2.05	2.05	2.05	2.05
Totals	71.76	77.35	85.45	90.01	94.21	100.10	95.40	96.95	96.95	100.35

Note: The City contracted with CDF in FY 2001-02, therefore, no staffing is listed for years thereafter.

Schedule 17
City of Pismo Beach
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police:										
Physical arrest	No data	No data	No data	No data	171	555	736	799	748	590
Traffic violations	No data	No data	No data	No data	2,587	1,825	2,036	2,350	1,865	1,052
Fire:										
Emergency responses	No data	No data	No data	No data	No data	978	870	834	987	946
Fires extinguished	No data	No data	No data	No data	No data	51	22	41	36	34
Planning:										
Building permits issued	272	335	286	255	312	259	331	323	279	254
Public works:										
Miles streets resurfaced	-	1.75	-	0.07	1.20	4.47	0.07	-	-	0.10
Parks and Recreation:										
Number of facility rentals	no data	no data	no data	no data	no data	no data	no data	no data	no data	186
Number of class admissions	no data	no data	no data	no data	no data	no data	no data	no data	no data	385
Water:										
Number new connections	no data	no data	no data	no data	no data	no data	no data	no data	no data	33
Daily average water production in MGD	1.89	1.89	1.89	1.90	1.90	2.00	1.90	1.90	1.90	1.90
Daily average water consumption in MGD	1.70	1.70	1.70	1.80	1.80	1.80	1.70	1.70	1.70	1.70
Wastewater:										
Number new connections	no data	no data	no data	no data	no data	no data	no data	no data	no data	20
Daily average treatment in millions gallons(MGD)	1.05	0.97	1.24	1.11	1.14	1.11	1.05	1.06	1.13	1.18

Note:

Police information unavailable prior to fiscal year 2001.

Fire information unavailable prior to fiscal year 2002.

Park and Recreation information unavailable prior to fiscal year 2006.

Water and Wastewater connections data not able to locate prior to 2006.

Schedule 18
City of Pismo Beach
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	6	6	6	6	6	6	6	6	6
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Engines	2	2	2	2	2	2	2	2	2	2
Public works:										
Miles of streets	36	37	37	37	37	37	37	37	37	37
Streetlights	757	757	757	757	757	757	757	757	757	757
Traffic signals	3	3	3	3	3	3	3	3	3	3
Parks and recreation:										
Community centers	2	2	2	2	2	2	2	2	2	2
Parks	18	18	18	18	18	18	18	18	18	18
Park acreage	205	205	205	205	205	205	205	205	205	205
Water:										
Miles of mains	50	51	52	52	52	52	52	53	53	53
Number connections	4,248	4,359	4,155	4,110	4,158	4,233	4,234	4,365	4,405	4,443
Maximum plant capacity in millions gallons	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Wastewater:										
Miles of sewers	37	38	39	39	39	39	39	39	39	39
Number connections	no data	no data	no data	3,846	3,897	3,951	4,016	4,093	4,162	4,182
Maximum plant capacity in millions gallons	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.90

Note:
Wastewater number of connections unavailable prior to fiscal year 2000.

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APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of April 1, 2007, is made and entered into by and between the City of Pismo Beach (the “City”) and U.S. Bank National Association, as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Pismo Beach Public Financing Authority (the “Issuer”) of its \$5,185,000 Series 2007A Lease Revenue Refunding Bonds, (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

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

“Annual 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 (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the Director of Administrative Services of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

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

“Listed Event” 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. The National Repositories currently approved by the Securities and Exchange Commission are set forth on the SEC website located at www.sec.gov/consumer/nrmsir.htm.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated April 4, 2007.

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

“Repository” shall mean each National Repository and each State Repository.

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

“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.

“Trustee” means U.S. Bank National Association, as Trustee with respect to the Bonds, and any successor thereto.

SECTION 3. Provision of Annual Reports.

