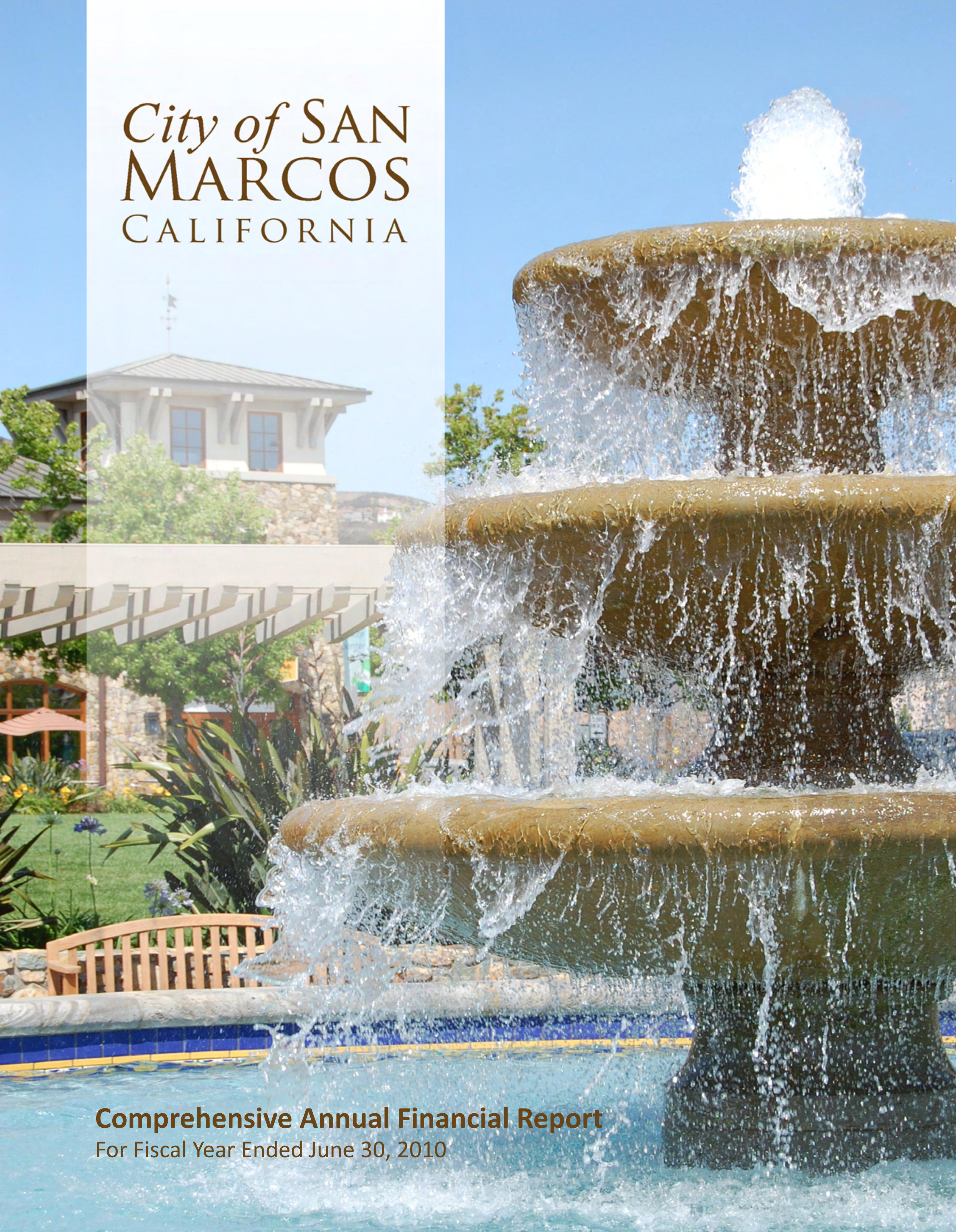

City of SAN MARCOS
CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2010

City of San Marcos
California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

City Manager | **Paul Malone**
Finance Director | **Liliane G. Serio**

Prepared by the City of San Marcos Finance Department.

City of San Marcos
California

Mission Statement

"To improve the quality of life of those who live, work or visit San Marcos by providing a safe, family-oriented atmosphere that is rich and diverse in cultural and natural resources and promotes economic and educational opportunities."

A view of San Marcos from Double Peak Park.

CITY OF SAN MARCOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

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CITY OF SAN MARCOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

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STATISTICAL SECTION (UNAUDITED):

1 Civic Center Drive
San Marcos, CA 92069-2918

Telephone
760.744.1050
FAX: 760.744.7543

January 14, 2011

Honorable Mayor, Members of the City Council
and Citizens of the City of San Marcos:

It is our pleasure to present the City of San Marcos fiscal year 2009-10 Comprehensive Annual Financial Report (CAFR). This report has been prepared in conformity with generally accepted accounting principles (GAAP) and has been audited in accordance with generally accepted auditing standards by Mayer Hoffman McCann P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, if any, and evaluating the overall financial statement presentation. The auditors concluded that there was a reasonable basis for rendering an unqualified opinion. The independent auditors' report is presented as the first component of the financial section of this report.

The CAFR consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. We assert that, to the best of our knowledge and belief, this report is complete and reliable in all material respects.

GAAP require that a narrative introduction, overview, and analysis be provided along with the financial statements in the form of Management's Discussion and Analysis (MD&A). The City's MD&A can be found immediately following the report of the independent auditors. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

San Marcos is located approximately twenty-four miles north of downtown San Diego and ninety miles south of Los Angeles, in the northern coastal/inland region of San Diego County. The Cerros Las Posas, Merriam and San Marcos foothills and a series of valleys are the chief topographic features. The City is accessible to San Diego, Orange, Imperial, San Bernardino, Riverside and Los Angeles counties. It is situated along the State Highway 78 corridor and is bordered by Escondido to the east, Vista to the north and west, Carlsbad to the south and west, and unincorporated areas of the County to the north and south. The City covers approximately 33.1 square miles including the City's sphere of influence.

For the last two decades, North San Diego County has been the fastest growing area in the County. With the largest amount of available residential land in North County, San Marcos has been the fastest growing area in the region since the early 1980's. Over the past 10 years, San Marcos has seen its population increase from 57,700 to 84,391, for an average annual growth of 4.37%. According to the San Diego Association of Governments, San Marcos will continue to be one of the fastest growing cities in San Diego County over the next 20 years.

San Marcos is a charter city, incorporated in 1963 and chartered on July 4, 1994. The City operates under a council/manager form of government. The City Council is comprised of five council members, elected at large on a staggered basis for a term of four years. The Mayor is directly elected for a four-year term. The City Council appoints the City Manager and the City Attorney.

The City provides its residents a full range of services including community development, police and fire protection, the construction and maintenance of highways, streets, and other infrastructure, and recreational activities and cultural events. Water and sewage treatment services are provided by the Vallecitos Water District, a special district located within the City.

These financial statements present the financial position of the City and its components units, entities for which the City is considered to be financially accountable. The component units of the City are the San Marcos Redevelopment Agency, the San Marcos Public Facilities Authority, the California Mobilehome Financing Authority, and the San Marcos Community Foundation. Additional information on these entities can be found in the notes to the financial statements.

The budget is enacted legally through adoption of an appropriation resolution prior to July 1 of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function, and department. The City Manager is authorized to transfer budgeted amounts between departments/functions as long as the total City budget is not exceeded.

LOCAL ECONOMY

The City of San Marcos has a well-balanced land use mix as a result of a comprehensive general plan update completed during fiscal year 1987-88. The ten top employers within the City in 2010 were Hunter Industries Inc., United Parcel Service, Wal-mart, Fry's Electronics, Lusardi Construction Co., Oncore Manufacturing Services, Vanpike Inc., Costco Wholesale, Southern California Permanente Medical Group, and California State University San Marcos Foundation.

The City's total labor force (the number of persons who work or are available for work) averaged 31,156 from January through October 2010. The number of employed workers in the labor force during that same period averaged 27,844, resulting in an unemployment rate of 10.66% compared to the State's unemployment rate of 12.46%.

San Marcos is known as the educational hub of North San Diego County. California State University at San Marcos which opened in the fall of 1992 on 305 acres less than one-half mile south of city hall, currently serves approximately 9,200 students. Ultimate enrollment at this four-year school is estimated at 35,000 students. Palomar Community College, where students can complete a two-year degree, obtain vocational training or take general education courses, has an enrollment in excess of 30,000 full and part-time students. Additionally, there are several vocational/trade schools including the San Diego County

Continuing Teacher Education Facility, University of Phoenix, University of St. Augustine, and ITT Tech.

LONG-TERM FINANCIAL PLANNING

The City annually prepares a three-year operating budget and a seven-year capital improvement projects budget. The fiscal year 2010/2011 through 2012/2013 operating budget as adopted projects that, barring any further major reductions in City revenues, the City will maintain a balanced budget with revenues slightly exceeding operating expenditures over the next couple of years. Reserves may have to be utilized in the third year although the projected ending reserves for that year of $54 million will represent 83% of total projected expenditures.

Over the last decades, the City has developed thoughtfully and diligently with a focus on creating a strong economic base and safe, well-rounded neighborhoods. The City is currently working on the San Marcos Downtown Creek District project that will include upscale retail, fine dining, entertainment and lifestyle options, and live-work housing units. Other projects, such as the Palomar Station and University District will bring smart growth developments to the community, providing distinct neighborhoods tailored specifically for San Marcos' diverse population.

RELEVANT FINANCIAL POLICIES

The City's policy is to maintain operating expenditures at or slightly under projected revenues. Unreserved, undesignated fund balance in the General Fund is maintained at approximately 10% of budgeted appropriations. Any excess of revenues over expenditures is designated for future capital projects, equipment replacement and contingencies.

MAJOR INITIATIVES

In the fall of 2009, the City kicked off a comprehensive update of its General Plan. The General Plan establishes a framework for achieving the City's goals for the future. Topics addressed in the General Plan include land use and development, transportation, open spaces and resource conservation. In this process, the City will be paying special attention to its long-term strategies for greenhouse gas emissions reduction and environmental sustainability. A comprehensive public participation program has been established so that the General Plan reflects the goals of the community. A public review of the General Plan, zoning ordinance and environmental impact report is expected to take place in early 2011 with the adoption of the new General Plan in the spring of 2011.

Autumn Terrace, a 103-unit mixed-use affordable housing complex that redeveloped one of the most blighted areas of the City opened in June of 2010. This project marked the beginning of a long-term, multi-phased redevelopment plan for the surrounding Richmar neighborhood. The plan, once implemented, will remove blight and redevelop the neighborhood into a pedestrian-oriented, mixed-use community.

A $3.79 million grant was recently awarded to San Marcos by the California Department of Parks and Recreation. The grant will be used to construct a 4.7-acre park near the brand new San Marcos Elementary School in the Richmar neighborhood. Richmar is the City's oldest, most densely populated and lowest-income area of the City and is currently undergoing a comprehensive revitalization effort. The new park will provide recreational facilities in an area where none currently exist.

A Mobile Emergency Operations Center (MEOC) trailer was recently put in operations by the Fire Department. The MEOC will greatly enhance the ability of the City to sustain both emergency and non-emergency operations during significant events and emergencies within the City or region. The MEOC was partially funded by a $550,000 grant from the U.S. Department of Homeland Security. It includes some of the most advanced technology available for managing and recovering from medium to large scale emergencies.

Sunset Park located in the West City area on 19 acres of rolling hills and views of the Pacific Ocean, opened in February 2010. The park features include one lighted multi-purpose field, one lighted artificial turf soccer arena, a concession stand, caretaker residence, off-leash dog area, water play splash pad, playground equipment, basketball and volleyball courts, disc golf, picnicking areas and walking trails.

AWARDS AND ACKNOWLEDGEMENTS

Award Programs.... The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Marcos for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to receive this award a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The certificate is valid for a period of one year only. The City has received this award for the past thirteen consecutive years. We believe the current report continues to conform to the program requirements and are submitting it to GFOA for its consideration.

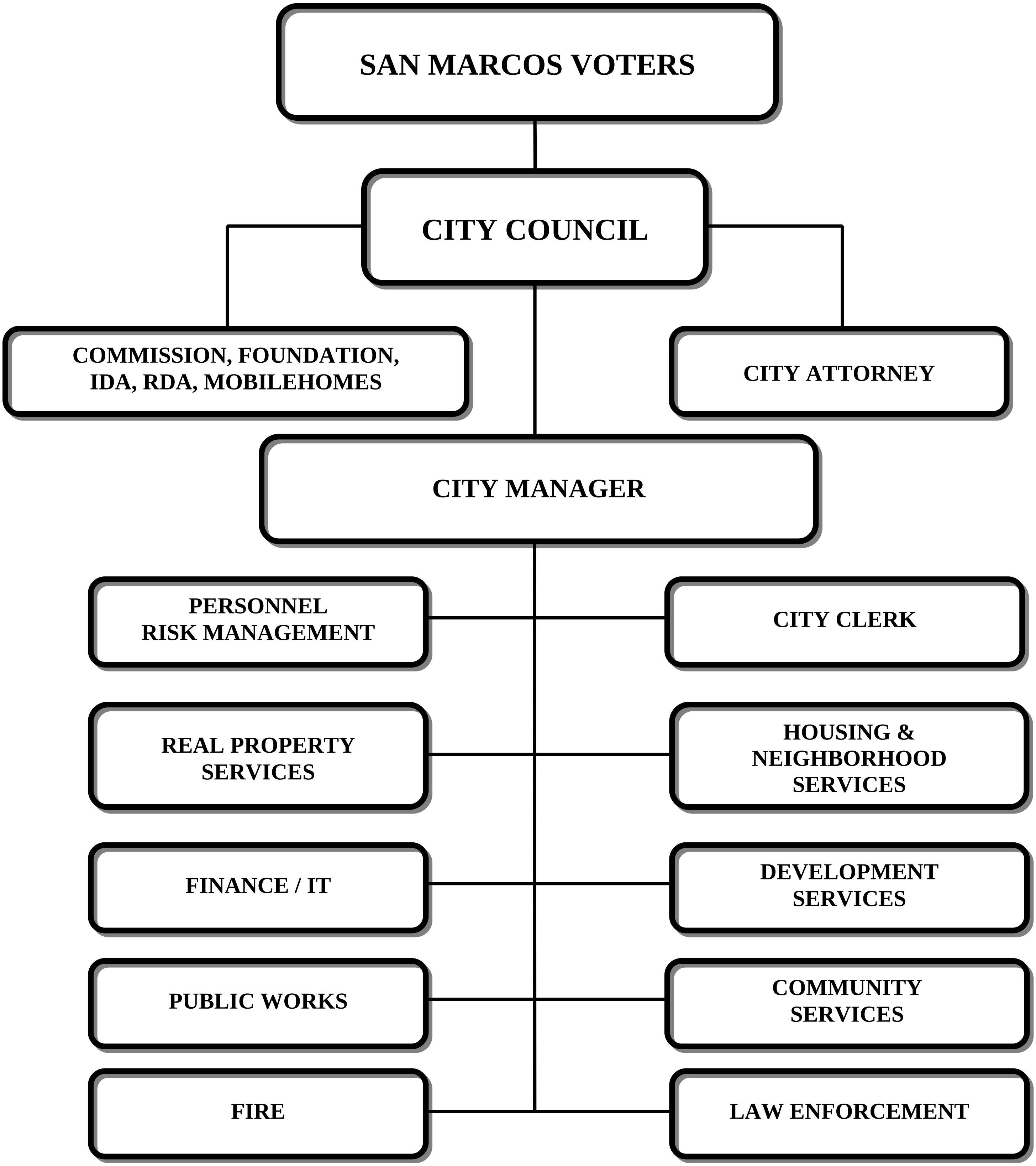
Acknowledgements.... The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the Department who assisted and contributed to the preparation of this report in particular David Noce, Accounting Manager and Marina Crandall, Accountant. Our sincere appreciation goes to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

Paul Malone
City Manager

Liliane G. Serio, CPA
Finance Director

CITY OF SAN MARCOS
Organizational Chart
June 30, 2010



CITY OF SAN MARCOS
LIST OF PRINCIPAL OFFICIALS

City Council

Mayor	Jim Desmond
Vice Mayor	Hal Martin
Councilmember	Mike Preston
Councilmember	Chris Orlando
Councilmember	Rebecca Jones

Administration

City Manager	Paul Malone
Deputy City Manager	Lydia Romero
City Attorney	Helen Holmes Peak
City Clerk	Susie Vasquez

Department/Division Heads

Development Services Director	Charlie Schaffer
Public Works Director	Richard Cook
Finance Director	Liliane G. Serio
Human Resources/Risk Management	Donna French
Community Services Director	Craig Sargent-Beach
Fire Chief	Todd Newman
Engineering Division Director/City Engineer	Mike Edwards
Building Division Director	Carl Blaisdell
Planning Division Director	Jerry Backoff
Real Property Services Director	Ellen Hegarty
Housing & Neighborhood Services Director	Karl Schwarm
Sheriff Station Captain	Don Crist

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Marcos California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

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Mayer Hoffman McCann P.C.
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City Council
City of San Marcos, California

INDEPENDENT AUDITORS' REPORT

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 San Marcos, California, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of San Marcos. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, of the City of San Marcos, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is 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 opinions on the financial statements that collectively comprise the City of San Marcos's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual 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 stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

City Council
City of San Marcos, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011 on our consideration of the City of San Marcos's internal control over financial reporting and 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.

Mayer Hoffman McCann P.C.

Irvine, California
January 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of San Marcos provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.

    - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short-term* as well as what remains for future spending.

    - *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the City operates like a business, i.e. the Municipal Utility and the Creekside Marketplace Funds.

    - *Fiduciary funds* statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as an *agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The City's net assets – the difference between assets and liabilities – is one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, should be considered such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

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

- Governmental activities – Most of the City's basic services are reported in this category, such as general government, community development, public safety, highways and streets, and culture and recreation. Sales taxes, property taxes, state subventions, charges for services and other revenues finance most of these activities.

- Business-type activities – The City accounts for the Creekside Marketplace Shopping Center and the Discovery Valley Utility activities as business enterprises. The shopping center is owned and operated by the City and its principal source of income is rental revenue. The City's intent for the Discovery Valley Utility enterprise is to eventually charge a fee to customers to help it cover all or most of the cost of the services accounted for in this fund.

<u>Reporting the City's Most Significant Funds</u>

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

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

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net assets* follows:

NET ASSETS

	Governmental Activities		Business-Type Actvities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current and other assets	$ 322,105,503	$ 366,576,427	$ 9,368,475	$ 7,625,076	$ 331,473,978	$ 374,201,503
Capital assets, net	654,270,555	612,766,727	28,689,775	29,072,130	682,960,330	641,838,857
Total assets	976,376,058	979,343,154	38,058,250	36,697,206	1,014,434,308	1,016,040,360
Long-term debt	334,405,969	343,824,179			334,405,969	343,824,179
Other liabilities	34,121,618	43,298,524	925,666	927,074	35,047,284	44,225,598
Total liabilities	368,527,587	387,122,703	925,666	927,074	369,453,253	388,049,777
Net assets:						
Invested in capital assets, net of related debt	484,423,039	460,101,619	28,689,775	29,072,130	513,112,814	489,173,749
Restricted	134,834,582	129,614,536			134,834,582	129,614,536
Unrestricted	(11,409,150)	2,504,296	8,442,809	6,698,002	(2,966,341)	9,202,298
Total net assets	**$ 607,848,471**	**$ 592,220,451**	**$ 37,132,584**	**$ 35,770,132**	**$ 644,981,055**	**$ 627,990,583**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $645 million at the close of the fiscal year.

The largest portion of the City's net assets ($513.1 million or 79.5%) reflects its investment in capital assets (i.e., land, building, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net assets ($134.8 million or 20.9%) represents resources that are subject to external restrictions on how they may be used. The unrestricted portion - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, had a deficit balance of $2.97 million at the end of the fiscal year. Overall, the City's net assets increased by $17 million (2.7%) during the current fiscal year.

