

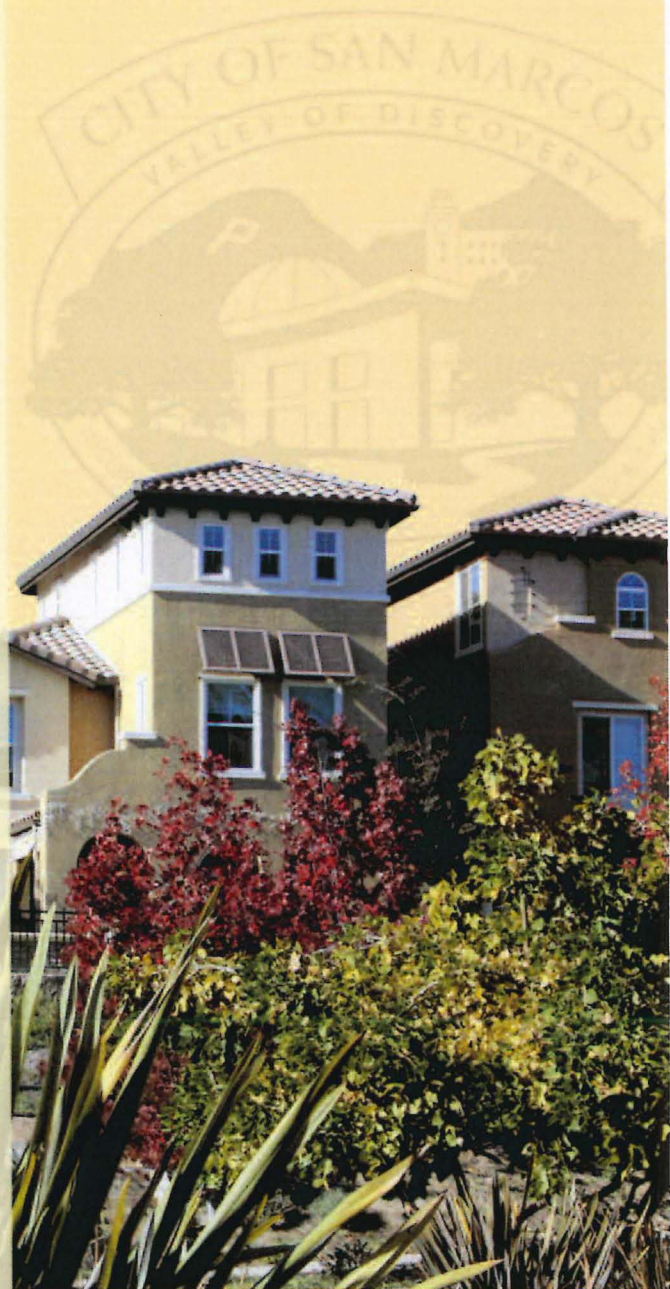
City of SAN MARCOS California

Comprehensive Annual
Financial Report
For Fiscal Year Ending
June 30, 2012



City Manager Jack Griffin
Finance Director Laura Rocha

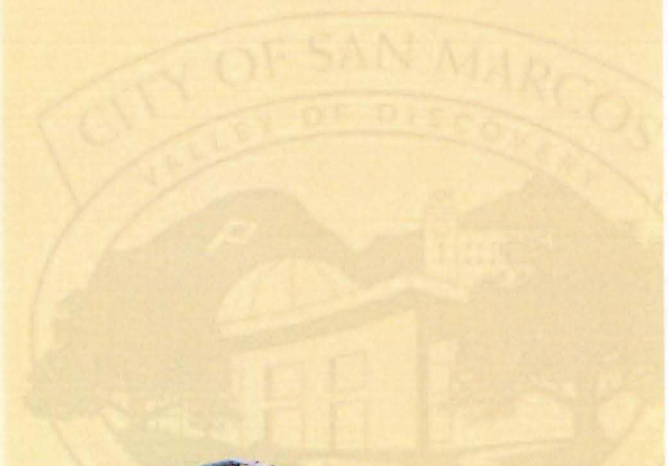
Prepared by the City of San Marcos Finance Department.