(a) The City shall cause the Dissemination Agent, not later than nine (9) months after the end of the City’s Fiscal Year, commencing with the report for the 2006-07 Fiscal Year, to provide to each Repository 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 include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with the first sentence of this subsection (b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository or 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 the 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.

(e) Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretative release to the MAC dated September 7, 2004.

SECTION 5. Content of Annual Report. The City’s Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the City for the preceding Fiscal Year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) of the Indenture, the financial information included in the Annual Report may be unaudited, and the City will provide audited financial information to each Repository as soon as practical after it has been made available to the City.

(b) Operating data, including the following information with respect to the City’s preceding Fiscal Year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Outstanding indebtedness and lease obligations;

(ii) General fund budget and actual results;

(iv) Assessed valuations; and

(v) Largest local secured taxpayers.

(c) Any or all of the items listed above may be incorporated by reference from 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 to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, in a timely manner, to the MSRB, the State Repository, if any, and each Participating Underwriter, 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 Bondholders.
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 reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the City, inform the City of the Listed Event and request that the City promptly notify the Dissemination Agent in writing whether or not to report such Listed Event pursuant to Subsection(e) of this Section. For the purposes of this Disclosure Certificate “actual knowledge” means actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture.

(c) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Trustee whether or not to report such event to the Bondholders. In the absence of such direction the Trustee shall not report such event unless otherwise required to be reported by the Trustee to the Bondholders under the Indenture. The Trustee may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Certificate, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Trustee shall have no responsibility to determine the materiality of any of the Listed Events.

(d) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(e) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (g).

(f) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (g).

(g) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Repositories. 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 Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City hereby appoints U.S. Bank National Association as the initial Dissemination Agent and may, from time to time, discharge, appoint or engage any other Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in this Disclosure Certificate, and no implied duties, covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the City pursuant to this Disclosure Certificate. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, (and the Trustee and Dissemination Agent shall agree to any amendment so requested by the City), provided, neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(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; and

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

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 shall 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 or the Trustee to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any 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 or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate by the City or the Dissemination Agent shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Trustee to comply with this Disclosure Certificate shall be an action to compel performance. No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of the Trustee and Dissemination Agent. Article VI of the Indenture pertaining to the Trustee is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, and the Trustee and their 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

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Pismo Beach Public Financing Authority

Name of Obligated Person: City of Pismo Beach

Name of Issue: \$5,185,000 Pismo Beach Public Financing Authority
Series 2007A Lease Revenue Refunding Bonds

Date of Issuance: April __, 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 executed by the City on the date of issuance of the Bonds. [The City anticipates that the Annual Report will be filed by ____].

Dated:

U.S. BANK NATIONAL ASSOCIATION,
on behalf of the City of Pismo Beach

By: _____

APPENDIX D

GENERAL INFORMATION REGARDING THE CITY OF PISMO BEACH AND SURROUNDING AREA

Disclaimer

The following information, unless otherwise cited, was directly transcribed from material provided by the City of Pismo Beach (the “City”), the County of San Luis Obispo (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City, the County and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision. The Bonds are not a debt of the City, the County or the State of California (the “State”) or any of the State’s Political Subdivisions; and neither the City, the County, the State nor any of the State’s Political Subdivisions are liable therefore.

History of Pismo Beach

The first known inhabitants of the Pismo Beach area are the Chumash Indians, who referred to the area as the place to find pismu, or tar. Many years later, Don Gasper de Portola led the first Spanish exploration party pass through Pismo Beach on September 4, 1769. Portola and his parties camped in the area on their way to explore northern California. According to the diary of Costanso, a member of the Portola party, the party “continued over the sand dunes and then descended to the beach, along which we walked for several miles before camping for night. Near our camping place was an Indian village of some forty people.” Undoubtedly, the beach walked upon by the Portola party was that known today as Pismo Beach. The Pismo Beach area was later used by mission fathers to grow barley and fava beans, and as a site to gather shells for making lime mortar.