A summary of the government-wide *statement of activities follows*:

CHANGE IN NET ASSETS

	Governmental Activities		Business-Type Actvities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	$ 25,829,861	$ 25,251,155	$ 3,639,134	$ 3,789,846	$ 29,468,995	$ 29,041,001
Operating contributions and grants	2,392,703	2,135,832			2,392,703	2,135,832
Capital contributions and grants	25,090,511	18,916,094			25,090,511	18,916,094
General revenues:						
Property taxes	12,490,217	12,718,633			12,490,217	12,718,633
Tax increment, net	21,315,468	45,214,569			21,315,468	45,214,569
Sales taxes	12,269,791	13,432,391			12,269,791	13,432,391
Transient occupancy taxes	298,459	330,412			298,459	330,412
Franchise taxes	2,482,704	2,442,412			2,482,704	2,442,412
Gain on sale of capital assets		3,180,648			-	3,180,648
Motor vehicle license fees	246,496	283,349			246,496	283,349
Investment income	4,391,803	6,226,240	130,563	134,040	4,522,366	6,360,280
Other	1,943,136	3,372,210			1,943,136	3,372,210
Total revenues	108,751,149	133,503,945	3,769,697	3,923,886	112,520,846	137,427,831
Expenses						
General government	15,990,955	14,639,790			15,990,955	14,639,790
Community development	6,366,892	4,815,602			6,366,892	4,815,602
Public safety	28,603,083	28,733,922			28,603,083	28,733,922
Highways, streets and parks	25,046,164	26,532,368			25,046,164	26,532,368
Culture and recreation	3,014,690	3,124,741			3,014,690	3,124,741
Interest on long-term debt	15,301,345	15,984,417			15,301,345	15,984,417
Creekside Marketplace			1,207,245	1,072,662	1,207,245	1,072,662
Total expenses	94,323,129	93,830,840	1,207,245	1,072,662	95,530,374	94,903,502
Increase in net assets before transfers	14,428,020	39,673,105	2,562,452	2,851,224	16,990,472	42,524,329
Transfers	1,200,000		(1,200,000)			
Change in net assets	15,628,020	39,673,105	1,362,452	2,851,224	16,990,472	42,524,329
Net assets, beginning	592,220,451	552,547,346	35,770,132	32,918,908	627,990,583	585,466,254
Net assets, ending	**$ 607,848,471**	**$ 592,220,451**	**$ 37,132,584**	**$ 35,770,132**	**$ 644,981,055**	**$ 627,990,583**

Governmental Activities

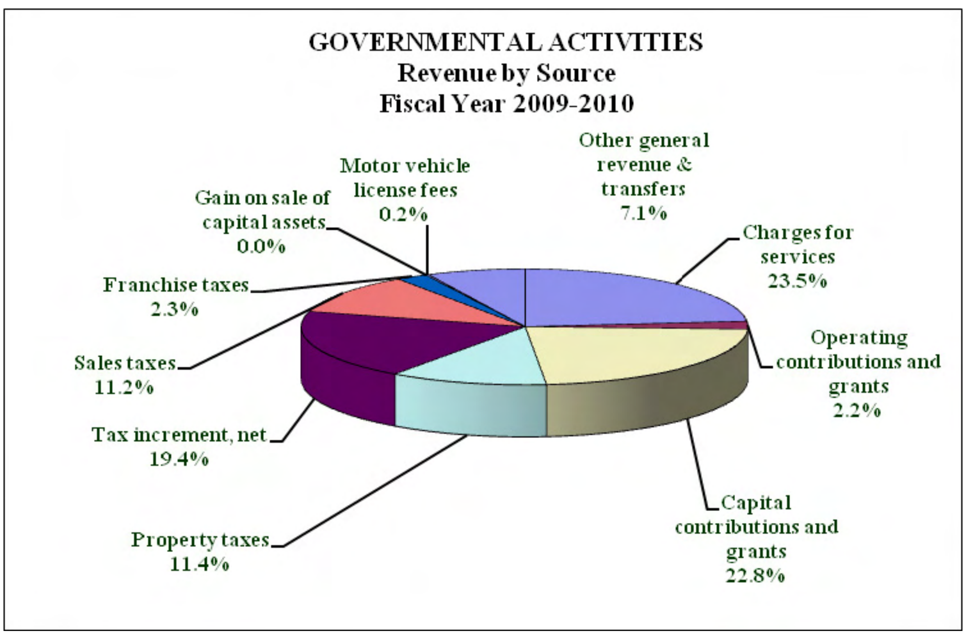
The cost of all Governmental Activities in the current fiscal year was $94.3 million. As shown on the Statement of Activities, $25.8 million of the cost was paid by those who directly benefited from the programs, $27.5 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and $46.4 million was subsidized through taxes.

The City reported program revenues of $53.3 million and general revenues of $55.4 million. Overall, the City's financial position has improved from the previous year.

The following table summarizes and presents governmental activities revenue by source and percentages for the fiscal year ended June 30, 2010 along with the percentage changes from the preceding year:

GOVERNMENTAL ACTIVITIES
Revenue by Source

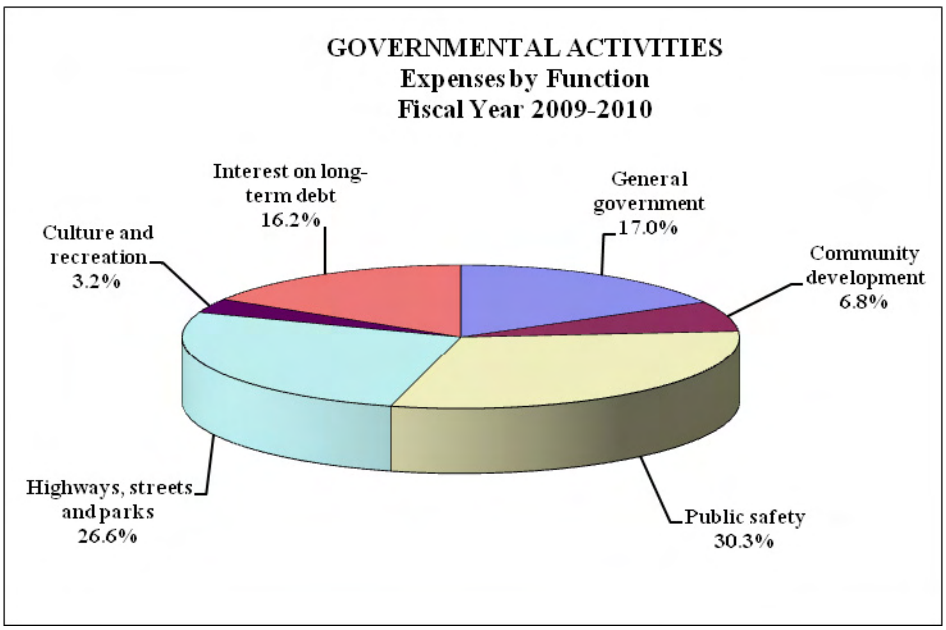
REVENUE SOURCE	Fiscal Year 2009-2010	Percent of Total	Increase (Decrease) From 2008-2009	Percent Increase (Decrease)
Charges for services	$ 25,829,861	23.5%	$ 578,706	2.3%
Operating contributions and grants	2,392,703	2.2%	256,871	12.0%
Capital contributions and grants	25,090,511	22.8%	6,174,417	32.6%
Property taxes	12,490,217	11.4%	(228,416)	-1.8%
Tax increment, net	21,315,468	19.4%	(23,899,101)	-52.9%
Sales taxes	12,269,791	11.2%	(1,162,600)	-8.7%
Franchise taxes	2,482,704	2.3%	40,292	1.6%
Gain on sale of capital assets	-	0.0%	(3,180,648)	0.0%
Motor vehicle license fees	246,496	0.2%	(36,853)	-13.0%
Other general revenue & transfers	7,833,398	7.1%	(2,095,464)	-21.1%
TOTAL REVENUE	**$ 109,951,149**	**100.0%**	**$ (23,552,796**	-17.6%



The following table summarizes and presents governmental activities expenses by function and percentages for the fiscal year ended June 30, 2010 along with the percentage changes from the previous year:

GOVERNMENTAL ACTIVITIES
Expenses by Function

FUNCTION	Fiscal Year 2009-2010	Percent of Total	Increase (Decrease) From 2008-2009	Percent Increase (Decrease)
General government	$ 15,990,955	17.0%	$ 1,351,165	9.2%
Community development	6,366,892	6.8%	1,551,290	32.2%
Public safety	28,603,083	30.3%	(130,839)	-0.5%
Highways, streets and parks	25,046,164	26.6%	(1,486,204)	-5.6%
Culture and recreation	3,014,690	3.2%	(110,051)	-3.5%
Interest on long-term debt	15,301,345	16.2%	(683,072)	-4.3%
TOTAL EXPENSES	**$ 94,323,129**	**100.0%**	**$ 492,289**	0.5%



Business-Type Activities

The City's business-type activities consists of the Creekside Marketplace Enterprise Fund which accounts for the activity of a City-owned shopping center, and the Municipal Utility Enterprise Fund which was created a number of years ago to account for the Discovery Valley Utility activities. Net assets increased by $1.36 million or 3.8% in the Enterprise Funds mainly as a result of revenues exceeding expenses in the Creekside Marketplace Fund. For the Municipal Utility Fund, the intent of the City Council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. To date only start up costs have been incurred in this Fund and no revenue has been generated.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the year, the City's governmental funds reported combined ending fund balances of $178.3 million, with a decrease of $47.4 million from the previous year. Of this total amount, $59 million constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for noncurrent assets ($41.7 million), low and moderate income housing ($10.1 million), debt service ($12.9 million), capital projects ($45.5 million), and other purposes ($9.0 million).

Major Funds

The **General Fund** is the chief operating fund of the City. It represents $57.6 million or 32.3% of the combined fund balances of the governmental funds. At the end of the current fiscal year, unreserved fund balance of the General Fund of $42.2 million constituted 73.2% of total fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 70.5% of total General Fund expenditures and transfers, while total fund balance represents 96.4% of that same amount.

The fund balance of the City's General Fund decreased by $663,730 during the current year due primarily to the purchase of a Mobile Emergency Operations Center (MEOC) and other emergency vehicles from the Equipment Replacement reserves. Revenues were down from the previous year by $945,950 (1.82%) and expenditures were up by $779,439 (1.32%) as follows:

	General Fund Revenue			
	Fiscal Year 2009-2010	**Fiscal Year 2008-2009**	**Increase (Decrease)**	**% Increase (Decrease)**
Revenue:				
Taxes and special assessments	$ 25,174,783	$ 26,607,624	$ (1,432,841)	-5.39%
Licenses and permits	4,274,969	4,229,537	45,432	1.07%
Intergovernmental	1,813,837	1,340,297	473,540	35.33%
Charges for services/developer fees	11,411,632	11,777,111	(365,479)	-3.10%
Fines and forfeitures	279,735	292,642	(12,907)	-4.41%
Use of money and property	6,271,626	5,585,247	686,379	12.29%
Miscellaneous	1,853,354	2,193,428	(340,074)	-15.50%
Total Revenue	**$ 51,079,936**	**$ 52,025,886**	**$ (945,95)**	**-1.82%**

	General Fund Expenditure			
	Fiscal Year 2009-2010	Fiscal Year 2008-2009	Increase (Decrease)	% Increase (Decrease)
Expenditure:				
General government	$ 11,324,360	$ 10,696,535	$ 627,825	5.87%
Community development	5,642,465	4,563,412	1,079,053	23.65%
Public safety	27,461,612	27,392,057	69,555	0.25%
Highways, streets and parks	11,084,060	13,155,054	(2,070,994)	-15.74%
Culture and recreation	2,655,385	2,516,079	139,306	5.54%
Capital outlay	1,626,068	305,516	1,320,552	432.24%
Debt service	-	385,858	(385,858)	-100.00%
Total Expenditure	**$ 59,793,950**	**$ 59,014,511**	**$ 779,439**	**1.32%**

Taxes and special assessments, including property taxes, property tax in-lieu of motor vehicle license fees, and sales tax came in at 90.6% of budget or $2.6 million under expectation. The actual decline from year to year was $1.4 million (5.39%). Sales tax dropped by $1.17 million (8.7%). In spite of the last three quarters of the fiscal year reflecting an increase in the point of sale from the previous year of 4.69%, 8.51% and 9.74%, respectively, the first quarter dropped by 16.97% for an average increase of 1.5%. Furthermore, the "triple-flip" distribution received from the County was down $1.2 million (32%).

Property taxes represented 11.4% ($6.7 million) of total revenues and ended the year with a net increase from the previous year of over $212,000. Property taxes received from the County for the City and Fire District were down by $329,000 (12%) and $285,000 (8.7%), respectively. This was more than offset by the tax increment payment to the Fire District from the Redevelopment Agency that began this year. Countywide, assessed valuation decreased by 2.31% in fiscal year 2009/10, while in San Marcos, it decreased by 7.09%. The assessed value decline also affected the property taxes in-lieu of motor vehicle license fees which dropped by $440,435.

Intergovernmental revenues include motor vehicle license fees (MVLF), federal and state grants and recycling revenues. A $500,000 Federal grant was received to partially fund the new Mobile Emergency Operations Center.

Use of Money and Property includes rental income and interest earnings on investments. Rental income from the Recreational Vehicle Mall of close to $911,000 began in this fiscal year whereas interest earnings on the City's portfolio were over $440,000 (44.9%) lower due to unfavorable financial market conditions.

On the expenditures side, the Storm Water Management and the construction inspection functions were transferred from the Highways, Streets and Parks program to the General Government and Community Development programs, respectively. The net change in expenditures from the preceding year was mainly due to the purchase of the MEOC as previously mentioned. Excluding capital outlay, expenditures were close to $200,000 (.34%) below the prior year in the General Fund.

The **Low and Moderate Income Housing Fund** accounts for the tax increment which is required to be set-aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing. This fund ended the year with a $31.3 million fund balance all of which is reserved for low and moderate income housing purposes and noncurrent assets. Net decrease in fund balance was $5.1 million. Tax increment decreased by $1.2 million (8.2%) as a result of a continued decline in assessed valuation in Project Areas No. 2 and 3 and delinquencies. Loans of $10.6 million were made to housing corporations to effect the construction of low and moderate income housing projects. This Fund loaned $20.2 million to the San Marcos Redevelopment Agency Debt Service Fund to fund the fiscal year 2009/2010 Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is to be repaid no later than June 30, 2015.

The **Redevelopment Agency Debt Service Fund** accounts for the accumulation of resources for the payment of principal, interest, and related costs of the Agency long-term debt. This fund ended the year with a $35.6 million fund balance. Reserves for noncurrent assets and payment of debt service totaled $19.1 million, resulting in an unreserved fund balance of $16.4 million. As in the Low and Moderate Income Housing Fund, gross tax increment decreased by $3.8 million (7.9%). Net increment (gross increment less tax increment distributions to other governmental agencies) dropped by $23.9 million (52.9%) mostly as a result of the aforementioned SERAF payment.

The **Redevelopment Agency Capital Projects Fund** accounts for the administrative expenditures of the Agency and redevelopment activity. Fund balance at the end of the year was $33.2 million, $39.3 million of which was reserved for capital projects. The deficit of $6 million will be eliminated from future tax increment collections. The net decrease in fund balance of $22.8 million was mostly the result of capital projects expenditures to further redevelopment within the community.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences in appropriation between the original budget and the final amended budget of the General Fund totaled $864,677. Council appropriated a $500,000 Federal grant during the year to equip the Mobile Emergency Operations Center and $364,677 was carryover from the previous year budget as follows:

- General Government - $238,178
- Community Development - $100,499
- Capital Outlay - $26,000

Ending fund balance was $561,541 higher than projected. Revenues and transfers in and expenditures and transfers out were $1.97 million (3.2%) and $2.53 million (4.1%) under budget, respectively. The most significant revenue shortfalls from budget were in sales taxes, property taxes, property taxes in-lieu of motor vehicle license fees, and interest income.

Budgetary savings were realized in salaries and benefits, general liability insurance, contract maintenance services, consulting services, other contract services, the storm water program (NPDES) and other various accounts. Attorney services and workers compensation claims were higher than anticipated.

CAPITAL ASSETS

The City's investment in capital assets net of accumulated depreciation for its governmental activities as of June 30, 2010, amounted to $654.3 million. This included land, land improvements, buildings, furniture and equipment, and infrastructure. The total net increase in capital assets was $41.5 million (6.8%). The major additions to capital assets were as follows:

- Several parcels were purchased for redevelopment, housing projects and infrastructure projects.

- Infrastructures including right of way from new development of $16.9 million were donated/taken over for maintenance by the City.

- Sunset Park was completed and capitalized at a cost of $10.01 million. Mission Sports Park and the Civic Center Recreation Area were under construction.

- Several street construction/widening and expansion projects were either completed or in progress at the end of the year including the Highway 78/Woodland Parkway Interchange improvements; the reconstruction of Barham Drive/Woodland to Opper; the San Marcos Creek undercrossing/West side of Highway 78 to the Recreation Vehicle Mall; the Grand Avenue Bridge at Discovery; the South Santa Fe/Smilax to Bosstick; the San Marcos Boulevard/Rancho Santa Fe to Acacia; the Highway 78 Eastbound Auxiliary Lane improvement project between Woodland Parkway and Nordahl Road; the Rock Springs Road and Richland Road Street Improvements/Safe Route to School; and the San Marcos Creek/Craven to Bent.

A summary of capital assets follows. Additional information can be found in note 9 to the financial statements.

CAPITAL ASSETS
(Net of Depreciation)
Governmental Activities

	Fiscal Year 2009-2010	**Fiscal Year 2008-2009**	**Net Change**
Land	$ 262,774,273	$ 239,192,525	$ 23,581,748
Land improvements	38,764,433	28,631,370	10,133,063
Buildings	55,330,697	56,823,814	(1,493,117)
Furniture and equipment	3,889,902	4,521,237	(631,335)
Infrastructure	202,570,980	198,831,082	3,739,898
Construction in progress	90,940,270	84,766,699	6,173,571
Total	**$ 654,270,555**	**$ 612,766,727**	**$ 41,503,828**

For the business-type activities, capital assets totaled $28.7 million at June 30, 2010. There were no significant changes from the previous year.

DEBT ADMINISTRATION

At year-end, the City and its component units had a number of debt issues outstanding including $13.35 million of tax allocation bonds and $283.26 million of revenue bonds. Total bonded debt decreased by $6.6 million or 2.2%. The City maintains ratings on its various bonds of “A, AA-, and A-“ from Standard & Poor’s.

A summary of the City's long-term debt is as follows:

LONG-TERM DEBT OUTSTANDING
Governmental Activities

	Fiscal Year 2009-2010	Fiscal Year 2008-2009	Net Change
Bonds payable, net	$ 295,982,963	$ 302,571,592	$ (6,588,629)
Note payable	943,274	1,035,245	(91,971)
Cooperation agreement	27,807,536	29,959,866	(2,152,330)
Compensated absences	5,095,013	5,006,530	88,483
Due to other governments	4,577,183	5,250,946	(673,763)
Total	**$ 334,405,969**	**$ 343,824,179**	**$ (9,418,210)**

Additional information on the City's long-term debt can be found in note 10 of the notes to the basic financial statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

The consensus among economists is that the economy will remain in a prolonged period of relatively weak growth. US economic data has been disappointing, although activity has picked up significantly from the depths of the recession. Unemployment remains high and the economic recovery is unlikely to gain momentum until a meaningful upturn in the job market begins. Revenues are not expected to come back to the level they were at before the recession for at least three more years.

Incorporated in the City's revenue projections over the next three years are transfers from the Creekside Marketplace Enterprise Fund (CM Fund) of $6.33 million, $5.55million, and $4.60 million to compensate for the projected revenue shortfalls. This Fund accounts for the activity of the Creekside Marketplace Shopping Center. Over the next several years, the Center will generate from $3.2 to $3.5 million in net revenues to support the General Fund. Reserves of $6.5 million in the CM Fund at the beginning of fiscal year 2010/11 along with net income generated in that Fund over the next three years will help balance the General Fund budget during the current economic downturn which is expected to last at least through 2012/13. However, by the third year reserves will be depleted in the CM Fund and only net income will be available to support General Fund operations. A deficit of close to $1.6 million between revenues and expenditures is projected in the General Fund by the end of the third year. Reserves will be available to fund the deficit.

The City participates in the California Public Employees' Retirement System (CalPERS) which acts as a common investment and administrative agent for participating public entities within the State of California. The City pays 100% of the employer and employee share of this cost. CalPERS recently notified its members that pension costs are likely to increase substantially by 2011/12 due to recent investment losses in the financial market. Management is currently evaluating measures to reduce pension cost in the near future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 1 Civic Center Drive, San Marcos, California, 92069.