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.*



CITY OF SAN MARCOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

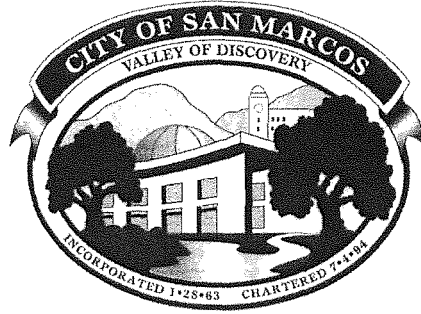
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March 29, 2012

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 2011-12 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 63,591 to 85,569, for an average annual growth of 3.46%. 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 component units, entities for which the City is considered to be financially accountable. The component units of the City are the San Marcos Redevelopment Agency, San Marcos Public Facilities Authority, the California Mobilehome Financing Authority, and the San Marcos Community Foundation. On February 1, 2012, the San Marcos Redevelopment Agency, along with all redevelopment agencies in the State of California, was dissolved and all assets and liabilities were transferred to the City of San Marcos Successor Agency and the City of San Marcos Housing Successor Agency. 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 and subsequently a second update this past fiscal year. The ten top employers within the City in 2012 were Hunter Industries Inc., United Parcel Service, Wal-Mart, Southern California Permanente Medical Group, Lusardi Construction Co., Vanpike Inc., Fry's Electronics, Costco Wholesale, Oncore Manufacturing Services, and RB III Associates, Inc.

The City's total labor force (the number of persons who work or are available for work) averaged 31,690 from January through October 2012. The number of employed workers in the labor force during that same period averaged 28,830, resulting in an unemployment rate of 9.05% compared to the State's unemployment rate of 10.66%.

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 10,276 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 2012/2013 through 2014/2015 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 \$53 million will represent 81% 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. The City commits to maintaining reserves (total unassigned fund balance) at a minimum of 50% of General Fund annual operating expenditures allocated between Catastrophic/Emergency Reserve (50%), One-time Recurring Savings/Opportunity Reserve (30%), and Economic Contingency/Budget Stabilization Reserve (20%). The General Fund Reserve Policy is reviewed by the City Council as part of the annual operating budget review and adoption process.

MAJOR INITIATIVES

In the spring of 2012, the City completed 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 paid special attention to its long-term strategies for sustainability, smart-growth, and transit-oriented development. This General Plan is an opportunity for the San Marcos community to comprehensively evaluate and strategize on local opportunities, trends, and needs.

The City completed the Rock Springs Road Improvements project which subsequently won a "Golden Footprint Award" by WalkSanDiego. The project was funded with federal and state grant dollars as part of the City's Safe Routes to School program. The project provided bicycle lanes, pedestrian sidewalks separated from vehicle traffic, landscaping, and improved drainage and traffic roundabouts.

Construction began for the new state-of-the-art Kaiser Permanente medical office building encompassing 71,000 square feet with 34 specialty care providers, a four-operating-room ambulatory surgery center, nuclear medicine and a four-room gastroenterology suite. The new facility is slated to open in fall 2012.

The City is continuing its joint efforts with Escondido, Caltrans and SANDAG to improve the SR-78 corridor. A number of significant widening projects have begun and will continue in order to improve traffic flow on the eastbound side of the SR-78 at Barham Road and Nordahl Road.

The City received the environmental permits necessary to move forward with the highly anticipated San Marcos Creek District, a comprehensive 214-acre "downtown" specific plan between San Marcos Boulevard and San Marcos Creek. The City will pay for several millions in backbone public infrastructure improvements and will rely on private developers to build the mixed-use commercial and residential portions of the district.

Initiative was taken on behalf of the City to refinance bonds to save property owners money. The City refinanced bonds for Community Facilities District (CFD) 88-1 (Santa Fe Hills area of San Marcos) and CFD 2002-01 (Old Creek Ranch area of San Marcos). For CFD 88-1, \$22.6 million of outstanding bonds refinanced from 5.8 percent to 4%, savings an estimated \$2.1 million in tax payments over the next 16 years. CFD 2002-01 refinanced bonds in the amount of \$19.1 million with savings of close to \$2 million for property owners.

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, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

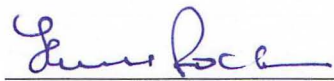
In order to receive this award a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

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.