The City is part of 8,838 acres formally known as Rancho Pismo. Rancho Pismo was granted to Jose Ortega by Manuel Rinemo Goriod, and Governor Pro Tem Jimeno Casarin on November 18, 1840 In 1875, an entrepreneurial owner took the first step toward funding the community of Pismo Beach when he built a hotel on the road from Arroyo Grande to the People’s Wharf in Avila Beach. The hotel was not successful and the developer had the hotel moved to the beach in 1884. The school district and post office were founded in Pismo Beach in 1888.

1926 saw the first incorporation attempt in Pismo Beach. Though it failed, attempts to incorporate the City were finally successful in 1939 when Pismo Beach became a sixth class city by a majority of 7 votes. In 1940, worries over possible increased tax led the citizens to vote to disincorporate the City. The majority was 8 votes in the election. The present City government dates from 1946.

Population Trends

In 2002, the City of Pismo Beach’s population stood at 8,675 persons, which makes it the smallest city in San Luis Obispo County. Since 1970, the City population has grown by 115 percent, while San Luis

Obispo County has grown around 141 percent. Annually, the City grew at a rate of 2.34 percent, slower than the County rate of 2.70 percent. The City's last period of rapid population growth came between 1986 and 1990. During the 1990's, Pismo Beach grew at a rate of 3.63 percent.

City of Pismo Beach HISTORICAL POPULATION

<u>Year</u>	<u>City Population</u>	<u>Annual Change</u>
1970	4,043	--
1980	5,300	2.74%
1990	7,575	3.63%
2000	8,551	1.22%
2001	8,575	0.28%
2002	8,675	1.17%

Source: Department of Finance

Population and Age Characteristics

City of Pismo Beach FAMILIES AND HOUSEHOLDS

	<u>Number</u>	<u>Percent</u>
Family - Male Householder:	1,814	42.9
Family - Female Householder:	509	12
Non-family Householder:	1,907	45.1
Families w/ related children under 18 yrs:	738	31.8
Female householder, no husband, w/ related children under 18 yrs:	142	52.6
Average Household Size:	2.02	
Average Family Size:	2.58	

Source: 2000 Census of Population And Housing

City of Pismo Beach POPULATION BY RACE AND HISPANIC ORIGIN

<u>Population</u>	<u>White</u>	<u>Black</u>	<u>American Indian, Eskimo</u>	<u>Asian, Pacific Islander</u>	<u>Other</u>	<u>Hispanic Origin</u>
8,537	7,452	102	41	210	129	611

Source: 2000 Census of Population And Housing.

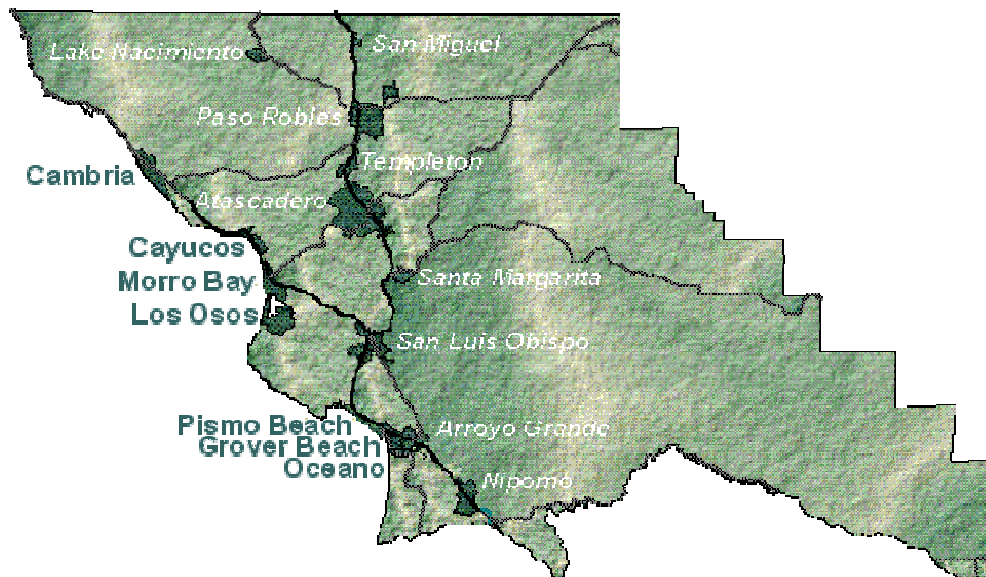
City of Pismo Beach FAMILY HOUSEHOLD SIZE