CITY OF SAN MARCOS
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (note 3)	$ 108,195,046	$ 8,467,330	$ 116,662,376
Cash and investments with fiscal agents (note 3)	70,772,552		70,772,552
Receivables:			
Taxes and special assessments	3,287,264		3,287,264
Accounts	2,458,378		2,458,378
Interest	322,011	16,043	338,054
Notes (note 4)	105,735,585		105,735,585
Other (note 8)	952,464	875,562	1,828,026
Due from other governments	2,458,606		2,458,606
Prepaid items	1,000,066		1,000,066
Deposits	2,101,645	9,540	2,111,185
Deferred charges (note 2)	5,713,910		5,713,910
Net investment in direct financing lease (note 7)	3,965,071		3,965,071
Land held for resale	15,142,905		15,142,905
Capital assets, not depreciated (note 9)	392,478,976	11,865,697	404,344,673
Capital assets, net of depreciation (note 9)	261,791,579	16,824,078	278,615,657
Total assets	976,376,058	38,058,250	1,014,434,308
Liabilities:			
Accounts payable	5,336,182		5,336,182
Accrued liabilities	7,396,735		7,396,735
Claims payable	898,276		898,276
Due to other governments	18,825,174		18,825,174
Unearned revenue (note 5)	160,828	875,562	1,036,390
Deposits payable	1,504,423	50,104	1,554,527
Noncurrent liabilities (note 10):			
Due within one year	12,606,551		12,606,551
Due in more than one year	321,799,418		321,799,418
Total liabilities	368,527,587	925,666	369,453,253
Net Assets:			
Invested in capital assets, net of related debt	484,423,039	28,689,775	513,112,814
Restricted/expendable for:			
Low and moderate income housing	120,917,457		120,917,457
Landscape Maintenance	8,514,304		8,514,304
Other purposes	4,378,971		4,378,971
Restricted/nonexpendable	1,023,850		1,023,850
Unrestricted	(11,409,150)	8,442,809	(2,966,341)
Total net assets	$ 607,848,471	$ 37,132,584	$ 644,981,055

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Activities
For the Year Ended June 30, 2010

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	$ 15,990,955	$ 8,017,989	$ 31,288	$ 53,557
Community development	6,366,892	1,568,683	235,994	931,226
Public safety	28,603,083	7,623,734	365,354	466,490
Highways, streets, and parks	25,046,164	6,793,677	1,620,775	22,678,088
Culture and recreation	3,014,690	1,825,778	139,292	961,150
Interest on long-term debt	15,307,372			
Total governmental activities	94,329,156	25,829,861	2,392,703	25,090,511
Business-type activities:				
Creekside Marketplace	1,207,245	3,639,134		
Total	$ 95,536,401	$ 29,468,995	$ 2,392,703	$ 25,090,511

General revenues:
Taxes:
Property taxes
Tax increment, net
Sales taxes
Transient occupancy taxes
Franchise taxes
Motor vehicle license fees, unrestricted
Investment income, unrestricted
Other
Transfers (Note 6)
Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (7,888,121)		$ (7,888,121)
(3,630,989)		(3,630,989)
(20,147,505)		(20,147,505)
6,046,376		6,046,376
(88,470)		(88,470)
(15,307,372)		(15,307,372)
(41,016,081)		(41,016,081)
	$ 2,431,889	2,431,889
(41,016,081)	2,431,889	(38,584,192)
12,490,217		12,490,217
21,315,468		21,315,468
12,269,791		12,269,791
298,459		298,459
2,482,704		2,482,704
246,496		246,496
4,397,830	130,563	4,528,393
1,943,136		1,943,136
1,200,000	(1,200,000)	
56,644,101	(1,069,437)	55,574,664
15,628,020	1,362,452	16,990,472
592,220,451	35,770,132	627,990,583
$ 607,848,471	$ 37,132,584	$ 644,981,055

CITY OF SAN MARCOS
Balance Sheet
Governmental Funds
June 30, 2010

Assets		General		Low and Moderate Income Housing		Redevelopment Agency Debt Service
Cash and investments (note 3)	$	42,406,424	$	9,723,873	$	38,329,782
Cash and investments with fiscal agents (note 3)						12,941,982
Receivables:						
Taxes and special assessments		1,984,977		305,126		969,896
Accounts		1,582,823		75,510		
Interest		89,356		109,672		91,491
Notes (note 4)				101,232,926		778,566
Other (note 8)		784,292				
Due from other governments		760,349				
Due from other funds (note 6)		622,563				16,342,040
Advances to other funds (note 6)				20,403,576		5,404,880
Prepaid items		1,000,066				
Deposits		1,001,672				
Net investment in direct financing lease (note 7)						3,965,071
Land held for resale		13,447,269		837,288		
Total assets	$	63,679,791	$	132,687,971	$	78,823,708
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	2,458,326	$	63,321		
Accrued liabilities		759,449		61,366	$	74,245
Claims payable		898,276				
Due to other funds (note 6)						
Due to other governments						18,825,174
Advances from other funds (note 6)						20,403,576
Deferred revenue (note 5)		945,120		101,232,926		3,965,071
Deposits		974,368		32,988		
Total liabilities		6,035,539		101,390,601		43,268,066
Fund balances:						
Reserved for:						
Noncurrent assets		13,447,269		21,240,864		6,183,446
Prepaid items		1,000,066				
Deposits		1,001,672				
Low and moderate income housing				10,056,506		
Landscape maintenance						
Debt service						12,941,982
Capital projects						
Other purposes						
Unreserved, designated (note 15)		36,200,000				
Unreserved, undesignated, reported in:						
General Fund		5,995,245				
Special revenue funds						
Debt service funds						16,430,214
Capital projects						
Total fund balances		57,644,252		31,297,370		35,555,642
Total liabilities and fund balances	$	63,679,791	$	132,687,971	$	78,823,708

See accompanying notes to basic financial statements.

Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
	$ 17,734,967	$ 108,195,046
$ 56,931,677	898,893	70,772,552
	27,265	3,287,264
782,911	17,134	2,458,378
68	31,424	322,011
	3,724,093	105,735,585
	168,172	952,464
	1,698,257	2,458,606
		16,964,603
		25,808,456
		1,000,066
	1,099,973	2,101,645
		3,965,071
	858,348	15,142,905
$ 57,714,656	$ 26,258,526	$ 359,164,652
$ 2,103,050	$ 711,485	$ 5,336,182
619,030	8,510	1,522,600
		898,276
16,342,040	622,563	16,964,603
		18,825,174
5,404,880		25,808,456
	3,892,265	110,035,382
	497,067	1,504,423
24,469,000	5,731,890	180,895,096
	858,348	41,729,927
		1,000,066
	102,982	1,104,654
		10,056,506
	5,845,298	5,845,298
		12,941,982
39,271,661	6,191,316	45,462,977
	1,023,850	1,023,850
		36,200,000
		5,995,245
	6,468,443	6,468,443
	36,399	16,466,613
(6,026,005)		(6,026,005)
33,245,656	20,526,636	178,269,556
$ 57,714,656	$ 26,258,526	$ 359,164,652

CITY OF SAN MARCOS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Fund balances of govermental funds	$	178,269,556
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. The cost of the assets is $774,418,074 and the accumulated depreciation is $120,147,519.		654,270,555
Cost of issuance of bonds is deferred and amortized over the life of the bonds in the Statement of Net Assets whereas it is expended in the funds in the year of issuance (note 2).		5,713,910
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds (note 5).		109,874,554
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (note 2).		(334,405,969)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds		(5,874,135)
Net assets of governmental activities	$	607,848,471

See accompanying notes to basic financial statements.

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CITY OF SAN MARCOS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General	Low and Moderate Income Housing	Redevelopment Agency Debt Service
Revenues:			
Taxes and special assessments	$ 25,174,783	$ 13,536,113	$ 44,165,940
Licenses and permits	4,274,969		
Intergovernmental	1,813,837		
Charges for services	11,341,050		
Developer fees	70,582		
Fines and forfeitures	279,735		
Use of money and property	6,271,626	1,061,416	916,475
Miscellaneous	1,853,354	40,108	435,857
Total revenues	51,079,936	14,637,637	45,518,272
Expenditures:			
Current:			
General government	11,324,360	1,063,977	522,126
Community development	5,642,465	10,848,450	
Public safety	27,461,612		
Highways, streets and parks	11,084,060		
Culture and recreation	2,655,385		
Tax increment distributions to other governmental agencies			37,060,348
Capital outlay	1,626,068	6,633,716	
Debt service:			
Principal			9,023,039
Interest and fiscal charges			14,832,537
Total expenditures	59,793,950	18,546,143	61,438,050
Excess (deficiency) of revenues over expenditures	(8,714,014)	(3,908,506)	(15,919,778)
Other financing sources (uses):			
Long-term debt issued (note 10)			330,709
Sale of capital assets	1,241,860		
Transfers in (note 6)	6,837,588		1,190,151
Transfers out (note 6)	(29,164)	(1,190,151)	
Total other financing sources (uses)	8,050,284	(1,190,151)	1,520,860
Net change in fund balances	(663,730)	(5,098,657)	(14,398,918)
Fund balances, beginning	58,307,982	36,396,027	49,954,560
Fund balances, ending	$ 57,644,252	$ 31,297,370	$ 35,555,642

See accompanying notes to basic financial statements.

Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
	$ 4,975,585	$ 87,852,421
		4,274,969
	5,002,357	6,816,194
		11,341,050
	2,789,820	2,860,402
		279,735
$ 119,569	879,788	9,248,874
953,151	76,020	3,358,490
1,072,720	13,723,570	126,032,135
1,605,074	309,531	14,825,068
	594,775	17,085,690
		27,461,612
	2,956,599	14,040,659
	107,825	2,763,210
		37,060,348
22,168,074	8,028,893	38,456,751
	301,971	9,325,010
69,129	319,666	15,221,332
23,842,277	12,619,260	176,239,680
(22,769,557)	1,104,310	(50,207,545)
		330,709
		1,241,860
	29,164	8,056,903
	(5,637,588)	(6,856,903)
	(5,608,424)	2,772,569
(22,769,557)	(4,504,114)	(47,434,976)
56,015,213	25,030,750	225,704,532
$ 33,245,656	$ 20,526,636	$ 178,269,556

CITY OF SAN MARCOS
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Net change in fund balances - total govermental funds	$ (47,434,976)
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 and reported as depreciation expense. This is the amount by which capital outlays of $34,593,016 exceeded depreciation of $10,991,818.	23,601,198
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	17,902,630
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,208,996
Long-term loans are reported as expenditures in the governmental funds but not on the statement of activities.	11,084,769
The issuance of long-term debt (i.e. bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items (note 2).	9,278,555
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (note 2).	(13,152)
Change in net assets of governmental activities	$ 15,628,020

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds		
	Creekside Marketplace	Utility	Total
Assets			
Current assets:			
Cash and investments (note 3)	$ 8,404,527	$ 62,803	$ 8,467,330
Receivables:			
Interest	15,932	111	16,043
Deposits	9,540		9,540
Total current assets	8,429,999	62,914	8,492,913
Noncurrent assets:			
Other receivable (note 8)	875,562		875,562
Capital assets (note 9):			
Land	11,865,697		11,865,697
Buildings, net of depreciation	16,824,078		16,824,078
Total noncurrent assets	29,565,337		29,565,337
Total assets	37,995,336	62,914	38,058,250
Liabilities			
Current liabilities:			
Deposits	50,104		50,104
Long-term liabilities:			
Unearned revenue (note 5)	875,562		875,562
Total liabilities	925,666		925,666
Net Assets			
Invested in capital assets	28,689,775		28,689,775
Unrestricted	8,379,895	62,914	8,442,809
Total net assets	$ 37,069,670	$ 62,914	$ 37,132,584

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds		
	Creekside Marketplace	Utility	Total
Operating revenues:			
Rental income	$ 3,091,010		$ 3,091,010
Common area maintenance charges	548,124		548,124
Total operating revenues	3,639,134		3,639,134
Operating expenses:			
Property management	445,118		445,118
Janitorial	105,148		105,148
Repair and maintenance	274,624		274,624
Depreciation	382,355		382,355
Total operating expenses	1,207,245		1,207,245
Operating income	2,431,889		2,431,889
Non-operating revenues:			
Investment income	129,657	$ 906	130,563
Income before transfer	2,561,546	906	2,562,452
Transfer out (note 6)	(1,200,000)		(1,200,000)
Change in net assets	1,361,546	906	1,362,452
Net assets, beginning	35,708,124	62,008	35,770,132
Net assets, ending	$ 37,069,670	$ 62,914	$ 37,132,584

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds		
	Creekside Marketplace	Utility	Total
Cash flows from operating activities:			
Payments to suppliers for goods and services	$ (824,890)		$ (824,890)
Receipts from customers	3,657,218		3,657,218
Net cash provided by (used for) operating activities	2,832,328		2,832,328
Cash flows from noncapital financing activities:			
Transfer to General Fund	(1,200,000)		(1,200,000)
Cash flows from investing activities:			
Interest received	130,900	$ 971	131,871
Net increase (decrease) in cash and cash equivalents	1,763,228	971	1,764,199
Cash and cash equivalents, beginning	6,641,299	61,832	6,703,131
Cash and cash equivalents, ending	$ 8,404,527	$ 62,803	$ 8,467,330
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income (loss)	$ 2,431,889		$ 2,431,889
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	382,355		382,355
Increase in deposits payable	18,084		18,084
Net cash provided by (used for) for operating activities	$ 2,832,328	$ -	$ 2,832,328

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets	
Cash and investments (note 3)	$ 2,673,960
Cash and investments with fiscal agents (note 3)	17,868,293
Receivables:	
Special assessments	67,634
Interest	62,559
Total assets	$ 20,672,446
Liabilities	
Due to bondholders	$ 18,068,942
Deposits payable	2,603,504
Total liabilities	$ 20,672,446

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description and Scope of the Reporting Entity:

The City of San Marcos, California (the City) was incorporated on January 25, 1963 and became a Charter City on July 4, 1994. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public safety, public works, culture and recreation, and community development.

As required by generally accepted accounting principles, these financial statements present the financial position of the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent upon the City.

Based upon the above criteria, the component units of the City are the San Marcos Redevelopment Agency (the Agency), the San Marcos Public Facilities Authority (the Authority), the California Mobilehome Financing Authority (CAMPFA), and the San Marcos Community Foundation (the Foundation).

Since the City Council serves as the governing board for these component units, all of these entities are considered to be blended component units. Blended component units, although legally separate entities, are in substance part of the City's operations, and so data from these units is reported with the data of the City (primary government).

The Redevelopment Agency of the City of San Marcos was established pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of San Marcos. The City provides management assistance to the Agency, and the members of the City Council also act as the governing body of the Agency.

The San Marcos Public Facilities Authority is a joint powers Authority organized pursuant to the State of California Government Code, Section 6500. The Authority exists under a Joint Exercise of Power Agreement dated June 1989, between the City of San Marcos and the Redevelopment Agency of the City of San Marcos. Its purpose is to facilitate financing for public capital improvements of the City and the Agency.

The California Mobilehome Financing Authority is a joint powers Authority organized pursuant to the State of California Government Code, Section 6500. The Authority exists under a Joint Exercise of Powers Agreement dated May 9, 1995, between the City of San Marcos and the Redevelopment Agency of the City of San Marcos. Its purpose is to facilitate financing for public capital improvements to be owned by its members and to establish a vehicle which may reduce local borrowing costs and promote the greater use of existing and new financial instruments and mechanisms.

The San Marcos Community Foundation was established and by-laws were adopted on October 27, 1987. On June 10, 1988 the San Marcos Community Foundation was incorporated and organized under the California Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Foundation provides financial and other assistance to worthy programs which benefit the City and residents of San Marcos. Assets of the Foundation are reported in a Permanent Fund as only the interest earnings on the original principal of $1,000,000 can be spent on Foundation activity. The amount that is available for spending is the balance over the original endowment and is reported on the balance sheet as unreserved, undesignated. No less than 4% or more than 5% of total assets may be distributed in any one year as long as total assets do not fall below the original principal.

Separate financial statements of the Agency are available at City Hall, 1 Civic Center Drive, San Marcos, California, 92069-2949. Financial statements are not prepared for the other entities.

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 and its blended component units. 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 user 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 to 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 classified as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the Fund Financial Statements.

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. Agency funds use the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Property taxes are recognized as revenues in the year for which they are levied.

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements under state and federal grants are accrued if received within 180 days. Revenues that are accrued generally include real property taxes, sales tax, transient occupancy taxes, franchise fees, vehicle license fees, highway users tax, interest, and some state and federal grants.

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.

The City reports the following major governmental funds:

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

The Low and Moderate Income Housing Fund accounts for the tax increment which is required to be set-aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing.

The Redevelopment Agency Debt Service Fund accounts for the accumulation of resources for the payment of principal, interest, and related costs of the Agency long-term debt.

The Redevelopment Agency Capital Projects Fund accounts for the administrative expenditures of the Redevelopment Agency and redevelopment capital projects.

The City reports the following major proprietary fund:

The Creekside Marketplace Enterprise Fund accounts for the activities of a City-owned shopping center.

Additionally, the City reports the following fund type:

The Agency Funds account for assets held by the City in a custodial capacity. These funds include refundable deposits and also account for the collection of special assessments levied on various Assessment Districts and Community Facilities Districts property owners for the payment of debt service on no commitment debt.

For both the government-wide and proprietary fund financial statements, the City applies all Governmental Accounting Standards Board (GASB) pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principals Board Opinions and Accounting Research Bulletin of the Committee on Accounting Procedure issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The effect of interfund activity associated with significant interfund allocations has been eliminated from the Government-wide financial statements. Other interfund services provided and used between functions have not been eliminated from the Government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services and lease revenue. The City also recognizes new account charges, late fees and contributions from other agencies as operating revenues. Operating expenses for the enterprise funds include the cost of sales and services, and general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as needed.

Deposits and Investments:

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

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 are reported at fair value. The State Treasurer's Investment Pool operates 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.

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). 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 in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepaid Items:

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

Land Held for Resale:

Land held for resale is valued at the lower of cost or market once such amount becomes determinable upon entering into a contract for sale. Land held for resale is offset by a fund balance reserve in the fund financial statements to indicate that the asset does not constitute available, spendable resources.

Capital Assets:

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives. Depreciation starts the year following acquisition.

	Years
Buildings	50
Furniture and equipment	5-10
Infrastructure	20-50

Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. Sick leave accrued but unused is cumulative from year to year. Employees are allowed to cash out sick leave hours over certain balances once a year and upon termination. All vacation pay and applicable sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All compensated absences are liquidated in the General Fund.

Long-term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Postemployment Benefits Other Than Pensions:

The City does not provide postemployment benefits, other than pensions, that are material to the financial statements.

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.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $(334,405,969) difference are as follows:

Bonds payable	$(296,610,000)
Less: Deferred charge on refunding	5,553,588
Issuance discount	379,944
Plus: Issuance premium	(5,306,495)
Note payable	(943,274)
Cooperation agreement	(27,807,536)
Compensated absences	(5,095,013)
Due to other governments	(4,577,183)
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$(334,405,969)

Another element of the reconciliation is cost of issuance of $5,713,910 which is deferred and amortized over the life of the bonds in the Statement of Net Assets as opposed to expended in the funds in the year of issuance.

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 states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $9,278,555 difference are as follows:

Debt issued or incurred:	
Cooperation agreement	$ (330,709)
Principal repayments:	
Bonds	6,750,000
Note payable	91,971
Cooperation agreement	2,483,039
Due to other governments	673,763
Amortization of:	
Deferred charges/cost of issuance	(228,138)
Deferred charge on bond refunding	(356,102)
Bond issuance discount	(14,855)
Bond issuance premium	209,586
Net adjustment to increase *net changes in fund balance – total governmental funds* to arrive at *changes in net assets – governmental activities*	$ 9,278,555

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $13,152 difference are as follows:

Change in compensated absences	$ 88,483
Change in accrued interest	(75,331)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 13,152

3. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 116,662,376
Cash and investments with fiscal agents	70,772,552

Statement of fiduciary assets and liabilities:	
Cash and investments	2,673,960
Cash and investments with fiscal agents	17,868,293
Total Cash and Investments	$ 207,977,181

Cash and investments at June 30, 2010 consisted of the following:

Demand deposits	$ 2,305,360
Local Agency Investment Pool (LAIF)	57,997,692
California Asset Management Pool (CAMP)	321,274
Federal Agency Securities	59,072,632
U.S. Treasury	10,132,366
FDIC Insured Corporate Bonds	14,421,701
Investment agreements	2,673,246
Money market mutual funds	61,052,910
Total Cash and Investments	$ 207,977,181

Investments Authorized by the California Government Code and the City's Investment Policy:

The table below identifies the investment types that are authorized by the California Government Code and the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

Investment Type Authorized by State Law	Authorized By City Policy	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	Yes	180 days	40%	10%
Commercial Paper	Yes	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	30 days	50%	None
Reverse Repurchase Agreements	No	1 year	20%	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
California Asset Management Program (CAMP)	Yes	N/A	None	None
County Pooled Investment Funds	No	N/A	None	None

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are generally authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Agency Securities	None	None	None
Bankers' Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Repurchase Agreements	180 days	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Investment Contracts	None	None	None

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 60 Months	More Than 60 Months
Federal agency securities	$ 34,157,944		$ 34,157,944	
U.S. Treasury	10,132,366	$1,424,307	8,708,059	
FDIC Insured Corporate Bonds	14,421,701		14,421,701	
LAIF	57,997,692	57,997,692		
CAMP	321,274	321,274		
Held by bond trustees:				
Money market mutual funds	61,052,910	61,052,910		
Investment contracts	2,673,246			$ 2,673,246
Federal agency securities	24,914,688	18,172,189	6,742,499	
Total	$205,671,821	$138,968,372	$ 64,030,203	$ 2,673,246

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End: AAA	Rating as of Year End: Not Rated
Federal agency securities	$ 34,157,944	N/A	$ 34,157,944	
U.S. Treasury	10,132,366		10,132,366	
FDIC Insured Corporate Bonds	14,421,701		14,421,701	
LAIF	57,997,692	N/A		$ 57,997,692
CAMP	321,274	N/A		321,274
Held by bond trustees:				
Money market mutual funds	61,052,910	A	61,052,910	
Investment contracts	2,673,246	N/A		2,673,246
Federal agency securities	24,914,688	N/A	24,914,688	
Total	$205,671,821		$144,679,609	$ 60,992,212

Concentration of Credit Risk:

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer other than external investment pools and mutual funds that represent 5% or more of the total City investments (or 5% or more of any major fund or non-major funds in the aggregate) are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal Agency Securities	$ 18,610,794

Fund	Issuer/Type	Reported Amount
Redevelopment Agency Debt Service Fund	Federal Home Loan Bank	$ 5,574,811
Redevelopment Agency Capital Projects Fund	Federal Home Loan Bank	12,808,496

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's investment policy requires that all securities owned by the City be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and by the City.

Managed Investment Pools:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The City is a voluntary participant in the California Asset Management Pool (CAMP), which was established as a nontaxable investment portfolio under provisions of the California Joint Exercise of Powers Act to provide California Public Agencies with comprehensive investment management services. There are no minimum deposit requirements or limits on deposits and withdrawals. The contract creating CAMP specifies the types of investments that can be made by the investment portfolio which include U.S. government securities, securities of federally sponsored agencies, repurchase agreements, bankers' acceptances, negotiable certificates of deposit and commercial paper.