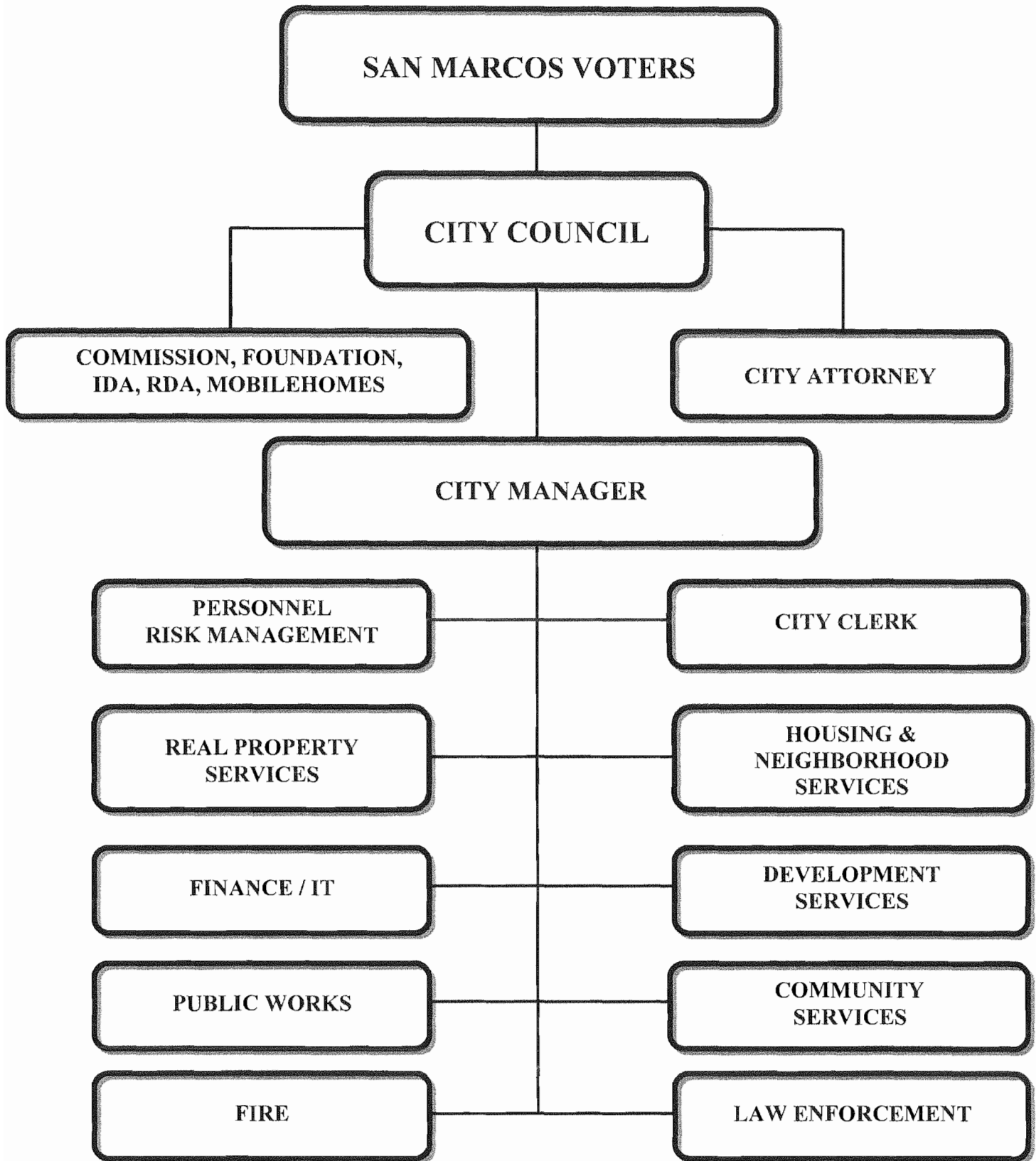
Respectfully submitted,



Jack Griffin
City Manager

Laura Rocha, CPA
Finance Director

CITY OF SAN MARCOS
Organizational Chart
June 30, 2012



CITY OF SAN MARCOS

LIST OF PRINCIPAL OFFICIALS

City Council

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

Jim Desmond
Hal Martin
Kristal Kritzer-Jabara
Chris Orlando
Rebecca Jones

Administration

City Manager
Deputy City Manager
City Attorney
City Clerk

Jack Griffin
Lydia Romero
Helen Holmes Peak
Susie Vasquez

Department/Division Heads

Development Services Director
Public Works Director
Finance Director
Human Resources/Risk Management
Community Services Director
Fire Chief
Engineering Division Director/City Engineer
Building Division Director
Planning Division Director
Real Property Services Director
Housing & Neighborhood Services Director
Sheriff Station Captain

Charlie Schaffer
Vacant
Laura Rocha
Donna French
Craig Sargent-Beach
Todd Newman
Mike Edwards
Allen Brock
Jerry Backoff
Ellen Hegarty
Karl Schwarm
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, 2011

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.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director

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City of San Marcos
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, 2012, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, California, as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* and the budgetary comparison information identified in the accompanying table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of San Marcos's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued a report dated March 29, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Meyer Hoffman McLean P.C.

Irvine, California
March 29, 2013

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, 2012. 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.

FINANCIAL HIGHLIGHTS

One of the key changes in fiscal year 2012 was the dissolution of the City's Redevelopment Agency (RDA) pursuant to Assembly Bill x1 26, which eliminated all redevelopment agencies statewide effective January 31, 2012. ABx1 26 allowed the City, acting as the Successor Agency, to assume the remaining functions of the RDA. As such, net assets totaling \$72.2 million of the former RDA, previously reported in governmental funds were transferred to a Successor Agency Trust Fund on February 1, 2012. The Successor Agency will be allowed to continue projects and pay off outstanding liabilities that have been determined to be "enforceable obligations" as defined by state law. Unencumbered and unobligated funds as of June 30, 2012 will be paid in fiscal year 2013 to the County of San Diego Auditor Controller and will be allocated to taxing agencies in the county, including the City of San Marcos.