Per Person	Total
1 Person	1,499
2 Person	1,808
3 Person	463
4 Person	319
5 Person	113
6 Person	21
7 or more	7
Total	4,230

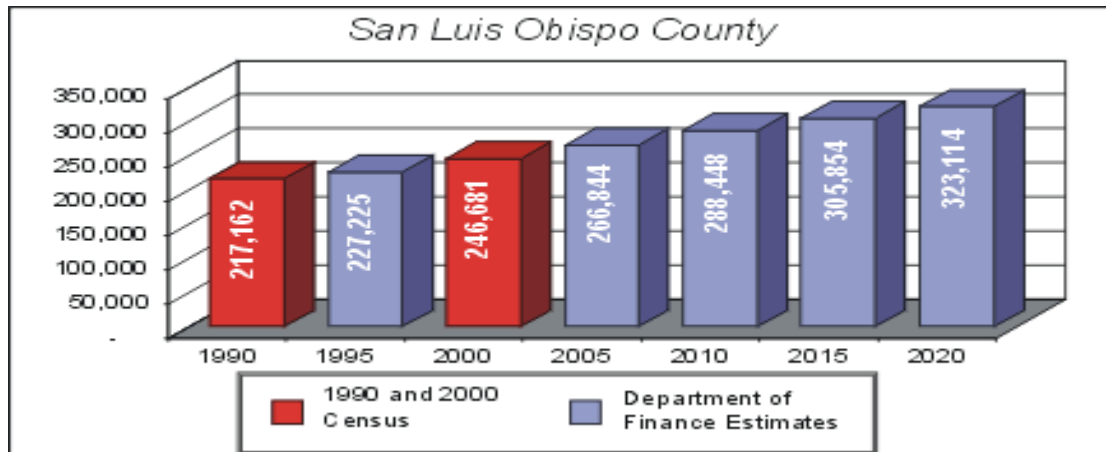
The County

The County of San Luis Obispo (the “County”) was created in 1850, as one of twenty-seven original California counties. The County’s name is derived from the Mission San Luis Obispo, established in 1772 by Father Junipero Serra. San Luis Obispo County’s 3,326 square miles are home to a wide variety of topography. The Southern Coast Ranges run northwest to southwest throughout San Luis Obispo, with the Santa Lucia Range in the west and the Temblor Range in the east. A mountainous county, level land is found mostly along the northern border, in some coastal valleys, and with the Carrizo Plain in the southeast. The northernmost end of the Carrizo Plain contains one of the largest natural wildlife preserves in the nation. San Luis Obispo County is located on California’s central coast. The county is bordered on the north by Monterey, on the east by Kern and to the south by Santa Barbara.

SLOCOG-Metropolitan Planning Boundry



The County has several tourist attractions and recreational areas, including Hearst Castle in San Simeon, visited by more than 70,000 people annually. According to 2003 Department of Finance estimates, the County's population has reached 256,300, an increase of 3,300 or 1.3 percent over 2002 estimates. The city of El Paso De Robles (Paso Robles) experienced the highest percent growth (4.3 percent), as well as recording the greatest number of new residents (1,100). The city of San Luis Obispo is the County's most populated with 44,350 residents, a number unchanged from the previous year. San Luis Obispo County is projected to grow to almost 325,000 residents by the year 2020.