4. NOTES RECEIVABLE

At June 30, 2010, notes receivable consisted of the following:

The City of San Marcos Redevelopment Agency has made various loans to individuals to acquire and own property within mobile home parks. These loans are at various low simple interest rates. Principal and interest are due in 30 years from the date of the note unless the property is sold or the individual no longer qualifies under low or moderate income requirements. Due to the long-term nature of the loans, deferred revenue has been recorded in the Low and Moderate Income Housing Special Revenue Fund.	$ 2,463,694

The City of San Marcos Redevelopment Agency has made several loans to various housing developers for the acquisition, construction or rehabilitation of low and moderate housing. The loans were made in fiscal years 1997 through 2010 at various amounts and at interest rates ranging from 3% to 5.9% per annum. Principal and interest are due at various maturity dates but no later than 55 years from the date of the note. Due to the long-term nature of the loans, deferred revenue has been recorded in the Low and Moderate Income Housing Special Revenue Fund.	98,073,313
In July 1989, the City of San Marcos Redevelopment Agency entered into an Agreement of Cooperation with the San Diego County Office of Education for the option of borrowing $800,000 from the Agency for the acquisition of land for a joint use facility with the San Marcos Unified School District. On June 9, 1998, the Office of Education borrowed the funds. The loan is at an interest rate equal to the interest rate of the debt instrument used by the Agency to fund the loan and is compounded annually on the balance of the loan. Beginning in the Trigger Year, 39% of the District's portion of General District Tax Revenues (after deduction of the 2% revenues) is to be allocated to repayment of the loan until the principal and interest have been repaid. Due to the long-term nature of the loan, fund balance has been reserved in the San Marcos Redevelopment Agency Debt Service Fund for the principal portion.	778,566
In June 2001, the City loaned $1,320,000 to a developer for the acquisition, development and construction of a commercial pad. The loan has a term of thirty years and bears an interest rate of 3%. Payments from residual receipts, if any, are to be made on an annual basis beginning with May 15 of the year first following the date the project is completed. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2010 includes accrued interest of $243,518.	1,563,518
In December 2004, the City loaned $700,000 to Assisted Living Foundation of America (ALFA), a non-profit corporation, to assist with the development of a 120 unit senior housing project. The loan is payable in full on June 1, 2038 and bears an interest rate of 1%. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2010 includes accrued interest of $30,722.	730,722
In March 2006, the City loaned $700,000 to ALFA to assist with the development of a 100-unit affordable rental housing project. The loan is payable in full on June 1, 2040 and bears an interest rate of 3%. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2010 includes accrued interest of $63,000.	763,000
The City has provided loans to several individuals under a Federal (HOME) mortgage assistance loan program. The loans are to be repaid in 30 years and bear an interest rate of 3%. Deferred revenue has been recorded in the HOME Grant Special Revenue Fund due to the long-term nature of the notes.	666,853

The City of San Marcos Redevelopment Agency has provided loans to individuals under a mortgage assistance program. The loans are to be repaid in 30 years and bear an interest of 3%. Deferred revenue has been recorded in the Low and Moderate Income Housing Fund due to the long-term nature of the notes.	695,919
Total notes receivable	$ 105,735,585

5. DEFERRED/UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable Revenue	Unearned Revenue
Fees receivable from property owners under various agreements	$ 952,464	
Rental revenue received prior to recognition date		$ 160,828
Long-term loans to mobile home owners	2,463,694	
Long-term loans to developers for the acquisition, construction or rehabilitation of low and moderate income housing	99,567,035	
Long-term loan to a developer for the acquisition, development and construction of a commercial pad	1,563,518	
Investment in direct financing lease	3,965,071	
Long-term loans to individuals under a mortgage assistance program	1,362,772	
Total deferred/unearned revenue for governmental funds	$109,874,554	$ 160,828

The Creekside Marketplace Enterprise Fund also reported unearned revenue of $875,562 in conjunction with a receivable from a contractor as a result of a settlement agreement involving future rent losses (see note 8).

6. INTERFUND RECEIVABLES AND TRANSFERS

Short-term loans between funds (Due to/Due from) were as follows at June 30, 2010:

Receivable Fund	Payable Fund	Amount
General Fund	Non-major governmental funds	$ 622,563
Redevelopment Agency Debt Service	Redevelopment Agency Capital Projects	16,342,040
Total		$ 16,964,603

The loans from the General Fund to the non-major governmental funds and from the Redevelopment Agency Debt Service Fund to the Redevelopment Agency Capital Projects Fund were made to eliminate short-term cash deficits.

Long-term loans between funds (Advances to/Advances from) were as follows at June 30, 2010:

The Low and Moderate Income Housing Special Revenue Fund loaned $419,755 to the San Marcos Redevelopment Agency Debt Service Fund to fund the fiscal year 2003/2004 Educational Revenue Augmentation Fund (ERAF) payment. The loan bears an interest rate of 3.0% and is to be repaid in ten years in annual installments of $49,208. The balance outstanding at June 30, 2010 was $182,911.

The Low and Moderate Income Housing Special Revenue Fund loaned $20,220,665 to the San Marcos Redevelopment Agency Debt Service Fund to fund the fiscal year 2009/2010 Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan bears an interest rate equal to the City's average portfolio rate and is to be repaid no later than June 30, 2015. The balance outstanding at June 30, 2010 was $20,220,665.

The Redevelopment Agency Debt Service Fund loaned $5,404,880 to the Redevelopment Agency Capital Projects Fund to fund the purchase of property for future redevelopment. The loan accrues interest at the City's average monthly investment portfolio rate and is to be repaid over the next fifteen years to the extent that funds are available. The balance outstanding at June 30, 2010 was $5,404,880.

Interfund transfers were as follows:

	Transfers In			
	General Fund	RDA Debt Service	Non-major Governmental	Total Transfers Out
Transfers Out:				
General Fund			$ 29,164	$ 29,164
Low & Moderate Income Housing		$ 1,190,151		1,190,151
Creekside Marketplace Enterprise	$ 1,200,000			1,200,000
Non-major Governmental	5,637,588			5,637,588
Total Transfers In:	$ 6,837,588	$ 1,190,151	$ 29,164	$ 8,056,903

The transfers of $29,164 from the General Fund to the non-major governmental funds were to fund various capital project costs.

The transfer of $1,190,151 from the Low and Moderate Income Housing Special Revenue Fund to the Redevelopment Agency Debt Service Fund was to fund the debt service payments on the $9,465,000 1997 Series A Tax Allocation bonds and the $7,490,000 1998 Series A Tax Allocation bonds.

$1,200,000 was transferred from the Creekside Marketplace Enterprise Fund to the General Fund to fund operations.

The transfers of $5,637,588 from non-major governmental funds to the General Fund was mainly to reimburse the General Fund for lighting and landscape cost incurred within the Lighting and Landscape District and Community Facilities District 98-02 ($5,587,910).

7. NET INVESTMENT IN DIRECT FINANCING LEASE

In fiscal year 1992-93, the Agency entered into a direct financing lease with the San Marcos Unified School District whereby the Agency has agreed to lease 50% of the Public Works Yard to the School District, with a purchase option at the end of the lease. The lease was amended in fiscal year 2001/02 due to the refinancing of the Civic Center/Public Works Yard Bond issue.

The terms of the amended lease call for semi-annual payments of $98,906 including interest at 5.87% each July and January 15 commencing July 15, 2002 to July, 2031 and payments of $62,663 with no interest from July 15, 2002 to July 15, 2022. The following lists the components of the net investment in the direct financing lease as of June 30, 2010:

Total minimum lease payments to be received	$ 5,819,526
Less unearned income	1,854,455
Net investment in direct financing lease	$ 3,965,071

At June 30, 2010, the future minimum lease payments are as follows:

Year Ending June 30	
2011	$ 323,138
2012	323,138
2013	323,138
2014	323,138
2015	323,138
2016-2020	1,615,689
2021-2025	1,302,373
2026-2030	989,057
2031	296,717
	$ 5,819,526

A net investment in direct financing lease and corresponding deferred revenue amount have been recorded in the Redevelopment Agency Debt Service Fund to account for the net present value of the lease payments at June 30, 2010.

8. OTHER RECEIVABLES

At June 30, 2010, other receivables consisted of the following:

Governmental Funds:

In fiscal year 1992-93, the City entered into an agreement whereby Scripps Memorial Hospital has agreed to pay $300,000 per year in public facilities fees for eight years. The City has recorded a receivable and deferred revenue for the future payments.	$ 600,000
The City has entered into agreements with several property owners whereby certain public facilities fees are being deferred. The revenue has been deferred in the governmental funds.	119,616
Other	232,848
Total other receivables – governmental funds	$ 952,464

Proprietary Funds:

In June 2004, the City entered into a Release and Settlement Agreement with a contractor whereby $974,652 is to be remitted to the City over the next fifty years as compensation for the loss of lease space. Payments of $1,624 are to be made on the fifteenth day of each month beginning on or about June 15, 2005 through May 15, 2055. The receivable has been recorded in the Creekside Marketplace Enterprise Fund along with unearned revenue.	$ 875,562

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 239,192,525	$ 25,007,799	$ (1,426,051)	$ 262,774,273
Land improvements	28,631,370	10,133,063		38,764,433
Construction in progress	84,766,699	22,545,884	(16,372,313)	90,940,270
Total capital assets, not being depreciated	352,590,594	57,686,746	(17,798,364)	392,478,976
Capital assets being depreciated:				
Buildings	74,708,564			74,708,564
Furniture and equipment	15,745,731	460,377	(80,447)	16,125,661
Infrastructure	278,877,539	12,227,334		291,104,873
Total assets being depreciated	369,331,834	12,687,711	(80,447)	381,939,098

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Less accumulated depreciation for:				
Buildings	(17,884,750)	(1,493,117)		(19,377,867)
Furniture and equipment	(11,224,494)	(1,091,712)	80,447	(12,235,759)
Infrastructure	(80,046,457)	(8,487,436)		(88,533,893)
Total accumulated depreciation	(109,155,701)	(11,072,265)	80,447	(120,147,519)
Total capital assets being depreciated, net	260,176,133	1,615,446		261,791,579
Total governmental activities	$ 612,766,727	$ 59,302,192	$ (17,798,364)	$ 654,270,555
Business type activities:				
Capital assets, not being depreciated:				
Land	$ 11,865,697			$ 11,865,697
Capital assets being depreciated:				
Buildings	19,117,758			19,117,758
Less accumulated depreciation	(1,911,325)	$ (382,355)		(2,293,680)
Total capital assets being depreciated, net	17,206,433	(382,355)		16,824,078
Total business type activities	$ 29,072,130	$ (382,355)	$ -	$ 28,689,775

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 857,043
Community development	107,493
Public safety	968,809
Highways and streets	8,956,299
Culture and recreation	182,621
Total depreciation expense – governmental activities	$ 11,072,265

Assets acquired through capital leases are as follows:

Furniture and equipment	$ 3,634,013
Less: accumulated depreciation	(3,012,533)
Total	$ 621,480

10. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Governmental activities:					
Bonds payable	$303,360,000		$ 6,750,000	$296,610,000	$6,990,000
Plus (less) deferred amounts:					
Issuance premium	5,516,081		209,586	5,306,495	
Issuance discount	(394,799)		(14,855)	(379,944)	
Charge on refunding	(5,909,690)		(356,102)	(5,553,588)	
Total bonds payable	302,571,592		6,588,629	295,982,963	6,990,000
Note payable	1,035,245		91,971	943,274	97,029
Cooperation agreement	29,959,866	$ 330,709	2,483,039	27,807,536	2,479,656
Compensated absences	5,006,530	2,250,476	2,161,993	5,095,013	2,323,224
Due to other governments	5,250,946		673,763	4,577,183	716,642
Total	$343,824,179	$ 2,581,185	$11,999,395	$334,405,969	$12,606,551

In November 2001, the San Marcos Public Facilities Authority issued $54,055,000 2001 Public Improvement Refunding Revenue Bonds Series A, to refund the $58,425,000 1993 Public Improvement Refunding Revenue Bonds, Series A. The bonds consist of serial bonds maturing from 2002 to 2021 in annual installments ranging from $830,000 to $2,025,000 and term bonds of $11,680,000 and $14,770,000 maturing in 2026 and 2031, respectively. Interest is payable on February 1 and August 1, commencing February 1, 2002 at rates ranging from 2.10% to 5.0%. Bonds maturing on or after August 1, 2012 are subject to optional redemption, in whole or in part, on any date on or after August 1, 2011. Bonds maturing on August 1, 2026 and 2031 are subject to mandatory redemption on August 1 of each year commencing in 2022 and 2027, respectively. The reserve requirement was fully funded at the end of the fiscal year.	$ 45,520,000
In July 1997, the Redevelopment Agency issued $9,465,000 1997 Series A Tax Allocation Bonds to finance the acquisition, construction and rehabilitation of affordable housing. The bonds consist of serial bonds of $1,645,000 maturing from 1998 to 2007 in annual installments of $135,000 to $200,000 and term bonds of $7,820,000 maturing October 1, 2027. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1997 at rates ranging from 4.2% to 6%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemption, in part, on October 1 of each year commencing 2008. The reserve requirement was fully funded at the end of the fiscal year.	7,385,000

In April 1998, the Redevelopment Agency issued $7,490,000 1998 Series 1998A Tax Allocation Bonds to finance the acquisition and rehabilitation of an affordable housing project. The bonds consist of serial bonds of $1,525,000 maturing from 1999 to 2009 in annual installments of $110,000 to $175,000 and term bonds of $5,965,000 maturing October 1, 2028. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1998 at rates ranging from 3.95% to 5.67%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2028 are subject to mandatory sinking fund redemption, in part, on October 1, of each year commencing October 1, 2010. The reserve requirement was fully funded at the end of the fiscal year.	5,965,000
In May 2003, the San Marcos Public Facilities Authority issued $69,740,000, 2003 Tax Allocation Revenue Bonds, Series A, to currently refund the Authority's Tax Allocation Bonds, 1993 Series A and to provide funds for certain capital projects. The bonds consists of serial bonds of $33,810,000 maturing from 2004 to 2022 in annual installments of $545,000 to $2,395,000 and term bonds of $9,110,000 and $26,820,000 maturing August 1, 2026 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 2.50% to 5.25%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2013. A premium of $2,645,051 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by $1,756,751. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year.	62,120,000
In May 2003, the San Marcos Public Facilities Authority issued $21,360,000, 2003 Tax Allocation Revenue Bonds, Series B, to currently refund a portion of the Senior Tax Allocation Bonds, Series 1999, to fully refund the Subordinate Tax Allocation bonds, Series 1999, and to provide funds for certain capital projects. The bonds consists of serial bonds of $2,360,000 maturing from 2004 to 2009 in annual installments of $355,000 to $490,000 and term bonds of $1,780,000, $6,465,000 and $10,755,000 maturing August 1, 2013, 2023 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 1.75% to 5.79%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date after August 1, 2013. The reacquisition price exceeded the net carrying amount of the old debt by $280,136. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at year end.	19,000,000

In May 2005, the San Marcos Public Facilities Authority issued $30,235,000, 2005 Tax Allocation Revenue Bonds (Project Areas No. 1 and 3 Refunding Project), Series A, to advance refund the Senior Tax Allocation Bonds (Project Area No. 1), Series 1999, and the 1999 Subordinate Tax Increment Revenue Bonds (Project Area No. 3), Series A. The bonds consists of serial bonds of $7,655,000 maturing from 2006 to 2020 in annual installments of $95,000 to $995,000 and term bonds of $5,175,000 and $16,865,000 maturing August 1, 2025 and 2034, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 2.80% to 5.00%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A premium of $1,210,789 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debts by $3,567,007. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year.	28,800,000
In May 2005, the San Marcos Public Facilities Authority issued $33,265,000, 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Series B, to refund the Taxable Tax Allocation Refunding Bonds (Project Area No. 1), Series 1999, repay certain loans made by the City to the Agency, and reimburse the Agency for expenditures made in connection with certain redevelopment activities. The bonds consists of serial bonds of $7,805,000 maturing from 2005 to 2015 in annual installments of $150,000 to $925,000 and term bonds of $5,380,000, $6,915,000, and $13,165,000 maturing August 1, 2020, 2025 and 2034, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 3.30% to 5.35%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A discount of $259,360 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by $1,815,137. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year.	30,440,000

In June 2005, the San Marcos Public Facilities Authority issued \$61,735,000, 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C, to finance certain capital projects of the Agency and the City. The bonds consists of serial bonds of \$23,015,000 maturing from 2006 to 2025 in annual installments of \$880,000 to \$1,410,000 and term bonds of \$4,475,000, \$18,135,000, and \$16,110,000 maturing August 1, 2028, 2035 and 2038, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 2.55% to 5.00%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A premium of \$2,674,921 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the year.	57,255,000
In April 2006, the San Marcos Public Facilities Authority issued \$36,165,000, 2006 Tax Allocation Revenue Bonds (Project Area No. 3 Financing Project), Series A, to finance certain capital projects of the Agency. The bonds consists of serial bonds of \$5,970,000 maturing from 2007 to 2016 in annual installments of \$25,000 to \$700,000; term bonds of \$3,145,000, \$4,910,000, \$7,610,000, and \$8,095,000 maturing August 1, 2020, 2025, 2031, and 2036, respectively; and special term bonds of \$590,000, \$710,000 and \$5,135,000 maturing August 1, 2011, 2016, and 2036, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2006 at rates ranging from 3.25% to 4.80%. Bonds maturing on and after August 1, 2017 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2016. A discount of \$116,318 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the year.	34,250,000
In August 2006, the San Marcos Public Facilities Authority issued \$6,740,000, 2006 Lease Revenue Refunding Bonds to refund the San Marcos Public Facilities Authority Lease Revenue Bonds, Series 1999. The bonds consist of serial bonds of \$4,140,000 maturing from 2006 to 2021 in annual installments of \$195,000 to \$345,000 and term bonds of \$1,125,000 and \$1,475,000 maturing November 4, 2024 and 2028, respectively. Interest is payable semi-annually on May 1 and November 1 commencing November 1, 2006 at rates ranging from 3.6% to 4.8%. A discount of \$69,998 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by \$105,273. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt. The reserve requirement was fully funded at the end of the year.	5,875,000
Total bonds payable	\$296,610,000

The bond documents for the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds Series A and B, the 2005 Tax Allocation Revenue Bonds Series A and B, and the 2006 Lease Revenue Refunding Bonds include a Reserved Fund Surety provided by FGIC for the purpose of funding 50% of the reserve requirement for each series of the bonds. Per section 3.04(d) of the indenture for the bonds, if the rating of the claims paying ability of FGIC falls below a rating of "A", the Authority shall either (i) deposit into the account of the Reserve Fund for which the surety was issued an amount equal to the reserve requirement over the ensuing year in equal installments on at least a monthly basis, or (ii) replace the Reserve Fund Surety with a Reserve Fund Surety meeting the Reserve Fund Surety requirements within six months of such occurrence. In March 2008, FGIC's rating was downgraded below "A" triggering the downgrade language described above. The Authority has enacted option (i) and has begun making installments into the Reserve Fund to meet the requirements of the indenture.

Bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 6,990,000	$ 14,376,901	$ 21,366,901
2012	7,260,000	14,096,140	21,356,140
2013	7,555,000	13,794,988	21,349,988
2014	7,865,000	13,471,592	21,336,592
2015	8,195,000	13,127,785	21,322,785
2016-2020	43,810,000	59,713,203	103,523,203
2021-2025	55,305,000	47,322,684	102,627,684
2026-2030	67,765,000	31,699,486	99,464,486
2031-2035	65,180,000	14,164,275	79,344,275
2036-2039	26,685,000	2,277,970	28,962,970
Total	$296,610,000	$224,045,024	$520,655,024

Note Payable:

On February 3, 1998, the City purchased property from the Vallecitos Water District through the issuance of a $1,829,520 promissory note. Annual payments of $148,909 from the Public Facility Fund, including interest at the rate of 5.5%, are due each February 1 through 2018.	$ 943,274

The annual requirements to amortize the note payable are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 97,029	$ 51,880	$ 148,909
2012	102,365	46,544	148,909
2013	107,996	40,913	148,909

Year Ending June 30	Principal	Interest	Total
2014	113,935	34,974	148,909
2015	120,202	28,707	148,909
2016-2018	401,747	44,980	446,727
Total	$ 943,274	$ 247,998	$ 1,191,272

Cooperation Agreement:

In fiscal year 1993-94, the Redevelopment Agency entered into a cooperation agreement with the County of San Diego (County) to alleviate any financial burden or detriment caused to the County as a result of amending the Redevelopment Plan for Project Area No. 1. The amount owed to the County increases each year by an annual amount equal to the County's portion of actual Agency tax revenue after deducting the housing set-aside. The unpaid principal and interest amount bears a 4% annual interest rate between fiscal year 1993-94 and the trigger year (the fiscal year in which the amount of tax revenue that has been allocated and paid to the Agency exceeds the amount of $100,000,000) and a floating interest rate thereafter. Payments consisting of 68% of the County's portion of tax increment are to be made annually beginning in the trigger year. Beginning in fiscal year 2012-13, the Agency is to annually pay the County the following percentages of gross Agency tax revenue:

2012-13 through 2017-18	25%
2018-19 through 2022-23	30%
2023-24 through 2027-28	35%
2028-29 through 2032-33	40%
2033-34 through 2037-38	45%
2038-39 and thereafter	50%

Once the County has been fully paid all principal and interest, if the Agency is still entitled to receive Agency tax revenue, annual payments to the County will equal the County's portion after deducting the housing set-aside. $ 27,807,536

Due to Other Governments:

In March 1997, the County of San Diego filed a claim against the City of San Marcos Redevelopment Agency involving disputes over the amount of Redevelopment Tax Increment Revenue to be paid to the County. The case was settled and the Agency has to pay the County a predetermined amount annually commencing December 15, 1998 and ending December 15, 2019 for a total of $9,872,085. $ 4,577,183

11. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Diego (the County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of assessed value. The assessed value can only increase each year by inflation with a maximum of 2%. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

12. RETIREMENT

Plan Description:

The City of San Marcos contributes to the California Public Employees Retirement System (PERS). With respect to miscellaneous employees, the City's plan is an agent multiple-employer public employee defined benefit pension plan. With respect to safety employees, the City's plan is a cost-sharing multiple-employer 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 state statute and City ordinance. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial reports may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Funding Policy:

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City pays the contribution required of City employees on their behalf and for their account. For the year ended June 30, 2010, the amount contributed by the City on behalf of the employees was $1,636,245. The City is also required to contribute at an actuarially determined rate. The rates for 2010 were 20.764% for miscellaneous employees, and 23.147% for safety employees, as a percentage of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost:

For the year ended June 30, 2010, the City's annual pension cost (employer contribution) of $4,293,384 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. GASB Statement No. 27 requires that the actuarial valuation use data as of a valuation date not more than twenty-four months before the beginning of the employer's fiscal year. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of the valuation date is seventeen years for safety and twenty-four years for miscellaneous employees.