In addition to population growth, the County's 2002 civilian labor force grew 3.3 percent over 2001 figures, totaling 122,900. After several years of decline, the annual average unemployment rate increased to 3.4 percent in 2002, still well below California's rate of 6.7 percent for the same year. San Luis Obispo's economy is largely based on tourism and education; as a result, government, trade, transportation, utilities, leisure and hospitality are significant industries in the County. The largest 2002 industry employer, government, provided 23,100 jobs or 22.2 percent of all employment. The majority of jobs are in the local government component, which includes city and county government, local education, and Indian Tribal government. Trade, transportation, and utilities is the second largest industry, providing 18.3 percent of employment; leisure and hospitality account for more than 13 percent of all employment, with 13,700 jobs reported. Within leisure and hospitality, accommodation and food service accounts for the largest concentration of employment.

Natural resources, mining and construction, information, and other services, are among the County's fastest growing industries. Over the years 1998 to 2002, natural resources, mining and construction gained 1,800 jobs, growth of 36 percent. The industry provided a total of 6,800 jobs in the year 2002. Information has grown by more than 23 percent since 1998; other services, which includes equipment and machinery repair; laundry and personal care; pet care services; and consumer electronics repair and maintenance, among others, has increased by 22 percent during the same period. Labor market conditions in San Luis Obispo County have been strong in recent years. The County continues to record job growth and a relatively low unemployment rate. Factors for future growth in the County include education, through County and post-secondary schools, and tourism, which is expected to remain a strong asset in the County's economic growth.

Labor Force

Civilian unemployment includes persons who are not working but are able, available, and actively looking for work. Individuals who are waiting to be recalled from a layoff, and individuals waiting to report to a new job are also considered to be unemployed. The unemployment rate is the number of unemployed as a percentage of the labor force.

Since 1998, unemployment rates for both San Luis Obispo and neighboring Santa Barbara counties have been consistently lower than California's unemployment rate. Despite a slight increase in 2002, the County's rate has stayed under the 4.1 percent high for this profiled period, recorded in 1998. Santa Barbara's 2002 rate increased to 4.2 percent, while California's rate increased to 6.7 percent.

Labor force data, as shown below, accounts for civilians who are age 16 or older and who are working or looking for work. San Luis Obispo County's annual average figures show a gain in labor force of more than 14,000 persons since 1998. Employment and unemployment figures reflect the employment status of individuals by place of residence. Counts of employment by place of work are referred to as industry employment totals.

Labor Force Statistics	1998	1999	2000	2001	2002
Labor Force	108,800	112,000	115,000	119,000	122,900
Employment	104,300	108,400	111,600	115,700	118,700
Unemployment	4,500	3,600	3,400	3,300	4,200
Unemployment Rate	4.1%	3.2%	3.0%	2.8%	3.4%

Source: The County

Industry Employment

Since 1998, San Luis Obispo County has consistently outpaced California's rate of growth in industry employment. In 2002, the County's employment increased by 1,700 jobs, growth of 1.7 percent. Leisure and hospitality contributed the largest amount, adding 500 new jobs. Financial activities and educational and health services gained 400 jobs each. Industry employment growth slowed in neighboring Santa Barbara County in 2002 (0.1 percentage point), while California posted a decline of 0.9 percentage point.

During the 1998–2002 period, San Luis Obispo County's largest growth industries were trade, transportation and utilities; government; leisure and hospitality; and natural resources, mining and construction. Trade, transportation and utilities gained 2,600 jobs, with retail trade accounting for 73 percent (1,900 jobs). Government added 1,900 jobs, mostly in local government. Leisure and hospitality experienced significant growth, with the addition of 1,800 jobs, a 15.1 percent increase over 1998 figures. Natural resources, mining and construction also gained 1,800 jobs, cumulative growth of 36 percent.

Occupational Employment

Services is the largest growth industry in San Luis Obispo County, as forecast by industry projections using the Standard Industrial Classification system (SIC). Services is expected to add 4,600 jobs

during the projection period, growth of almost 20 percent. By SIC definition, services includes establishments engaged in providing a variety of services for individuals, business, and government establishments, and other organizations. Hotels and other lodging places; establishments providing personal, business, repair and amusement services; health, legal, engineering and other professional services; educational institutions; membership organizations, and other services are included.

Government is the second-largest growth industry in San Luis Obispo County, according to the 1999–2006 industry projections. The industry is forecast to add 2,900 jobs during the 1999–2006 projection period. Government employment consists of federal, state, and local government, including local education and Indian gaming. In San Luis Obispo County, greatest growth is expected in local government (an increase of 15.3 percent or 1,800 jobs).

Retail trade is the third-largest growth industry in San Luis Obispo County, according to the 1999–2006 industry projections. San Luis Obispo County is estimated to experience growth of 11.7 percent or 2,400 jobs in this industry during the seven-year period. As defined by the SIC, retail trade establishments sell merchandise to the general public for personal or household consumption and are classified by kind of business according to the principal lines of commodities sold (groceries, hardware, etc.), or the usual trade designation (drug store, cigar store, etc.). Retail trade includes employment in areas such as building materials and garden supplies; general merchandise stores; food stores; automotive dealers and service stations; apparel and accessory stores; furniture and home furnishings stores; eating and drinking places; and other miscellaneous retail.

California Labor Market

California has 58 counties and a variety of industries that contribute to its economy. Information services, high technology manufacturing, agriculture, and entertainment are a few examples of the broad range of economic productivity in the state.

In 2002, the civilian labor force grew by 221,700, an increase of 1.3 percent over 2001 figures, bringing the total labor force to more than 17.4 million persons. The unemployment rate increased from 5.4 percent in 2001 to 6.7 percent in 2002.

Overall, industry employment in California declined by 128,900 jobs in 2002. Industries recording job losses included professional and business services (60,500 jobs) and information services (53,500 jobs). Components of these industries reporting the largest declines include computer systems design and related services (-29,700 jobs); management of companies and enterprises (-18,800 jobs); Internet service providers and Web search portals (-17,900 jobs); and telecommunications (-12,100 jobs).

Industries reporting gains included government (66,000 jobs added) and education and health services (52,700 jobs gained). Within these growing industries, the majority of gains were in the following components: local government education (33,600 jobs); ambulatory health care services (22,400 jobs); county government (9,300 jobs); general medical and surgical hospitals (9,300 jobs); nursing and residential care facilities (6,500 jobs).

For the period 2000-2010, California employment projections show that total non-farm employment is expected to increase by at least 3.2 million jobs, or 22.2 percent. Although growth is

projected for every industry, some job loss will occur in smaller sectors of mining, manufacturing, and transportation. California's population is 36.5 million residents, according to the California Department of Finance's preliminary estimates for January 2003. These new data reflect a 5.0 percent increase over the 2000 Census data that recorded California's total population at 33.9 million.

Miscellaneous Quick Facts

	<u>County</u>	<u>California</u>
Population, 2001 estimate	250,727	34,501,130
Population percent change, April 1, 2000-July 1, 2001	1.6%	1.9%
Population, 2000	246,681	33,871,648
Population, percent change, 1990 to 2000	13.6%	13.6%
Persons under 5 years old, percent, 2000	5.0%	7.3%
Persons under 18 years old, percent, 2000	21.7%	27.3%
Persons 65 years old and over, percent, 2000	14.5%	10.6%
Female persons, percent, 2000	48.6%	50.2%
White persons, percent, 2000 (a)	84.6%	59.5%
Black or African American persons, percent, 2000 (a)	2.0%	6.7%
American Indian and Alaska Native persons, percent, 2000 (a)	0.9%	1.0%
Asian persons, percent, 2000 (a)	2.7%	10.9%
Native Hawaiian and Other Pacific Islander, percent, 2000 (a)	0.1%	0.3%
Persons reporting some other race, percent, 2000 (a)	6.2%	16.8%
Persons reporting two or more races, percent, 2000	3.4%	4.7%
Persons of Hispanic or Latino origin, percent, 2000 (b)	16.3%	32.4%
White persons, not of Hispanic/Latino origin, percent, 2000	76.1%	46.7%
Living in same house in 1995 and 2000, pct age 5+, 2000	46.7%	50.2%
Foreign born persons, percent, 2000	8.9%	26.2%
Language other than English spoken at home, pct age 5+, 2000	14.7%	39.5%
High school graduates, percent of persons age 25+, 2000	85.6%	76.8%
Bachelor's degree or higher, pct of persons age 25+, 2000	26.7%	26.6%
Persons with a disability, age 5+, 2000	39,367	5,923,361
Mean travel time to work, workers age 16+ (minutes), 2000	21.1	27.7
Housing units, 2000	102,275	12,214,549
Homeownership rate, 2000	61.5%	56.9%
Housing units in multi-unit structures, percent, 2000	18.6%	31.4%
Median value of owner-occupied housing units, 2000	\$230,000	\$211,500
Households, 2000	92,739	11,502,870
Persons per household, 2000	2.49	2.87