The Schedule of Funding Progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SCHEDULE OF FUNDING PROGRESS

MISCELLANEOUS PLAN

Actuarial Valuation Date	Entry-Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Covered Payroll
6/30/07	$59,967,833	$40,684,283	$ 19,283,550	67.8%	$ 11,585,825	166.4%
6/30/08	66,454,307	45,696,056	20,758,251	68.8	12,386,440	167.6
6/30/09	76,471,895	49,829,978	26,641,917	65.2	12,579,983	211.8

PERS requires plans with less than 100 active members as of June 30, 2004 to participate in a risk pool. Mandated pooling was effective for the Safety Plan with the June 30, 2005 actuarial valuation. For each of the fiscal years shown below, the City has contributed at the actuarial determined rate provided by PERS' actuaries.

ANNUAL PENSION COST (MISCELLANEOUS)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/08	20.424%	$ 2,329,161	100%	-
6/30/09	21.118	2,638,492	100%	-
6/30/10	20.764	2,728,066	100%	-

ANNUAL PENSION COST (SAFETY)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/08	22.252%	$ 1,360,347	100%	-
6/30/09	22.609	1,445,014	100%	-
6/30/10	23.147	1,565,318	100%	-

Defined Contribution Pension Plan:

The City provides pension benefits for all of its part-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the City's 457 plan. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council has resolved to pay 1.9% for City employees of the required contribution. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2010, the City's total payroll and covered payroll was $1,062,821. The City made employer contributions of $20,716 (1.9% of current covered payroll), and employees contributed $58,996 (5.6% of current covered payroll).

13. INSURANCE

The City is a member of the California Joint Powers Insurance Authority (the Authority). The Authority is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

General Liability - Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first $30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from $30,000 to $750,000 and the loss development reserves associated with losses up to $750,000 are pooled based on the member's share of losses under $30,000; (3) losses from $750,000 to $5,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from $5,000,000 to $10,000,000 are paid under reinsurance policies and are subject to a $2,500,000 annual aggregate deductible; (4b) costs of covered claims from $10,000,000 to $50,000,000 are covered though excess insurance policies; (4c) costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of $25,000,000 per occurrence per member. This $25,000,000 subsidence sub-limit is composed of $10,000,000 in reinsurance and $15,000,000 in excess insurance. The excess insurance layer has a $15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is $50,000,000 per occurrence.

Property Insurance - The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the Authority. The City currently has all-risk property insurance protection in the amount of $132,849,806. There is a $5,000 deductible per occurrence except for non-emergency vehicle insurance which has a $1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Earthquake and Flood Insurance - The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City currently has earthquake protection in the amount of $108,763,232. There is a deductible of 5% per unit of value with a minimum deductible of $100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Environmental Insurance - The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50,000,000 for the 3-year period from July 1, 2008 through July 1, 2011. Each member of the Authority has a $10,000,000 sub-limit during the 3-year term of the policy.

Special Event Tenant User Liability Insurance – The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on City property. The insurance premium is paid by the tenant user to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

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

Workers Compensation:

The City is a member of the Public Agency Self-Insurance System (PASIS) which is a joint powers authority of nine fire districts in San Diego County and the City of San Marcos. PASIS' purpose is to provide for payment of workers' compensation claims, purchase claims examiner services, general counsel services and excess insurance coverage. Members are responsible for paying their own claims and related expenses.

For claims arising prior to July 1, 2001, the City was responsible for the first $250,000 of each loss. For claims arising during the year ended June 30, 2002, the deductible amount was $400,000. For claims arising between July 1, 2002 and June 30, 2009, the deductible amount was $500,000. The deductible for claims arising after June 30, 2009 is $300,000. PASIS carries excess insurance through a commercial insurance company to cover amounts over the self-insured retention. PASIS requires the City to maintain a minimum of $300,000 cash deposit with the Authority. At June 30, 2010, the City had $667,800 on deposit with PASIS and claims payable of $898,276. Both are included within the General Fund.

14. JOINT VENTURES

a) The San Marcos Fire Protection District (the District) is a member of the North County Dispatch Joint Powers Authority (the JPA). The JPA was formed on June 11, 1984 by the Rancho Santa Fe Fire Protection District, the Solana Beach Fire Department, the Encinitas Fire Protection District, the Vista Fire Department, and the San Marcos Fire Protection District. The purpose of the JPA is to provide dispatching and emergency communication services for fire protection, security, and medical services. Each member provides an annually determined contribution towards the ongoing operation. In the event of dissolution of the JPA, available assets shall be distributed to the member agencies in proportion to the aggregate contribution made by each member agency during the entire term of the agreement. The activities of the JPA are supervised by a board consisting of five directors who are appointed by each member governing bodies. Summarized audited information of the JPA for the fiscal year ended June 30, 2010, the most current available information, is as follows:

Total assets	$ 3,451,152
Liabilities	(1,016,433)
Net assets	$ 2,434,719
Revenues	$ 3,952,248
Expenses	(2,935,000)
Change in net assets	$ 1,017,248

The District's share of the JPA's assets, liabilities, equity, and changes therein during the year are not available. Separate financial statements of the JPA are available at 16936 El Fuego, Rancho Santa Fe, California 92067.

b) The San Marcos Redevelopment Agency and the City of Holtville have entered into a Joint Exercise of Powers Agreement dated November 15, 1995, to create the Mobilehome Financing Authority (MFA). The purpose of the MFA is a) to provide for the financing of public capital improvements for a local agency through the acquisition by the MFA of such public capital improvements, and/or the purchase by the MFA of obligations of a local agency pursuant to bond purchase agreements, and/or the loan of funds to a local agency and b) to provide for the acquisition, construction, maintenance or operation of certain housing facilities by the MFA. The Board of Directors consists of three members of the City Council of the City of Holtville and two members of the Board of Directors of the Agency. The Agency's share of the MFA's assets, liabilities, equity, and changes therein during the year are not available. Separate financial statements are not prepared for the MFA.

15. DESIGNATIONS OF FUND BALANCE

The General Fund unreserved fund balance was designated as follows at June 30, 2010:

Economic/litigation contingency	$ 2,000,000
Equipment replacement	5,000,000
Employee compensation contingency	29,200,000
Total unreserved, designated	$ 36,200,000

16. ASSESSMENT DISTRICT, COMMUNITY FACILITIES DISTRICT BONDS AND CONDUIT DEBT

Bonds issued to finance public improvement projects in certain assessment districts and community facilities districts are liabilities of the property owners and are secured by liens against the assessed property. The City acts as an agent for the collection of special assessments from the property owners and the payment of principal and interest to the bondholders. The City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Therefore, none of the following obligations are included in the accompanying financial statements. The balance in the reserve account at the end of the fiscal year for each bond issue was above the reserve requirement.

	Amount of Issue	Outstanding June 30, 2010
City of San Marcos Community Facilities District No. 88-1, Series 1999, Improvement Area #1, 2, 3	$ 33,560,000	$ 24,355,000
City of San Marcos Community Facilities District No. 91-01, Special Tax Bonds, 2004 Series B	3,690,000	2,735,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2004 Series A (Improvement Area A1, A2, B1, B2, C1, D1, G3, H1A, H1B, M, N1, N2, R1, R2)	33,805,000	30,395,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2004 Series A (Improvement Area C2B, I1, I2)	14,035,000	13,145,000
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Bonds, Series 2004 (Improvement Area No. 1)	22,500,000	20,735,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2006 Series B (Improvement Area F2/V2, J, T, V1A)	13,660,000	13,235,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, Series 2007 (Improvement Area D2L, D2U, D3, D4, E1, E2, H2, H3)	26,405,000	25,595,000
Total outstanding		$ 130,195,000

The City, the Redevelopment Agency, the San Marcos Public Facilities Authority and the California Mobilehome Financing Authority have issued bonds to provide financing for the acquisition, construction and/or development of various residential dwelling units, industrial facilities, school facilities, facilities for the elderly and rental housing for low and moderate income persons. However, neither the faith and credit nor the general taxing power of the City, Agency or Authorities have been pledged to the payments of the bonds. Furthermore, the City, Agency or Authorities do not have any obligations for the payments of the bonds in the case of default. Therefore, none of the following obligations are included in the accompanying financial statements.

	Outstanding June 30, 2010
$2,300,000 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Villa Serena Apartments), 2000 Series A	$ 1,946,296
$6,000,000 City of San Marcos Mobile Home Park Revenue Bonds, Series 1999 (Valle Verde)	6,000,000
$9,304,230 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Autumn Ridge) Series 2000	8,929,633
$15,800,000 Redevelopment Agency of the City of San Marcos Variable Rate Demand Multifamily Housing Revenue Bonds (Grandon Village) Series 2002A & 2002A-T	13,390,000
$44,175,000 California Mobilehome Park Financing Authority Mobile Home Park Revenue Bonds (Palomar Estates East & West) Series 2003A & B	39,790,000
$56,860,000 San Marcos Public Financing Authority Tax Increment Pass-through Revenue Refunding Bonds, San Marcos Unified School District, 2006 Series A	53,860,000
$44,640,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Refunding Bonds, Series 2006 A, B, C (Union City Tropics)	42,455,000
$11,655,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Fresno/Oceano)	10,240,000
$21,985,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Rancho Vallecitos)	20,100,000
	$ 196,710,929

17. COMMITMENTS AND CONTINGENCIES

The City is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from those actions will not result in a material adverse effect on the City's financial position.

18. DEFEASED BONDS

During the fiscal year ended June 30, 1994, the San Marcos Public Facilities Authority defeased $31,740,000 of its $50,000,000 1991 Series bonds by purchasing United States government securities with unexpended 1991 Series bond proceeds, and depositing those securities in an irrevocable trust with an escrow agent. The outstanding balance of the 1991 defeased bonds of $31,740,000 is scheduled to mature in January 2019.

In May 2005, the San Marcos Public Facilities Authority issued $30,235,000 2005 Tax Allocation Revenue Bonds Series A to refund $28,025,000 outstanding 1999 Series A Subordinate Tax Increment Revenue Bonds and $2,640,000 outstanding 1999 Senior Tax Allocation Bonds. Net proceeds of $30,583,198 (including a premium of $1,210,789 and after the payment of underwriting fees, insurance, and other issuance costs), plus $3,648,809 of 1999 bond debt service reserves and other available moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the full redemption of the 1999 bonds on August 1, 2009. The bonds were fully redeemed on August 1, 2009.

In May 2005, the San Marcos Public Facilities Authority issued $33,265,000 2005 Tax Allocation Revenue Bonds Series B to refund $11,005,000 outstanding 1999 Taxable Tax Allocation Refunding Bonds, to repay certain loans made by the City to the Agency, and to reimburse the Agency for expenditures made in connection with certain redevelopment activities. Net proceeds of $11,437,223 (after the payment of underwriting fees, insurance, other issuance costs and the funding of capitalized interest), plus $1,382,914 of 1999 bond debt service reserves and other available moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the full redemption of the 1999 bonds by August 1, 2009. The bonds were fully redeemed on August 1, 2009.

19. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures exceeded appropriation control levels in the HOME Grant Special Revenue Fund ($20,932), the Proposition 1B Special Revenue Fund ($7,673), and the San Marcos Redevelopment Agency Debt Service Fund ($17,938,048). The variance in the San Marcos Redevelopment Agency Debt Service Fund was due to the $20.2 million Supplemental Educational Revenue Augmentation Fund (SERAF) payment mandated by the State Legislature in fiscal year 2009-10.

20. PLEDGED REVENUES

The City and its component units have a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

Description of Pledged Revenue	Annual Amount of Pledged Revenue	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a % of Pledged Revenue
Non Set-Aside Tax Increment:			
Project Area No. 1	$ 12,521,208	$ 7,409,195	59%
Project Area No. 2	5,627,445	3,834,263	68
Project Area No. 3	10,562,751	8,477,197	80
Set-Aside Tax Increment	13,536,113	1,191,379	9

Non set-aside tax increment pledged revenue is gross increment net of set-aside tax increment in Project Area No.1 and net of set-aside tax increment and tax increment pass through payments in Project Areas No. 2 and No. 3.

REQUIRED SUPPLEMENTARY

INFORMATION

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
General Fund
For the Year Ended June 30, 2010

	Budgeted Amounts: Original	Budgeted Amounts: Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and special assessments	$ 27,800,015	$ 27,800,015	$ 25,174,783	$ (2,625,232)
Licenses and permits	4,200,548	4,200,548	4,274,969	74,421
Intergovernmental	1,132,953	1,632,953	1,813,837	180,884
Charges for services	10,510,417	10,510,417	11,341,050	830,633
Developer fees			70,582	70,582
Fines and forfeitures	276,600	276,600	279,735	3,135
Use of money and property	7,068,251	7,068,251	6,271,626	(796,625)
Miscellaneous	180,371	180,371	1,853,354	1,672,983
Total revenues	51,169,155	51,669,155	51,079,936	(589,219)
Expenditures:				
Current:				
General government	12,085,051	12,333,229	11,324,360	1,008,869
Community development	5,865,434	5,965,933	5,642,465	323,468
Public safety	28,430,434	28,430,434	27,461,612	968,822
Highways, streets and parks	11,273,096	11,241,496	11,084,060	157,436
Culture and recreation	2,450,864	2,450,864	2,655,385	(204,521)
Capital outlay	1,284,117	1,831,717	1,626,068	205,649
Total expenditures	61,388,996	62,253,673	59,793,950	2,459,723
Excess (deficiency) of revenues over expenditures	(10,219,841)	(10,584,518)	(8,714,014)	1,870,504
Other financing sources (uses):				
Sale of capital assets	958,000	958,000	1,241,860	283,860
Transfers in	8,501,247	8,501,247	6,837,588	(1,663,659)
Transfers out	(100,000)	(100,000)	(29,164)	70,836
Total other financing sources (uses)	9,359,247	9,359,247	8,050,284	(1,308,963)
Net change in fund balance	(860,594)	(1,225,271)	(663,730)	561,541
Fund balance, beginning	58,307,982	58,307,982	58,307,982	
Fund balance, ending	$ 57,447,388	$ 57,082,711	$ 57,644,252	$ 561,541

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Low and Moderate Income Housing Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and special assessments	$ 14,196,270	$ 14,196,270	$ 13,536,113	$ (660,157)
Use of money and property	781,000	781,000	1,061,416	280,416
Miscellaneous	1,500	1,500	40,108	38,608
Total revenues	14,978,770	14,978,770	14,637,637	(341,133)
Expenditures:				
Current:				
General government	922,346	922,346	1,063,977	(141,631)
Community development	25,750,000	25,750,000	10,848,450	14,901,550
Capital outlay	3,477,500	3,824,500	6,633,716	(2,809,216)
Total expenditures	30,149,846	30,496,846	18,546,143	11,950,703
Deficiency of revenues over expenditures	(15,171,076)	(15,518,076)	(3,908,506)	11,609,570
Other financing uses:				
Transfers out	(1,191,379)	(1,191,379)	(1,190,151)	1,228
Net change in fund balance	(16,362,455)	(16,709,455)	(5,098,657)	11,610,798
Fund balance, beginning	36,396,027	36,396,027	36,396,027	
Fund balance, ending	$ 20,033,572	$ 19,686,572	$ 31,297,370	$ 11,610,798

CITY OF SAN MARCOS
Note to Required Supplementary Information
June 30, 2010

1. BUDGETARY INFORMATION

The City follows these procedures in establishing its budgetary data:

1) During May or June, the City Manager submits to the City Council a proposed operating budget for all funds of the City for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2) Public hearings are conducted at City Council meetings to obtain citizens' comments during June.

3) Prior to July 1, the budget is enacted legally through passage of an appropriation resolution.

The level of budgetary control (the level on which expenditures may not exceed budgeted appropriations) is the individual fund level. The City Manager is authorized to transfer budgeted amounts between departments/functions as long as the total City budget is not exceeded. Any transfer exceeding the adopted City budget must have City Council approval. Appropriations were increased by a net of $864,677 in the General Fund.

Budgets for all governmental type funds are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for the General, Special Revenue, and Debt Service Funds, except for the Center Drive Maintenance District Special Revenue Fund and the California Mobilehome Park Financing Authority Debt Service Fund. Annual budgets are not adopted for the Capital Projects Funds. Therefore, budget and actual financial statements have not been prepared because a comparison of such budgetary amounts to annual revenues and expenditures is not meaningful.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental funds. Unencumbered appropriations lapse at the end of the fiscal year.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The Gas Tax Fund is used to account for a portion of the operations of the street maintenance department. Financing is provided by the City's share of State gasoline taxes. These taxes are used exclusively to maintain streets in accordance with State law.

The Traffic Safety Fund is used to account for traffic safety expenditures. Financing is provided by City-assessed traffic signal fees and traffic fines collected by the State.

The Community Facilities District 98-02 Fund is used to account for the cost of providing street lighting and landscape services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Affordable Housing Assurance Fund is used to account for in-lieu revenue received from developers to provide affordable housing.

The Street Lighting District Fund is used to account for the cost of providing street lighting services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Senior Nutrition Grant Fund is used to account for Federal grant revenues received through the County of San Diego for the operations of the Senior Nutrition Center.

The Community Development Block Grant Fund is used to account for transactions related to the Community Development Block Grant Program provided by the Federal Government. Funds are mostly utilized for capital improvement projects benefiting low and moderate income areas within the City.

The HOME Grant Fund is used to account for transactions related to the HOME Grant provided by the Federal Government. The grant is used to fund the San Marcos Mortgage Assistance Program.

The Traffic Congestion Relief Fund is used to account for monies received from the State under Assembly Bill 2928. These monies must be used only for street and highway pavement maintenance, and rehabilitation and reconstruction of necessary associated facilities such as drainage and traffic control devices.

The Proposition 1B Fund is used to account for monies received from the State under Senate Bill 1266. These monies must be used only for improvement to transportation facilities such as street and highway pavement maintenance, and rehabilitation and reconstruction of necessary associated facilities such as drainage and traffic control devices.

The Center Drive Maintenance District Fund is used to account for the cost of providing street maintenance services to certain properties. The benefiting properties are assessed for a portion of the cost.

The Energy Efficiency and Conservation Block Grant Fund is used to account for transactions related to the Energy Efficiency and Conservation Block Grant Program provided by the Federal Government. Funds are utilized for capital improvement projects to City Hall and other facilities to install energy efficient devices.

Debt Service Funds

Debt service funds are used to account for debt service transactions including revenue collection and payments of principal and interest on long-term obligations.

The California Mobilehome Park Financing Authority Fund is used to account for the accumulation of resources for and the payment of principal and interest of the California Mobilehome Park Financing Authority debt.

The San Marcos Public Facilities Authority Fund is used to account for the accumulation of resources for and the payment of principal and interest of the various debt obligations of the San Marcos Public Facilities Authority.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Transportation Development Act Fund is used to account for revenues received and expenditures made for transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreements with the County and with the San Diego Association of Governments.

The Public Facility Fund is used to account for fees received under the City's Public Facilities Financing Plan and the related capital improvements. The plan identifies facilities necessary to accommodate growth and ensure funding is available to pay for development's share of public facilities.

The Capital Improvements Fund is used to account for capital projects funded with Federal and other grants and the General Fund.

The Community Facilities District 99-1 Fund is used to account for the proceeds of bonds issued by the City of San Marcos Community Facilities District 99-1 pursuant to the Mello-Roos Community Facilities Act of 1982. The proceeds are used to finance, refinance or provide reimbursement for the cost of land, buildings, equipment and other public capital improvements.

The Transportation Sales Tax Fund is used to account for receipts and expenditures of money associated with the widening of State Highway 78 and other local public capital improvements.

The Community Facilities District 02-01 Fund is used to account for the proceeds of bonds issued by the City of San Marcos Community facilities District 02-01 pursuant to the Mello-Roos Community Facilities Act of 1982. The proceeds are used to finance, refinance or provide reimbursement for the cost of land, buildings, equipment and other public capital improvements.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs.

The Community Foundation Fund is used to account for the principal trust amount received and the related interest income. The interest portion can be used to provide financial and other assistance to worthy programs which benefit the City and its residents.