(a) Includes persons reporting only one race.

(b) Hispanics may be of any race, so also are included in applicable race categories.

Source: U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, 2000 Census of Population and Housing, 1990 Census of Population and Housing, Small Area Income and Poverty Estimates, County Business Patterns, 1997 Economic Census, Minority- and Women-Owned Business, Building Permits, Consolidated Federal Funds Report, 1997 Census of Governments. Last Revised: Tuesday, 15-Jul-2003

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APPENDIX E
FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Pismo Beach Public Financing Authority
Pismo Beach, California 93449

OPINION: \$5,185,000 Pismo Beach Public Financing Authority
 (San Luis Obispo County, California)
 Series 2007A Lease Revenue Refunding Bonds
 (City Hall Refunding Project)

Ladies and Gentlemen:

We have acted as bond counsel to the Pismo Beach Public Financing Authority (the “Authority”) in connection with the issuance by the Authority of \$5,185,000 aggregate principal amount of Pismo Beach Public Financing Authority, Series 2007A Lease Revenue Refunding Bonds (the “Bonds”), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and an Indenture, dated as of April 1, 2007 (the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), and pursuant to an authorizing Resolution of the Authority adopted March 20, 2007. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The Bonds are payable from Revenues, as defined in the Indenture, consisting primarily of Base Rental Payments to be made by the City of Pismo Beach (the “City”) pursuant to a Lease Agreement, dated as of April 1, 2007 (the “Lease”), by and between the Authority and the City. The City has leased real property and improvements thereon to the Authority pursuant to a Site and Facilities Lease, dated as of April 1, 2007 (the “Site Lease”), by and between the City and the Authority. Certain rights of the Authority under the Lease are assigned to the Trustee under an Assignment Agreement, dated as of April 1, 2007 (the “Assignment Agreement”), by and between the Authority and the Trustee.

In such connection, we have reviewed the Lease, the Site Lease, the Assignment Agreement, the Indenture; the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”); opinions of counsel to the Authority, the City and the Trustee; certificates of the Authority, the City, the Trustee and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Site Lease, the Lease, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No

opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Site Lease, the Lease, the Assignment Agreement, the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Site Lease, the Lease, the Assignment Agreement, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers authorities and cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Site Lease, the Lease, the Assignment Agreement or the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except for the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Lease has been duly and validly authorized, executed and delivered by the Authority and the City and constitutes the legally valid and binding obligations of the Authority and the City, enforceable against the Authority and the City in accordance with its terms.

4. The Site Lease has been duly and validly authorized, executed and delivered by the Authority and the City and constitutes the legally valid and binding obligations of the Authority and the City, enforceable against the Authority and the City in accordance with its terms.

5. The Assignment Agreement has been duly and validly authorized, executed and delivered by the Authority and constitutes the legally valid and binding obligations of the Authority, enforceable against the Authority in accordance with its terms.

6. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing powers of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

7. The Internal Revenue Code of 1986 (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Authority has covenanted in the Indenture to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and interest on the Bonds is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is not excluded from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

Faithfully yours,

LAW OFFICES OF CAMERON A. WEIST

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APPENDIX F
SPECIMEN MUNICIPAL BOND 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 a 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].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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