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Assets			
Cash and investments	$ 12,071,894		$ 5,636,179
Cash and investments with fiscal agents		$ 188,168	710,725
Receivables:			
Taxes and special assessments	27,265		
Accounts			17,134
Interest	23,537		7,849
Notes	3,724,093		
Other	48,556		119,616
Due from other governments	1,029,996		668,261
Deposits	31,089		71,893
Land held for resale			858,348
Total assets	$ 16,956,430	$ 188,168	$ 8,090,005
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 353,147		$ 358,265
Accrued liabilities	4,621		3,889
Due to other funds	470,794	$ 151,769	
Deferred revenue	3,772,649		119,616
Deposits	10,389		486,678
Total liabilities	4,611,600	151,769	968,448
Fund balances:			
Reserved for:			
Noncurrent assets			858,348
Deposits	31,089		71,893
Landscape maintenance	5,845,298		
Capital projects			6,191,316
Other purposes			
Unreserved, undesignated	6,468,443	36,399	
Total fund balances	12,344,830	36,399	7,121,557
Total liabilities and fund balances	$ 16,956,430	$ 188,168	$ 8,090,005

Permanent Fund Community Foundation	Total
$ 26,894	$ 17,734,967
	898,893
	27,265
	17,134
38	31,424
	3,724,093
	168,172
	1,698,257
996,991	1,099,973
	858,348
$ 1,023,923	$ 26,258,526
$ 73	$ 711,485
	8,510
	622,563
	3,892,265
	497,067
73	5,731,890
	858,348
	102,982
	5,845,298
	6,191,316
1,023,850	1,023,850
	6,504,842
1,023,850	20,526,636
$ 1,023,923	$ 26,258,526

CITY OF SAN MARCOS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Revenues:			
Taxes and special assessments	$ 4,975,585		
Intergovernmental	3,541,958		$ 1,460,399
Developer fees	152,128		2,637,692
Use of money and property	183,171	$ 484,216	95,391
Miscellaneous	53,321		14,150
Total revenues	8,906,163	484,216	4,207,632
Expenditures:			
Current:			
General government	309,531		
Community development	594,775		
Highways, streets and parks	2,956,599		
Culture and recreation	100,266		
Capital outlay	2,957,356		5,071,537
Debt service:			
Principal		210,000	91,971
Interest and fiscal charges		262,728	56,938
Total expenditures	6,918,527	472,728	5,220,446
Excess (deficiency) of revenues over expenditures	1,987,636	11,488	(1,012,814)
Other financing sources (uses):			
Transfers in			29,164
Transfers out	(5,637,588)		
Total other financing sources (uses)	(5,637,588)		29,164
Net change in fund balances	(3,649,952)	11,488	(983,650)
Fund balances, beginning	15,994,782	24,911	8,105,207
Fund balances, ending	$ 12,344,830	$ 36,399	$ 7,121,557

Permanent Fund Community Foundation	Total
	$ 4,975,585
	5,002,357
	2,789,820
$ 117,010	879,788
8,549	76,020
125,559	13,723,570
	309,531
	594,775
	2,956,599
7,559	107,825
	8,028,893
	301,971
	319,666
7,559	12,619,260
118,000	1,104,310
	29,164
	(5,637,588)
	(5,608,424)
118,000	(4,504,114)
905,850	25,030,750
$ 1,023,850	$ 20,526,636

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2010

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Affordable Housing Assurance	Street Lighting District	Senior Nutrition Grant
Assets						
Cash and investments	$ 505,612	$ 545,688	$ 8,472,578	$ 1,897,749		
Receivables:						
Taxes and special assessments			23,758		$ 3,507	
Interest	394	938	17,968	3,353	122	$ 28
Notes				3,057,240		
Other		48,556				
Due from other governments	61,892	26,776				18,329
Deposits				31,089		
Total assets	$ 567,898	$ 621,958	$ 8,514,304	$ 4,989,431	$ 3,629	$ 18,357
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 26,747	$ 40,964				$ 4,996
Accrued liabilities	4,559					62
Due to other funds					$ 3,629	13,299
Deferred revenue		48,556		$ 3,057,240		
Deposits		10,389				
Total liabilities	31,306	99,909		3,057,240	3,629	18,357
Fund balances:						
Reserved for:						
Deposits				31,089		
Landscape maintenance			$ 5,845,298			
Unreserved, undesignated	536,592	522,049	2,669,006	1,901,102		
Total fund balances	536,592	522,049	8,514,304	1,932,191		
Total liabilities and fund balances	$ 567,898	$ 621,958	$ 8,514,304	$ 4,989,431	$ 3,629	$ 18,357

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Proposition 1B	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
	$ 22,648	$ 557,392	$ 608	$ 69,619		$ 12,071,894
						27,265
		424	199	111		23,537
	666,853					3,724,093
						48,556
$ 381,878	276,223	211,341			$ 53,557	1,029,996
						31,089
$ 381,878	$ 965,724	$ 769,157	$ 807	$ 69,730	$ 53,557	$ 16,956,430
$ 227,647	$ 4,418				$ 48,375	$ 353,147
						4,621
154,231	294,453				5,182	470,794
	666,853					3,772,649
						10,389
381,878	965,724				53,557	4,611,600
						31,089
						5,845,298
		$ 769,157	$ 807	$ 69,730		6,468,443
		769,157	807	69,730		12,344,830
$ 381,878	$ 965,724	$ 769,157	$ 807	$ 69,730	$ 53,557	$ 16,956,430

CITY OF SAN MARCOS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2010

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Affordable Housing Assurance	Street Lighting District	Senior Nutrition Grant
Revenues:						
Taxes and special assessments			$ 4,407,811		$ 540,030	
Intergovernmental	$ 1,307,322	$ 304,245				$ 106,919
Developer fees		25,378		$ 126,750		
Use of money and property	4,182	7,903	139,720	21,437	605	165
Miscellaneous			14,628			32,208
Total revenues	1,311,504	337,526	4,562,159	148,187	540,635	139,292
Expenditures:						
Current:						
General government				256,849		
Community development				240,000		
Highways, streets and parks	1,044,306					
Culture and recreation						100,266
Capital outlay		116,098		2,089,481		9,287
Total expenditures	1,044,306	116,098		2,586,330		109,553
Excess (deficiency) of revenues over expenditures	267,198	221,428	4,562,159	(2,438,143)	540,635	29,739
Other financing uses:						
Transfers out			(5,047,275)		(540,635)	(29,979)
Net change in fund balances	267,198	221,428	(485,116)	(2,438,143)		(240)
Fund balances, beginning	269,394	300,621	8,999,420	4,370,334		240
Fund balances, ending	$ 536,592	$ 522,049	$ 8,514,304	$ 1,932,191	$ -	$ -

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Proposition 1B	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
				$ 27,744		$ 4,975,585
$ 779,472	$ 235,408	$ 755,035			$ 53,557	3,541,958
						152,128
		4,287	$ 3,420	1,452		183,171
	6,485					53,321
779,472	241,893	759,322	3,420	29,196	53,557	8,906,163
					52,682	309,531
116,446	238,329					594,775
		697,876	1,214,417			2,956,599
						100,266
646,891				94,724	875	2,957,356
763,337	238,329	697,876	1,214,417	94,724	53,557	6,918,527
16,135	3,564	61,446	(1,210,997)	(65,528)		1,987,636
(16,135)	(3,564)					(5,637,588)
		61,446	(1,210,997)	(65,528)		(3,649,952)
		707,711	1,211,804	135,258		15,994,782
$ -	$ -	$ 769,157	$ 807	$ 69,730	$ -	$ 12,344,830

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Gas Tax Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 1,398,500	$ 1,398,500	$ 1,307,322	$ (91,178)
Use of money and property			4,182	4,182
Total revenues	1,398,500	1,398,500	1,311,504	(86,996)
Expenditures:				
Current:				
Highways, streets and parks	1,379,085	1,379,085	1,044,306	334,779
Net change in fund balance	19,415	19,415	267,198	247,783
Fund balance, beginning	269,394	269,394	269,394	
Fund balance, ending	$ 288,809	$ 288,809	$ 536,592	$ 247,783

CITY OF SAN MARCOS

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Traffic Safety Special Revenue Fund

For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 275,000	$ 275,000	$ 304,245	$ 29,245
Developer fees	15,361	15,361	25,378	10,017
Use of money and property	15,955	15,955	7,903	(8,052)
Total revenues	306,316	306,316	337,526	31,210
Expenditures:				
Capital outlay	808,680	808,680	116,098	692,582
Net change in fund balance	(502,364)	(502,364)	221,428	723,792
Fund balance, beginning	300,621	300,621	300,621	
Fund balance, ending	$ (201,743)	$ (201,743)	$ 522,049	$ 723,792

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Community Facilities District 98-02 Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes and special assessments	$ 4,300,000	$ 4,300,000	$ 4,407,811	$ 107,811
Use of money and property	200,000	200,000	139,720	(60,280)
Miscellaneous			14,628	14,628
Total revenues	4,500,000	4,500,000	4,562,159	62,159
Other financing uses:				
Transfers out	(4,000,000)	(4,000,000)	(5,047,275)	(1,047,275)
Net change in fund balance	500,000	500,000	(485,116)	(985,116)
Fund balance, beginning	8,999,420	8,999,420	8,999,420	
Fund balance, ending	$ 9,499,420	$ 9,499,420	$ 8,514,304	$ (985,116)

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Affordable Housing Assurance Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Developer fees			$ 126,750	$ 126,750
Use of money and property	$ 40,000	$ 40,000	21,437	(18,563)
Total revenues	40,000	40,000	148,187	108,187
Expenditures:				
Current:				
General government	285,795	285,795	256,849	28,946
Community development			240,000	(240,000)
Capital outlay	2,424,650	2,424,650	2,089,481	335,169
Total expenditures	2,710,445	2,710,445	2,586,330	124,115
Net change in fund balance	(2,670,445)	(2,670,445)	(2,438,143)	232,302
Fund balance, beginning	4,370,334	4,370,334	4,370,334	
Fund balance, ending	$ 1,699,889	$ 1,699,889	$ 1,932,191	$ 232,302

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Street Lighting District Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes and special assessments	$ 536,280	$ 536,280	$ 540,030	$ 3,750
Use of money and property	500	500	605	105
Total revenues	536,780	536,780	540,635	3,855
Other financing uses:				
Transfers out	(535,350)	(535,350)	(540,635)	(5,285)
Net change in fund balance	1,430	1,430		(1,430)
Fund balance, beginning				
Fund balance, ending	$ 1,430	$ 1,430	$ -	$ (1,430)

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Senior Nutrition Grant Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 98,000	$ 98,000	$ 106,919	$ 8,919
Use of money and property			165	165
Miscellaneous	43,000	43,000	32,208	(10,792)
Total revenues	141,000	141,000	139,292	(1,708)
Expenditures:				
Current:				
Culture and recreation	141,000	141,000	100,266	40,734
Capital outlay			9,287	(9,287)
Total expenditures	141,000	141,000	109,553	31,447
Excess of revenues over expenditures			29,739	29,739
Other financing uses:				
Transfers out			(29,979)	(29,979)
Net change in fund balance			(240)	(240)
Fund balance, beginning	240	240	240	
Fund balance, ending	$ 240	$ 240	$ -	$ (240)

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 1,885,566	$ 1,885,566	$ 779,472	$ (1,106,094)
Expenditures:				
Current:				
Community development	99,000	99,000	116,446	(17,446)
Capital outlay	1,786,566	1,786,566	646,891	1,139,675
Total expenditures	1,885,566	1,885,566	763,337	1,122,229
Excess (deficiency) of revenues over expenditures			16,135	16,135
Other financing uses:				
Transfers out			(16,135)	(16,135)
Net change in fund balance				
Fund balance, beginning				
Fund balance, ending	$ -	$ -	$ -	$ -

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
HOME Grant Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 217,397	$ 217,397	$ 235,408	$ 18,011
Miscellaneous			6,485	6,485
Total revenues	217,397	217,397	241,893	24,496
Expenditures:				
Current:				
Community development	217,397	217,397	238,329	(20,932)
Excess (deficiency) of revenues over expenditures			3,564	3,564
Other financing uses:				
Transfers out			(3,564)	(3,564)
Net change in fund balances				
Fund balance, beginning				
Fund balance, ending	$ -	$ -	$ -	$ -

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Traffic Congestion Relief Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 782,650	$ 782,650	$ 755,035	$ (27,615)
Use of money and property			4,287	4,287
Total revenues	782,650	782,650	759,322	(23,328)
Expenditures:				
Highways, streets and parks	782,650	782,650	697,876	84,774
Net change in fund balance			61,446	61,446
Fund balance, beginning	707,711	707,711	707,711	
Fund balance, ending	$ 707,711	$ 707,711	$ 769,157	$ 61,446

CITY OF SAN MARCOS

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Proposition 1B Special Revenue Fund

For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental	$ 1,186,512	$ 1,186,512		$ (1,186,512)
Use of money and property			$ 3,420	3,420
Total revenues	1,186,512	1,186,512	3,420	(1,183,092)
Expenditures:				
Highways, streets and parks	1,206,744	1,206,744	1,214,417	(7,673)
Net change in fund balance	(20,232)	(20,232)	(1,210,997)	(1,190,765)
Fund balance, beginning	1,211,804	1,211,804	1,211,804	
Fund balance, ending	$ 1,191,572	$ 1,191,572	$ 807	$ (1,190,765)

CITY OF SAN MARCOS

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

EECBG Special Revenue Fund

For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Intergovernmental			$ 53,557	$ 53,557
Expenditures:				
Current:				
General government			52,682	(52,682)
Capital outlay		$ 738,000	875	737,125
Total expenditures		738,000	53,557	684,443
Net change in fund balance		(738,000)		738,000
Fund balance, beginning				
Fund balance, ending	$ -	$ (738,000)	$ -	$ 738,000

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Debt Service Funds
June 30, 2010

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
Assets			
Cash and investments with fiscal agents	$ 3,631	$ 184,537	$ 188,168
Liabilities and Fund Balances			
Liabilities:			
Due to other funds		$ 151,769	$ 151,769
Fund balances:			
Unreserved, undesignated	$ 3,631	32,768	36,399
Total liabilities and fund balances	$ 3,631	$ 184,537	$ 188,168

CITY OF SAN MARCOS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Non-Major Debt Service Funds

For the Year Ended June 30, 2010

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
Revenues:			
Use of money and property		$ 484,216	$ 484,216
Expenditures:			
Debt service:			
Principal		210,000	210,000
Interest and fiscal charges		262,728	262,728
Total expenditures		472,728	472,728
Net change in fund balances		11,488	11,488
Fund balances, beginning	$ 3,631	21,280	24,911
Fund balances, ending	$ 3,631	$ 32,768	$ 36,399

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Redevelopment Agency Debt Service Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes and special assessments	$ 46,233,669	$ 46,233,669	$ 44,165,940	$ (2,067,729)
Use of money and property	985,000	985,000	916,475	(68,525)
Miscellaneous	435,857	435,857	435,857	
Total revenues	47,654,526	47,654,526	45,518,272	(2,136,254)
Expenditures:				
Current:				
General government	491,837	491,837	522,126	(30,289)
Tax increment distributions to other governmental agencies	18,356,000	18,356,000	37,060,348	(18,704,348)
Debt service:				
Principal	8,934,322	8,934,322	9,023,039	(88,717)
Interest and fiscal charges	15,717,843	15,717,843	14,832,537	885,306
Total expenditures	43,500,002	43,500,002	61,438,050	(17,938,048)
Excess of revenues over expenditures	4,154,524	4,154,524	(15,919,778)	(20,074,302)
Other financing sources:				
Long-term debt issued	1,154,553	1,154,553	330,709	(823,844)
Transfers in	1,191,379	1,191,379	1,190,151	(1,228)
Total other financing sources	2,345,932	2,345,932	1,520,860	(825,072)
Net change in fund balance	6,500,456	6,500,456	(14,398,918)	(20,899,374)
Fund balance, beginning	49,954,560	49,954,560	49,954,560	
Fund balance, ending	$ 56,455,016	$ 56,455,016	$ 35,555,642	$ (20,899,374)

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
San Marcos Public Facilities Authority Debt Service Fund
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Use of money and property	$ 487,534	$ 487,534	$ 484,216	$ (3,318)
Expenditures:				
Debt service:				
Principal	210,000	210,000	210,000	
Interest and fiscal charges	262,728	262,728	262,728	
Total expenditures	472,728	472,728	472,728	
Net change in fund balance	14,806	14,806	11,488	(3,318)
Fund balance, beginning	21,280	21,280	21,280	
Fund balance, ending	$ 36,086	$ 36,086	$ 32,768	$ (3,318)

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CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Capital Projects Funds
June 30, 2010

	Transportation Development Act	Public Facility	Capital Improvements
Assets			
Cash and investments	$ 273,259	$ 3,307,729	$ 1,589,916
Cash and investments with fiscal agents			
Receivables:			
Accounts		17,134	
Interest	413	5,926	
Other		119,616	
Due from other governments			668,261
Deposits		71,893	
Land held for resale		858,348	
Total assets	$ 273,672	$ 4,380,646	$ 2,258,177
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 5,390	$ 109,770	$ 194,149
Accrued liabilities			612
Deferred revenue		119,616	
Deposits			486,678
Total liabilities	5,390	229,386	681,439
Fund balances:			
Reserved for:			
Noncurrent assets		858,348	
Deposits		71,893	
Capital projects	268,282	3,221,019	1,576,738
Total fund balances	268,282	4,151,260	1,576,738
Total liabilities and fund balances	$ 273,672	$ 4,380,646	$ 2,258,177

Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
$ 4,803	$ 205,057	$ 255,415	$ 5,636,179
710,725			710,725
			17,134
9	1,051	450	7,849
			119,616
			668,261
			71,893
			858,348
$ 715,537	$ 206,108	$ 255,865	$ 8,090,005
	$ 48,956		$ 358,265
$ 3,277			3,889
			119,616
			486,678
3,277	48,956		968,448
			858,348
			71,893
712,260	157,152	$ 255,865	6,191,316
712,260	157,152	255,865	7,121,557
$ 715,537	$ 206,108	$ 255,865	$ 8,090,005

CITY OF SAN MARCOS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Capital Projects Funds
For the Year Ended June 30, 2010

	Transportation Development Act	Public Facility	Capital Improvements
Revenues:			
Intergovernmental	$ 108,790		$ 1,351,609
Developer fees		$ 637,692	2,000,000
Use of money and property	3,831	62,073	
Miscellaneous		11,000	3,150
Total revenues	112,621	710,765	3,354,759
Expenditures:			
Capital outlay	207,934	2,204,022	1,807,185
Debt service:			
Principal		91,971	
Interest and fiscal charges		56,938	
Total expenditures	207,934	2,352,931	1,807,185
Excess (deficiency) of revenues over expenditures	(95,313)	(1,642,166)	1,547,574
Other financing sources:			
Transfers in			29,164
Net change in fund balances	(95,313)	(1,642,166)	1,576,738
Fund balances, beginning	363,595	5,793,426	
Fund balances, ending	$ 268,282	$ 4,151,260	$ 1,576,738

Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
			$ 1,460,399
			2,637,692
$ 18,174	$ 7,629	$ 3,684	95,391
			14,150
18,174	7,629	3,684	4,207,632
	852,396		5,071,537
			91,971
			56,938
	852,396		5,220,446
18,174	(844,767)	3,684	(1,012,814)
			29,164
18,174	(844,767)	3,684	(983,650)
694,086	1,001,919	252,181	8,105,207
$ 712,260	$ 157,152	$ 255,865	$ 7,121,557

CITY OF SAN MARCOS
Combining Balance Sheet
All Agency Funds
June 30, 2010

	1915 Act Assessment District	Deposits	Twin Oaks Reimbursement	Community Facilities District 88-1
Assets				
Cash and investments	$ 54,880	$ 2,580,815	$ 21,642	$ 630
Cash and investments with fiscal agents				4,863,619
Receivables:				
Special assessments				23,825
Interest	97		1,047	50,301
Total assets	$ 54,977	$ 2,580,815	$ 22,689	$ 4,938,375
Liabilities				
Due to bondholders	$ 54,977			$ 4,938,375
Deposits payable		$ 2,580,815	$ 22,689	
Total liabilities	$ 54,977	$ 2,580,815	$ 22,689	$ 4,938,375

Community Facilities District 99-1	Community Facilities District 02-01	Total
$ 13,073	$ 2,920	$ 2,673,960
10,281,293	2,723,381	17,868,293
38,803	5,006	67,634
8,575	2,539	62,559
$ 10,341,744	$ 2,733,846	$ 20,672,446
$ 10,341,744	$ 2,733,846	$ 18,068,942
		2,603,504
$ 10,341,744	$ 2,733,846	$ 20,672,446

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
1915 ACT Assessment District				
Assets:				
Cash and investments	$ 17,341	$ 38,420	$ 881	$ 54,880
Cash and investments with fiscal agents	198,200	188	198,388	
Interest receivable	216	97	216	97
Total assets	$ 215,757	$ 38,705	$ 199,485	$ 54,977
Liabilities:				
Due to bondholders	$ 215,757	$ 1,897	$ 162,677	$ 54,977
Deposits				
Assets:				
Cash and investments	$ 2,671,785	$ 936,329	$ 1,027,299	$ 2,580,815
Liabilities:				
Deposits payable	$ 2,671,785	$ 1,961,550	$ 2,052,520	$ 2,580,815
Twin Oaks Reimbursement				
Assets:				
Cash and investments	$ 585,540	$ 8,530	$ 572,428	$ 21,642
Interest receivable	1,670	1,047	1,670	1,047
Total assets	$ 587,210	$ 9,577	$ 574,098	$ 22,689
Liabilities:				
Deposits payable	$ 587,210	$ 14,376	$ 578,897	$ 22,689

(Continued)

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds (Continued)
For the Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Community Facilities District 88-1				
Assets:				
Cash and investments	$ 39,858	$ 2,822,696	$ 2,861,924	$ 630
Cash and investments with fiscal agents	4,719,609	4,771,222	4,627,212	4,863,619
Special assessments receivable	20,638	23,825	20,638	23,825
Interest receivable	51,486	50,301	51,486	50,301
Total assets	$ 4,831,591	$ 7,668,044	$ 7,561,260	$ 4,938,375
Liabilities:				
Due to bondholders	$ 4,831,591	$ 4,879,079	$ 4,772,295	$ 4,938,375
Community Facilities District 99-1				
Assets:				
Cash and investments	$ 122,873	$ 6,399,359	$ 6,509,159	$ 13,073
Cash and investments with fiscal agents	10,323,449	6,515,569	6,557,725	10,281,293
Special assessments receivable	79,768	38,803	79,768	38,803
Interest receivable	4,711	8,575	4,711	8,575
Total assets	$ 10,530,801	$ 12,962,306	$ 13,151,363	$ 10,341,744
Liabilities:				
Due to bondholders	$ 10,530,801	$ 6,556,160	$ 6,745,217	$ 10,341,744

(Continued)

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds (Continued)
For the Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Community Facilities District 02-01				
Cash and investments	$ 13,163	$ 1,773,484	$ 1,783,727	$ 2,920
Cash and investments with fiscal agents	2,601,557	1,791,008	1,669,184	2,723,381
Special assessments receivable	15,202	5,006	15,202	5,006
Interest receivable	962	2,539	962	2,539
Total assets	$ 2,630,884	$ 3,572,037	$ 3,469,075	$ 2,733,846
Liabilities:				
Due to bondholders	$ 2,630,884	$ 1,794,270	$ 1,691,308	$ 2,733,846
Total - All Agency Funds				
Assets:				
Cash and investments	$ 3,450,560	$ 11,978,818	$ 12,755,418	$ 2,673,960
Cash and investments with fiscal agents	17,842,815	13,077,987	13,052,509	17,868,293
Special assessments receivable	115,608	67,634	115,608	67,634
Interest receivable	59,045	62,559	59,045	62,559
Total assets	$ 21,468,028	$ 25,186,998	$ 25,982,580	$ 20,672,446
Liabilities:				
Due to bondholders	$ 18,209,033	$ 13,231,406	$ 13,371,497	$ 18,068,942
Deposits payable	3,258,995	1,975,926	2,631,417	2,603,504
Total liabilities	$ 21,468,028	$ 15,207,332	$ 16,002,914	$ 20,672,446

STATISTICAL SECTION

This section of the City'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 government's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF SAN MARCOS
Net Assets by Component
Last Eight Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
Governmental Activities:			
Invested in capital assets, net of related debt	$ 200,251,079	$ 261,321,180	$ 307,123,731
Restricted/expendable for:			
Capital projects	16,117,423	13,503,228	28,457,759
Low and moderate income housing	35,533,846	44,824,880	56,344,305
Landscape Maintenance	1,476,545	3,542,787	4,876,677
Other purposes	2,038,701	2,252,019	3,104,720
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	(3,584,288)	10,903,431	(4,329,030)
Total governmental activities net assets	$ 252,833,306	$ 337,347,525	$ 396,578,162
Business-type activities:			
Invested in capital assets, net of related debt		$ 26,803,440	$ 30,590,054
Unrestricted	$ (1,214,069)	(1,124,068)	3,518,958
Total business-type activities net assets	$ (1,214,069)	$ 25,679,372	$ 34,109,012
Primary Government:			
Invested in capital assets, net of related debt	$ 200,251,079	$ 288,124,620	$ 337,713,785
Restricted/expendable for:			
Capital projects	16,117,423	13,503,228	28,457,759
Low and moderate income housing	35,533,846	44,824,880	56,344,305
Landscape Maintenance	1,476,545	3,542,787	4,876,677
Other purposes	2,038,701	2,252,019	3,104,720
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	(4,798,357)	9,779,363	(810,072)
Total primary government net assets	$ 251,619,237	$ 363,026,897	$ 430,687,174

Note:
(1) The City implemented GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governements", in fiscal year 2003. Therefore, ten years of data is not available.

Fiscal Year				
2006	2007	2008	2009	2010
$ 341,437,352	$ 376,880,228	$ 430,516,043	$ 460,101,619	$ 484,423,039
67,616,923	81,735,288	99,574,127	115,805,089	120,917,457
6,888,685	8,722,189	8,662,907	8,999,420	8,514,304
3,287,401	3,937,485	4,012,114	3,904,177	4,378,971
1,000,000	1,000,000	1,000,000	905,850	1,023,850
7,941,869	13,628,356	8,782,155	2,504,296	(11,409,150)
$ 428,172,230	$ 485,903,546	$ 552,547,346	$ 592,220,451	$ 607,848,471
$ 30,219,195	$ 29,836,841	$ 29,454,485	$ 29,072,130	$ 28,689,775
3,859,791	2,586,159	3,464,423	6,698,002	8,442,809
$ 34,078,986	$ 32,423,000	$ 32,918,908	$ 35,770,132	$ 37,132,584
$ 371,656,547	$ 406,717,069	$ 459,970,528	$ 489,173,749	$ 513,112,814
67,616,923	81,735,288	99,574,127	115,805,089	120,917,457
6,888,685	8,722,189	8,662,907	8,999,420	8,514,304
3,287,401	3,937,485	4,012,114	3,904,177	4,378,971
1,000,000	1,000,000	1,000,000	905,850	1,023,850
11,801,660	16,214,515	12,246,578	9,202,298	(2,966,341)
$ 462,251,216	$ 518,326,546	$ 585,466,254	$ 627,990,583	$ 644,981,055

CITY OF SAN MARCOS
Changes in Net Assets
Last Eight Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses:				
Governmental Activities:				
General government	$ 7,366,218	$ 7,924,933	$ 8,712,101	$ 10,209,504
Community development	7,597,702	4,732,002	9,493,749	4,559,304
Public safety	15,623,432	17,841,928	19,739,954	23,522,750
Highways, streets and parks	30,393,209	18,547,037	37,769,998	50,801,530
Culture and recreation	2,142,857	2,084,840	2,448,993	2,728,120
Interest on long-term debt	10,453,675	11,837,828	13,778,060	15,377,060
Total governmental activities expenses	73,577,093	62,968,568	91,942,855	107,198,268
Business-type activities:				
Creekside Marketplace		35,734	771,116	1,170,953
Utility	631,289	288,947	47,908	20,395
Total business-type activities expenses	631,289	324,681	819,024	1,191,348
Total primary government expenses	74,208,382	63,293,249	92,761,879	108,389,616
Program Revenues:				
Governmental Activities:				
Charges for services:				
General government (3)	4,360,718	4,371,792	4,753,376	5,233,634
Community development (3)	7,916,848	9,193,518	8,411,715	5,787,928
Public safety	5,834,251	5,867,367	6,395,110	6,846,519
Highways, streets and parks (2) (3)	4,701,141	5,725,413	5,197,553	6,452,402
Culture and recreation (2)	1,127,904	1,075,941	1,210,905	1,372,086
Operating grants and contributions	2,175,637	1,856,922	2,151,934	2,533,966
Capital contributions and grants	49,249,775	95,098,532	65,927,749	30,747,184
Total governmental activities program revenues	75,366,274	123,189,485	94,048,342	58,973,719
Business-type activities:				
Charges for services:				
Creekside Marketplace		404,410	3,435,437	3,954,995
Total business-type activities program revenues		404,410	3,435,437	3,954,995
Total primary government program revenues	75,366,274	123,593,895	97,483,779	62,928,714
Net (expenses) revenues:				
Governmental activities	1,789,181	60,220,917	2,105,487	(48,224,549)
Business-type activities	(631,289)	79,729	2,616,413	2,763,647
Total primary government net (expenses)/revenues	1,157,892	60,300,646	4,721,900	(45,460,902)

Notes:

(1) The City implemented GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governements", in fiscal year 2003. Therefore, ten years of data is not available.

(2) Amounts have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks instead of culture and recreation.

(3) Beginning in fiscal year 2009-2010, all costs relating to the construction inspection function are reported under community development instead of highways, streets, and parks. Also, the storm water management function is under general government instead of highways, streets, and parks.

Fiscal Year			
2007	2008	2009	2010
$ 12,936,083	$ 14,175,161	$ 14,639,790	$ 15,990,955
6,445,848	4,912,297	4,815,602	6,366,892
25,457,293	27,983,233	28,733,922	28,603,083
39,763,214	30,364,607	26,532,368	25,046,164
2,940,238	3,008,578	3,124,741	3,014,690
17,108,204	17,742,768	15,984,417	15,307,372
104,650,880	98,186,644	93,830,840	94,329,156
1,136,959	1,002,389	1,072,662	1,207,245
1,136,959	1,002,389	1,072,662	1,207,245
105,787,839	99,189,033	94,903,502	95,536,401
6,116,176	7,347,275	7,121,094	8,017,989
2,996,263	2,037,057	1,501,973	1,568,683
7,191,131	7,582,159	8,293,907	7,623,734
6,768,511	6,664,978	6,744,066	6,793,677
1,502,296	1,544,763	1,590,115	1,825,778
2,802,258	2,505,258	2,135,832	2,392,703
38,214,638	44,448,900	18,916,094	25,090,511
65,591,273	72,130,390	46,303,081	53,313,075
4,192,527	4,069,128	3,789,846	3,639,134
4,192,527	4,069,128	3,789,846	3,639,134
69,783,800	76,199,518	50,092,927	56,952,209
(39,059,607)	(26,056,254)	(47,527,759)	(41,016,081)
3,055,568	3,066,739	2,717,184	2,431,889
(36,004,039)	(22,989,515)	(44,810,575)	(38,584,192)

(Continued)

CITY OF SAN MARCOS
Changes in Net Assets (Continued)
Last Eight Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets:				
Governmental activities:				
Taxes:				
Property taxes	4,453,582	5,076,282	9,261,347	11,502,364
Tax increment, net	16,973,535	22,038,807	27,029,309	34,534,046
Sales taxes	10,621,630	13,385,026	14,906,391	16,329,030
Transient occupancy taxes	245,948	278,980	282,909	327,632
Franchise taxes	1,427,468	1,600,211	1,845,266	1,995,384
Gain on sale of capital assets				
Motor Vehicle license fees	3,677,475	3,082,158	1,515,555	476,482
Investment income	2,842,858	3,186,199	5,906,949	9,259,909
Other	2,527,239	2,449,079	2,158,669	2,405,041
Transfers		(26,803,440)	(5,781,245)	2,988,729
Total governmental activities	42,769,735	24,293,302	57,125,150	79,818,617
Business-type activities:				
Investment income		10,272	31,982	195,056
Transfers		26,803,440	5,781,245	(2,988,729)
Total business-type activities	-	26,813,712	5,813,227	(2,793,673)
Total primary government	42,769,735	51,107,014	62,938,377	77,024,944
Change in Net Assets:				
Governmental activities	44,558,916	84,514,219	59,230,637	31,594,068
Business-type activities	(631,289)	26,893,441	8,429,640	(30,026)
Total primary government	$ 43,927,627	$ 111,407,660	$ 67,660,277	$ 31,564,042

Fiscal Year			
2007	2008	2009	2010
12,716,298	13,146,445	12,718,633	12,490,217
41,975,892	45,397,153	45,214,569	21,315,468
16,153,930	15,615,135	13,432,391	12,269,791
363,885	383,001	330,412	298,459
2,210,341	2,148,183	2,442,412	2,482,704
		3,180,648	
448,352	356,472	283,349	246,496
15,899,432	11,275,635	6,226,240	4,397,830
2,022,793	1,628,030	3,372,210	1,943,136
5,000,000	2,750,000		1,200,000
96,790,923	92,700,054	87,200,864	56,644,101
288,446	179,169	134,040	130,563
(5,000,000)	(2,750,000)		(1,200,000)
(4,711,554)	(2,570,831)	134,040	(1,069,437)
92,079,369	90,129,223	87,334,904	55,574,664
57,731,316	66,643,800	39,673,105	15,628,020
(1,655,986)	495,908	2,851,224	1,362,452
$ 56,075,330	$ 67,139,708	$ 42,524,329	$ 16,990,472

CITY OF SAN MARCOS
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2001	2002	2003	2004	2005
General Fund:					
Reserved for:					
Noncurrent assets	$ 8,200,000	$ 7,950,000	$ 11,699,500	$ 11,812,000	
Prepaid items	355,867	365,320	380,038	377,225	$ 414,987
Deposits	518,307	550,724	562,587	571,066	583,314
Unreserved, designated	2,100,000	11,480,000	18,974,195	26,985,000	44,232,034
Unreserved, undesignated	3,078,418	3,300,665		87,323	5,367,873
Total General Fund	14,252,592	23,646,709	31,616,320	39,832,614	50,598,208
All Other Governmental Funds:					
Reserved for:					
Noncurrent assets	29,153,856	22,859,183	16,162,467	15,631,543	13,650,334
Prepaid items		11,560			
Deposits					
Low and moderate income housing	17,345,981	12,557,544	15,756,971	19,020,746	25,165,312
Landscape maintenance		526,888	910,510	1,319,468	1,572,128
Debt service	13,905,681	10,285,845	11,420,167	8,904,716	4,994,488
Capital projects	22,988,664	34,866,105	53,264,147	47,801,292	123,338,627
Other purposes			1,000,000	1,000,000	1,000,000
Unreserved, reported in:					
Special revenue funds	(5,464,232)	3,061,170	2,715,922	6,020,196	8,597,890
Debt service funds	(21,221,276)	(16,953,711)	(15,977,920)	(5,498,649)	14,256,219
Capital projects funds	8,786,853	(1,955,701)	8,192,525	(1,913,516)	(5,883,850)
Permanent fund			113,782	104,770	88,283
Total all other governmental funds	65,495,527	65,258,883	93,558,571	92,390,566	186,779,431
Total governmental funds	$ 79,748,119	$ 88,905,592	$ 125,174,891	$ 132,223,180	$ 237,377,639

Fiscal Year				
2006	2007	2008	2009	2010
	$ 13,397,269	$ 13,397,269	$ 13,397,269	$ 13,447,269
$ 477,867	1,247,217	492,546	558,711	1,000,066
607,328	637,832	723,685	771,931	1,001,672
52,052,115	37,344,377	36,814,029	37,521,231	36,200,000
5,461,289	6,208,292	6,045,355	6,058,840	5,995,245
58,598,599	58,834,987	57,472,884	58,307,982	57,644,252
13,210,952	13,090,353	2,702,903	8,112,147	28,282,658
		591,169	640,408	102,982
33,719,308	46,474,660	59,766,836	35,347,108	10,056,506
3,420,234	2,324,008	5,368,912	5,845,298	5,845,298
4,660,884	4,682,091	4,625,869	10,850,533	12,941,982
131,608,970	120,276,053	90,471,205	68,302,091	45,462,977
1,000,000	1,000,000	1,000,000	905,850	1,023,850
8,441,925	12,544,241	9,489,562	10,127,713	6,468,443
28,238,856	40,577,486	34,366,082	32,924,058	16,466,613
(13,963,277)	(19,311,650)	212,545	(5,658,656)	(6,026,005)
147,814	249,217	98,318		
210,485,666	221,906,459	208,693,401	167,396,550	120,625,304
$ 269,084,265	$ 280,741,446	$ 266,166,285	$ 225,704,532	$ 178,269,556

CITY OF SAN MARCOS
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2001	2002 (1)	2003	2004	2005
Revenues:					
Taxes and special assessments	$ 31,965,023	$ 36,818,590	$ 43,981,688	$ 56,601,047	$ 71,181,516
Licenses and permits	3,633,110	4,930,546	4,871,768	6,466,027	6,179,840
Intergovernmental	9,867,507	10,752,787	11,487,938	9,841,835	14,537,688
Charges for services	6,167,945	6,498,391	10,663,696	11,188,371	11,495,652
Developer fees	6,858,426	8,036,042	18,068,287	10,910,960	12,589,123
Fines and forfeitures	132,290	130,045	137,912	141,438	131,081
Use of money and property	9,349,177	6,827,996	6,081,552	6,477,568	9,380,735
Gain on sale of land held for resale	329,852	16,306	90,645	45,304	48,167
Contributions from property owners	10,206,131	16,210,264	5,302,996	17,567,040	31,808,603
Miscellaneous	2,989,617	2,260,826	3,548,668	4,059,192	2,502,536
Total Revenues	81,499,078	92,481,793	104,235,150	123,298,782	159,854,941
Expenditures:					
Current:					
General government (3)	8,183,932	6,379,969	6,576,034	6,933,237	7,958,025
Community development (3)	6,081,148	4,505,543	7,463,021	8,450,713	10,164,579
Public safety	11,191,441	13,142,206	14,735,620	17,014,795	18,739,876
Highways, streets and parks (2) (3)	6,374,384	7,225,463	7,915,752	7,676,236	9,065,061
Culture and recreation (2)	1,422,277	1,809,148	2,047,676	1,995,952	2,221,286
Tax increment distrib. to other gov. agencies	6,300,826	7,606,288	9,232,309	12,199,149	16,644,360
Capital outlay	35,946,888	27,787,440	40,816,183	51,577,449	49,655,461
Debt service:					
Principal retirement	20,704,175	8,444,664	9,516,478	3,910,503	7,908,488
Interest and fiscal charges	14,053,128	10,977,909	10,863,390	10,879,082	14,154,572
Payment to bond escrow agent			7,033,707		5,031,723
Cost of issuance	699,271	1,669,647	2,671,395		3,166,552
Total expenditures	110,957,470	89,548,277	118,871,565	120,637,116	144,709,983
Excess/(deficiency) of Revenues Over Expenditures	(29,458,392)	2,933,516	(14,636,415)	2,661,666	15,144,958
Other financing sources (uses):					
Long-term debt issued	7,085,281	56,951,436	94,101,743	4,375,123	129,992,578
Premium on bonds issued			2,645,051		3,885,710
Discount on bonds issued		(128,495)			(259,360)
Payment to bond escrow agent		(52,171,345)	(45,848,180)		(42,020,421)
Sale of capital assets	34,910	1,395,920	7,100	11,500	23,554
Transfers in	7,837,347	14,220,560	5,551,195	6,500,817	5,051,872
Transfers out	(7,840,607)	(14,044,119)	(5,551,195)	(6,500,817)	(6,664,372)
Total other financing sources (uses)	7,116,931	6,223,957	50,905,714	4,386,623	90,009,561
Net Change in Fund Balances	$ (22,341,461)	$ 9,157,473	$ 36,269,299	$ 7,048,289	$ 105,154,519
Debt service as a percentage of noncapital expenditures	47.27%	34.15%	29.42%	18.11%	23.28%

Notes:

(1) Beginning in fiscal year 2001-02, employee benefit costs are allocated to each function rather than reported in general government.

(2) Amounts have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks instead of culture and recreation.

(3) Beginning in fiscal year 2009-2010, all costs relating to the construction inspection function are reported under community development instead of highways, streets, and parks. Also, the storm water management function is under general government instead of highways, streets, and parks.

Fiscal Year				
2006	2007	2008	2009	2010
$ 87,121,780	$ 94,466,701	$ 97,363,686	$ 94,097,283	$ 87,852,421
5,116,926	4,753,491	3,907,123	4,229,537	4,274,969
15,192,674	9,093,528	6,587,388	10,406,686	6,816,194
11,544,038	11,486,338	11,429,757	11,783,938	11,341,050
8,809,768	5,774,108	1,776,517	3,773,174	2,860,402
169,261	181,280	269,365	292,642	279,735
13,474,072	19,676,632	19,925,978	11,422,319	9,248,874
69,577	100,328			
	11,424,122			
6,158,895	3,500,561	1,452,870	4,444,346	3,358,490
147,656,991	160,457,089	142,712,684	140,449,925	126,032,135
8,835,833	11,867,052	12,733,906	13,333,406	14,825,068
6,903,003	6,888,307	8,761,007	43,870,002	17,085,690
22,454,034	24,441,222	26,225,302	27,392,057	27,461,612
11,953,716	12,371,008	15,223,370	15,455,033	14,040,659
2,424,190	2,708,416	2,556,853	2,822,593	2,763,210
20,603,185	19,001,916	18,747,685	18,086,645	37,060,348
67,138,844	55,027,905	46,197,846	39,281,839	38,456,751
4,900,575	6,571,846	11,079,781	9,481,695	9,325,010
13,420,348	16,988,635	19,984,462	15,911,227	15,221,332
935,126	214,172			
159,568,854	156,080,479	161,510,212	185,634,497	176,239,680
(11,911,863)	4,376,610	(18,797,528)	(45,184,572)	(50,207,545)
40,717,247	8,752,626	1,441,826	730,998	330,709
(116,318)	(69,998)			
	(6,440,273)			
17,500	38,216	30,541	3,991,821	1,241,860
10,497,941	17,690,782	32,041,467	6,772,976	8,056,903
(7,497,941)	(12,690,782)	(29,291,467)	(6,772,976)	(6,856,903)
43,618,429	7,280,571	4,222,367	4,722,819	2,772,569
$ 31,706,566	$ 11,657,181	$ (14,575,161)	$ (40,461,753)	$ (47,434,976)
14.43%	18.21%	23.41%	15.80%	16.08%

CITY OF SAN MARCOS

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

	City (1)								
Fiscal Year Ended June 30		Secured		Unsecured		Less: Exemptions		Taxable Assessed Value	Direct Tax Rate (3)
2001	$	3,231,493,189	$	191,440,917	$	(114,480,554)	$	3,308,453,552	0.0883
2002		3,710,146,845		200,211,006		(154,109,549)		3,756,248,302	0.0883
2003		4,291,608,109		199,482,734		(171,516,035)		4,319,574,808	0.0883
2004		5,013,232,710		241,767,386		(203,515,600)		5,051,484,496	0.0883
2005		6,099,717,310		263,146,015		(225,472,172)		6,137,391,153	0.0883
2006		7,546,999,066		306,344,173		(258,902,856)		7,594,440,383	0.0883
2007		8,917,662,485		332,372,762		(288,440,819)		8,961,594,428	0.0883
2008		9,707,243,947		316,267,589		(336,468,219)		9,687,043,317	0.0883
2009		9,612,859,892		336,188,166		(406,413,814)		9,542,634,244	0.0883
2010		8,948,612,795		343,678,128		(433,607,449)		8,858,683,474	0.0883

Notes:

(1) The City assessed valuation includes the Redevelopment Agency incremental value.

(2) The Redevelopment Agency assessed valuation includes incremental value only.

(3) Tax Rate Area 13-115.

(4) In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is re-assessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Diego County Assessor's Office

Redevelopment Agency (RDA) (2)

Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Direct Tax Rate
$ 1,488,288,219	$ 134,780,127	$ (37,317,861)	$ 1,585,750,485	1.00 %
1,812,600,311	140,329,846	(71,481,256)	1,881,448,901	1.00
2,206,633,313	139,608,220	(84,166,378)	2,262,075,155	1.00
2,768,984,226	182,013,455	(106,577,232)	2,844,420,449	1.00
3,570,231,758	200,742,283	(123,731,296)	3,647,242,745	1.00
4,632,364,100	243,702,276	(135,521,826)	4,740,544,550	1.00
5,625,496,019	269,320,651	(156,913,713)	5,737,902,957	1.00
6,159,597,590	95,505,864	(204,434,763)	6,050,668,691	1.00
6,099,738,611	278,835,976	(250,921,128)	6,127,653,459	1.00
5,695,351,795	285,488,163	(275,552,686)	5,705,287,272	1.00

CITY OF SAN MARCOS
Direct and Overlapping Property Tax Rates (1)
Last Ten Fiscal Years
(rate per $100 of assessed value)

	Allocation of 1% Ad Valorem Property Taxes						
Fiscal Year	City Direct Rate	Total Direct Rate	San Marcos Unified School District	San Marcos Fire Protection District	San Diego County	Other	Total
2001	0.0883 %	0.0883 %	0.3805 %	0.0632 %	0.2709 %	0.1971 %	1.0000 %
2002	0.0883	0.0883	0.3805	0.0632	0.2709	0.1971	1.0000
2003	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2004	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2005	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2006	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2007	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2008	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2009	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2010	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000

Notes:
(1) Tax rates are for Tax Rate Area 13-115.
(2) In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1% fixed amount. This 1% is shared by all taxing agencies in which the subject property resides. In addition to the 1% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of various voter-approved bonds.

Source: San Diego County Auditor and Controller Office.

Voter Approved Debt		Total Tax Rate	
0.0319	%	1.0319	%
0.0284		1.0284	
0.0257		1.0257	
0.0238		1.0238	
0.0238		1.0238	
0.0346		1.0346	
0.0349		1.0349	
0.0432		1.0432	
0.0470		1.0470	
0.0439		1.0439	

CITY OF SAN MARCOS
Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2010 Taxable Assessed Value	2010 Rank	2010 Percentage of Total City Taxable Assessed Value	2001 Taxable Assessed Value	2001 Rank	2001 Percentage of Total City Taxable Assessed Value
World Premier Investments	$ 122,346,160	1	1.38 %			
Hunter Industries Inc.	98,009,592	2	1.11	$ 34,554,468	1	1.01 %
Willmark Communities Inc.	85,749,385	3	0.97			
Camden USA Inc.	84,075,575	4	0.95			
Urban Villages San Marcos LLC	55,893,799	5	0.63			
San Elijo Hills Development Company	51,081,909	6	0.58	19,649,330	8	0.57
Ralphs Grocery Company	38,015,557	7	0.43			
Ventas Realty LP	34,119,406	8	0.39			
Woodland Parkway Development LLC	32,509,187	9	0.37			
Lo Land Assets Limited Partnership	30,000,000	10	0.34			
IGPX Mission Park Associates LP				22,526,019	2	0.66
Edwards Theatres Circuit Inc.				21,594,890	3	0.63
Prince Alpine Villa Proprties LP				21,318,000	4	0.62
Kenneth G & Nancy M Walker Trust				20,286,314	5	0.59
Judd Wire, Inc.				20,070,024	6	0.59
Signet Armorlite Inc.				19,776,751	7	0.58
Hanson Aggregates Pacific Southwest				19,107,569	9	0.56
Scripps Health				18,847,043	10	0.55
Total	$ 631,800,570		7.13 %	$ 217,730,408		6.36 %

Source: HDL Coren & Cone.

CITY OF SAN MARCOS
Property Tax Levies and Collections
Last Nine Fiscal Years (1)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Collections (2)	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
2002	$ 3,846,738	$ 3,758,811	97.71 %	$ 71,845	$ 3,830,656	99.58 %
2003	4,377,349	4,262,231	97.37	67,568	4,329,799	98.91
2004	5,058,512	4,880,776	96.49	77,745	4,958,521	98.02
2005	6,256,364	5,882,189	94.02	78,862	5,961,051	95.28
2006	6,908,062	6,472,381	93.69	133,657	6,606,038	95.63
2007	6,837,608	6,368,465	93.14	184,632	6,553,097	95.84
2008	6,773,119	6,341,932	93.63	167,455	6,509,387	96.11
2009	6,183,776	5,932,421	95.94	241,543	6,173,964	99.84
2010	5,575,114	5,363,998	96.21	227,310	5,591,308	100.29

Notes:
(1) Information for fiscal year 2000/01 is not available.
(2) Includes prior years' delinquent collections, penalties and interest.
(3) The amounts presented include City and Fire District property taxes.

CITY OF SAN MARCOS
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities				
Fiscal Year	General Obligation Bonds	Revenue Bonds	Tax Allocation Bonds	Notes Payable	Capital Leases
2001	$ 450,000	$ 62,800,000	$ 111,860,000	$ 11,053,309	$ 1,951,913
2002	310,000	64,090,000	110,290,000	8,068,150	1,566,408
2003	160,000	60,595,000	148,910,000	5,330,645	1,198,032
2004	-	58,995,000	148,430,000	6,218,329	756,191
2005	-	57,645,000	230,450,000	2,498,934	1,447,350
2006	-	56,435,000	264,975,000	1,846,648	1,305,963
2007	-	55,490,000	260,715,000	1,436,910	753,855
2008	-	54,170,000	255,715,000	1,231,685	377,845
2009	-	52,805,000	250,555,000	1,035,245	-
2010	-	51,395,000	245,215,000	943,274	-

Note:
(1) Details regarding the City's oustanding debt can be found in the notes to the financial statements.

Cooperation Agreement	Due to Other Governments	Total Primary Government	Percentage of Personal Income	Per Capita
$ 16,432,749	$ 564,690	$ 205,112,661	10.49 %	3,555
18,945,185	8,710,984	211,980,727	10.03	3,483
21,608,928	8,371,359	246,173,964	10.84	3,859
24,667,706	7,979,128	247,046,354	9.54	3,677
28,240,032	7,543,702	327,825,018	11.10	4,505
32,335,372	6,947,144	363,845,127	11.08	4,742
34,347,998	6,430,930	359,174,693	10.04	4,500
31,611,278	5,877,439	348,983,247	9.27	4,218
29,959,866	5,250,946	339,606,057	8.95	4,084
27,807,535	4,577,183	329,937,992	8.70	3,910

CITY OF SAN MARCOS
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

	General Bonded Debt			
Fiscal Year	General Obligation Bonds	Revenue Bonds	Tax Allocation Bonds	Less: Amounts Available in Debt Service Funds
2001	$ 450,000	$ 62,800,000	$ 111,860,000	$ -
2002	310,000	64,090,000	110,290,000	-
2003	160,000	60,595,000	148,910,000	-
2004	-	58,995,000	148,430,000	(3,406,067)
2005	-	57,645,000	230,450,000	(19,250,767)
2006	-	56,435,000	264,975,000	(30,652,740)
2007	-	55,490,000	260,715,000	(45,259,577)
2008	-	54,170,000	255,715,000	(38,991,951)
2009	-	52,805,000	250,555,000	(43,774,591)
2010	-	51,395,000	245,215,000	(29,408,595)

Note:
(1) Assessed value has been used because actual value of taxable property is not readily available in the State of California.

Source: City Finance Department.

Total	Percent of Assessed Value (1)		Per Capita
$ 175,110,000	4.891	%	3,035
174,690,000	4.389		2,870
209,665,000	4.596		3,287
204,018,933	3.930		3,036
268,844,233	4.613		3,695
290,757,260	4.171		3,790
270,945,423	3.475		3,395
270,893,049	3.151		3,274
259,585,409	3.064		3,122
267,201,405	3.200		3,166

CITY OF SAN MARCOS
Direct and Overlapping Debt
As of June 30, 2010

2009-10 City Assessed Valuation:	$8,959,029,874
Redevelopment Incremental Valuation:	5,705,297,271
Adjusted Assessed Valuation:	$3,253,732,603

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Percentage Applicable (1)	Outstanding Debt June 30, 2010	Estimated Share of Overlapping Debt
Metropolitan Water District	0.179%	$ 264,220,000	$ 472,954
Palomar Community College District	4.169%	149,845,000	6,247,038
San Marcos Unified School District Improvement District No. 1	33.761%	13,498,019	4,557,066
San Marcos Unified School District Community Facilities District No. 2	100.00%	1,995,000	1,995,000
San Marcos Unified School District Community Facilities District No. 3	100.00%	1,925,000	1,925,000
San Marcos Unified School District Community Facilities District No. 4	89.262%	23,310,000	20,806,972
Other School Districts	Various	277,600,779	110,367
Palomar Pomerado Hospital	5.617%	417,623,319	23,457,902
City of San Marcos	**100.00%**	**0**	**0**
San Marcos Community Facilities District No. 88-1	100.00%	24,355,000	24,355,000
San Marcos Community Facilities District No. 91-01	100.00%	2,735,000	2,735,000
San Marcos Community Facilities District No. 99-01	100.00%	82,370,000	82,370,000
San Marcos Community Facilities District No. 2002-01	100.00%	20,735,000	20,735,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			189,767,299
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	0.934%	415,240,000	3,878,342
San Diego County Pension Obligations	0.934%	853,514,739	7,971,828
San Diego County Superintendent of Schools Obligations	0.934%	21,187,500	197,891
Palomar Community College District General Fund Obligations	4.169%	6,890,000	287,244
San Marcos Unified School District General Fund Obligations	39.069%	4,940,000	1,930,009
Other School District Certificates of Participation	Various	44,090,000	27,541
City of San Marcos General Fund Obligations	**100.00%**	**51,395,000**	**51,395,000**
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			65,687,854
COMBINED TOTAL DEBT (2)			$ 255,455,153

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-10 Assessed Valuation:	
Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.12%
Ratios to Adjusted Assessed Valuation:	
Combined Direct Debt ($51,395,000)	1.58%
Combined Total Debt	7.86%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc.

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CITY OF SAN MARCOS
Legal Debt Margin Information
Last Ten Fiscal years

	2001	2002	2003	2004	2005
Total assessed valuation	$ 3,422,934,106	$ 3,910,357,851	$ 4,491,090,843	$ 5,255,000,096	$ 6,362,863,325
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	855,733,527	977,589,463	1,122,772,711	1,313,750,024	1,590,715,831
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	128,360,029	146,638,419	168,415,907	197,062,504	238,607,375
Total net debt applicable to limit:					
General obligation bonds	450,000	310,000	160,000		
Legal debt margin	$ 127,910,029	$ 146,328,419	$ 168,255,907	$ 197,062,504	$ 238,607,375
Total debt applicable to the limit as a percentage of debt limit	0.351%	0.211%	0.095%	0.000%	0.000%

Note:
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 25% 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: City Finance Department
County of San Diego Tax Assessor's Office

Fiscal Year				
2006	2007	2008	2009	2010
$ 7,853,343,239	$ 9,250,035,247	$ 10,023,511,536	$ 9,949,048,058	$ 9,292,290,923
25%	25%	25%	25%	25%
1,963,335,810	2,312,508,812	2,505,877,884	2,487,262,015	2,323,072,731
15%	15%	15%	15%	15%
294,500,371	346,876,322	375,881,683	373,089,302	348,460,910
$ 294,500,371	$ 346,876,322	$ 375,881,683	$ 373,089,302	$ 348,460,910
0.000%	0.000%	0.000%	0.000%	0.000%

CITY OF SAN MARCOS
Pledged-Revenue Coverage
Last Ten Fiscal Years

	Tax Allocation and Revenue Bonds (1)							
	Redevelopment Agency Low and Moderate Income Housing Fund				Redevelopment Agency Debt Service Fund			
		Debt Service (2)				Debt Service		
Fiscal Year	Tax Increment Revenue	Principal	Interest	Coverage	Tax Increment Revenue (3)	Principal	Interest	Coverage
2001	$ 4,052,210	$ 260,000	$ 935,313	3.39	$ 13,457,208	$ 2,135,000	$ 8,777,181	1.23
2002	4,919,063	270,000	923,428	4.12	16,255,389	2,480,000	7,607,749	1.61
2003	6,045,339	285,000	910,671	5.06	19,820,881	2,180,000	7,836,869	1.98
2004	7,927,695	295,000	897,050	6.65	25,918,030	1,205,000	8,181,909	2.76
2005	10,155,237	310,000	882,536	8.52	33,083,005	2,275,000	9,314,440	2.85
2006	12,829,183	330,000	866,861	10.72	41,711,486	2,375,000	10,503,910	3.24
2007	14,249,035	340,000	850,170	11.97	46,212,559	5,015,000	13,801,859	2.46
2008	14,974,683	355,000	832,604	12.61	48,616,665	5,770,000	13,966,026	2.46
2009	14,737,707	375,000	813,101	12.40	47,937,014	5,945,000	13,783,236	2.43
2010	13,536,113	400,000	791,379	11.36	44,165,941	6,140,000	13,580,656	2.24

Note:
(1) Tax allocation and revenue bonds are secured by tax increment revenue from the Redevelopment Agency.
(2) Debt service shown is maximum annual debt service.
(3) Calculated as gross increment net of set-aside tax increment.

Revenue Bonds - City

	Debt Service		
Revenue	Principal	Interest	Coverage
$ 649,773		$ 649,773	1.00
589,443	$ 120,000	469,443	1.00
1,948,073	1,485,000	463,073	1.00
506,404	130,000	376,404	1.00
504,514	135,000	369,514	1.00
507,234	145,000	362,234	1.00
461,903	255,000	206,903	1.00
472,887	195,000	277,887	1.00
475,509	205,000	270,509	1.00
472,728	210,000	262,728	1.00

CITY OF SAN MARCOS
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Square Miles	Population	Population Percentage Change	Personal Income (3)	Per Capita Personal Income (3)	Unemployment Rate (2)
2001	31.20	57,700	4.92	$ 1,955,222,200	$ 33,886	3.90
2002	31.20	60,857	5.56	2,112,894,183	34,719	4.90
2003	31.33	63,785	4.44	2,272,021,700	35,620	4.90
2004	31.33	67,192	5.34	2,589,310,912	38,536	4.50
2005	31.37	72,768	8.30	2,952,124,992	40,569	4.10
2006	31.37	76,725	5.44	3,283,599,825	42,797	4.00
2007	33.10	79,812	4.02	3,578,131,584	44,832	4.60
2008	33.10	82,743	3.67	3,763,813,584	45,488	6.00
2009	33.10	83,149	0.89	3,794,088,870	45,630	9.76
2010	33.10	84,391	1.11	(1)	(1)	10.66

(1) Personal income and per capita personal income data for 2010 are unavailable.
(2) Final unemployment rate for 2010 is unavailable; rate presented is average unemployment rate for 10 months of 2010.
(3) Data presented is for San Diego/Carlsbad/San Marcos economic area.

Sources:
Population information provided by the State Department of Finance.
Personal income and unemployment data provided by the U.S. Department of Commerce.

CITY OF SAN MARCOS
Principal Employers
Current Year and Nine Years Ago

	2010			2001		
Employer	Number of Employees	Rank	Percent of Total Employment (1)	Number of Employees	Rank	Percent of Total Employment (1)
Hunter Industries, Inc.	824	1	2.96%	514	2	1.92%
United Parcel Service	448	2	1.61%	150	13	0.56%
Wal-Mart	315	3	1.13%			
Fry's Electronics	304	4	1.09%			
Lusardi Construction Co	300	5	1.08%			
Oncore Manufacturing Services	280	6	1.01%			
Vanpike, Inc.	271	7	0.97%	352	3	1.31%
Costco Wholesale	256	8	0.92%	219	4	0.82%
So. CA Permanente Med Group	240	9	0.86%			
CA State University SM Foundation	230	10	0.83%			
RB III Associates, Inc.	206	11	0.74%	175	9	0.65%
24 Hour Fitness	201	12	0.72%	123	20	0.46%
Signet Armorlite, Inc.	194	13	0.70%	539	1	2.01%
Hollandia Dairy Inc.	190	14	0.68%	216	5	0.81%
Hughes Circuits Inc	185	15	0.66%			
Fluid Components Intl., LLC	184	16	0.66%	160	12	0.60%
Fish House Vera Cruz	161	17	0.58%	131	17	0.49%
Evans Tire & Services Centers	150	18	0.54%			
Regal Entertainment Group	150	19	0.54%			
Home Depot	136	20	0.49%			
Napp Systems, Inc.				177	8	0.66%
Judd Wire				174	10	0.65%
Ortho Organizers, Inc.				173	11	0.65%
Amistar Corp.				139	14	0.52%
Edward SM 18 Stadium Cinema				136	15	0.51%
L. Schultz, Inc.				133	16	0.50%
South Coast Framers				130	18	0.49%
Rex Industries				125	19	0.47%
Total	5,225		18.76%	3,766		14.05%

Note:
(1) Total Employment as used above represents the total employment of all employers located within City limits.

Sourse: City of San Marcos Business License Directory.
Bureau of Economic Analysis U.S. Department of Commerce.

CITY OF SAN MARCOS
Full-time and Part-time City Employees by Function
Last Ten Fiscal Years

Function/Program:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	34	35	35	33	35	37	45	51	50	60
Community development	36	36	34	33	38	44	43	40	37	44
Public safety (1)	40	54	55	64	72	85	84	91	94	101
Highways, streets and parks (2)	63	64	67	69	73	76	87	77	66	71
Culture and recreation (2)	95	125	106	128	153	137	126	141	126	137
Total	268	314	297	327	371	379	385	400	373	413

Notes:
(1) Includes Fire services only. Police services are provided to the City by the County.

(2) Numbers have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks, instead of culture and recreation, as previously reported.

Source: City Finance Department.

CITY OF SAN MARCOS

Operating Indicators by Function

Last Five Fiscal Years (2)

Function/Program	2005-06	2006-07	2007-08	2008-09	2009-10
General Government:					
Number of business licenses issued	4,925	5,450	5,161	5,436	5,320
Number of requests for public information	144	112	160	176	211
Number of new hires including part-time	45	128	98	71	98
Number of invoices processed	11,432	14,616	11,208	11,256	19,296
Public Safety:					
Police:					
Contracts with the San Diego County Sheriff's Department for full service law enforcement					
Fire:					
Number of emergency calls	6,477	6,880	6,911	6,955	7,184
Number of fire inspections	1,524	1,495	1,459	1,852	2,211
Highways and Streets:					
Number of street lights added in current year	45	172	25	17	14
Number of traffic signals added in current year	11	7	3	4	3
Miles of streets swept	5,515	14,770	14,770	14,770	14,976
Miles of centerline streets added	12	24	-	-	-
Storm drain structures cleaned and repaired	92	113	114	116	389
Culture and Recreation:					
Number of facility rentals	362	486	670	669	857
Number of swim program participants	13,199	13,221	17,688	19,714	30,110
Number of adult sports participants	10,562	20,503	21,204	25,961	31,772
Number of youth sports participants	8,505	10,366	11,126	12,108	17,610
Number of senior nutrition program meals served	21,715	22,500	16,426	15,708	13,126
Community Development:					
Number of building permits issued	1,030	836	502	458	454
Approximate number of building inspections conducted	40,000	41,076	21,554	14,501	24,819
Number of new business licenses issued	1,263	1,505	1,307	1,225	1,131

Note:

(1) Water and sewage treatment services are provided by the Vallecitos Water District.

(2) Years prior to fiscal year 2005-06 have not been presented because data for those years is not readily available.

Source: Various City Departments.

CITY OF SAN MARCOS
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2001	2002	2003	2004	2005	2006
Public Safety:						
Police (1)						
Fire						
Number of fire stations	3	3	3	3	3	4
Number of emergency vehicles	17	21	26	26	29	32
Highways and Streets:						
Miles of streets	150	175	175	175	200	212
Number of street lights	2,130	2,202	2,202	2,267	2,383	2,428
Culture and Recreation:						
Parks	12	22	24	25	27	27
Acres of park land	150	261	279	317	331	336
Pools	2	2	2	2	2	2

Note:
(1) The City of San Marcos contracts with the San Diego County Sheriff's Department for full service law enforcement.

Sources: Various City departments.

2007	2008	2009	2010
4	4	4	4
33	35	33	40
236	236	236	236
2,600	2,625	2,645	2,659
28	28	30	32
366	373	373	377
2	2	2	2

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