Other financial highlights include the following:

- At the end of fiscal year 2012, net assets of the City totaled \$938.0 million, an increase of approximately \$272.5 million from the prior year. This includes the extraordinary gain of \$280.6 million as a result of the net transfers between the City and the Successor Agency Trust Fund. Excluding this transfer, net assets decreased by \$8.1 million. This decrease includes an expense of \$17 million to set up an allowance for doubtful accounts on the City's various loans to developers for affordable housing projects.
- Of the total net assets, \$65.0 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, subject to applicable laws and regulations.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$134.4 million, a decrease of \$86.0 million from the prior year. This decrease was mainly due to the shift of the former RDA's net assets to the Successor Agency Trust.

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 non-major 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 fiduciary relationships and account for resources held by the City as trustee on behalf of other agencies or individuals. Fiduciary funds are not presented in the government-wide statements, as their resources are not available to support the operations of the City.

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.

Reporting the City's Most Significant Funds

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 Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 261,274,573	\$ 373,540,026	\$ 7,218,844	\$ 8,971,766	\$ 268,493,417	\$ 382,511,792
Capital assets, net	664,106,870	669,740,280	27,925,065	28,307,420	692,031,935	698,047,700
Total assets	925,381,443	1,043,280,306	35,143,909	37,279,186	960,525,352	1,080,559,492
Long-term debt	10,960,022	376,320,497			10,960,022	376,320,497
Other liabilities	10,695,062	37,816,486	899,802	919,295	11,594,864	38,735,781
Total liabilities	21,655,084	414,136,983	899,802	919,295	22,554,886	415,056,278
Net assets:						
Invested in capital assets, net of related debt	658,296,750	499,416,669	27,925,065	28,307,420	686,221,815	527,724,089
Restricted	180,474,390	136,230,821			180,474,390	136,230,821
Unrestricted	64,955,219	(6,504,167)	6,319,042	8,052,471	71,274,261	1,548,304
Total net assets	\$ 903,726,359	\$ 629,143,323	\$ 34,244,107	\$ 36,359,891	\$ 937,970,466	\$ 665,503,214

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 \$938.0 million at the close of the fiscal year.

The largest portion of the City's net assets (\$686.2 million or 73.2%) 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 (\$180.5 million or 19.2%) 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 balance of \$71.3 million at the end of the fiscal year. Overall, the City's net assets increased by \$273.9 million (41.2%) during the current fiscal year.

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

CHANGE IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 30,824,136	\$ 25,956,412	\$ 3,907,546	\$ 3,523,109	\$ 34,731,682	\$ 29,479,521
Operating contributions and grants	3,333,506	3,547,679			3,333,506	3,547,679
Capital contributions and grants	20,273,816	15,027,697			20,273,816	15,027,697
General revenues:						
Property taxes	12,734,479	12,373,080			12,734,479	12,373,080
Tax increment, net	11,896,531	36,294,755			11,896,531	36,294,755
Sales taxes	13,836,852	13,091,860			13,836,852	13,091,860
Transient occupancy taxes	713,538	610,460			713,538	610,460
Franchise taxes	2,713,099	2,677,551			2,713,099	2,677,551
Motor vehicle license fees	42,071	382,275			42,071	382,275
Investment income	3,692,241	4,583,907	137,198	167,380	3,829,439	4,751,287
Extraordinary gain	280,624,874				280,624,874	
Other	1,160,059	1,458,351			1,160,059	1,458,351
Total revenues	381,845,202	116,004,027	4,044,744	3,690,489	385,889,946	119,694,516
Expenses						
General government	16,992,317	18,106,693			16,992,317	18,106,693
Community development	28,586,547	5,739,531			28,586,547	5,739,531
Public safety	32,163,467	28,216,005			32,163,467	28,216,005
Highways, streets and park	22,057,522	26,408,488			22,057,522	26,408,488
Culture and recreation	3,163,230	3,079,743			3,163,230	3,079,743
Interest on long-term deb	9,399,083	16,325,714			9,399,083	16,325,714
Crescent Marketplace			1,060,528	1,296,182	1,060,528	1,296,182
Total expenses	112,362,166	97,876,174	1,060,528	1,296,182	113,422,694	99,172,356
Increase in net assets before transfers	269,483,036	18,127,853	2,984,216	2,394,307	272,467,252	20,522,160
Transfers	5,100,000	3,167,000	(5,100,000)	(3,167,000)		
Change in net assets	274,583,036	21,294,853	(2,115,784)	(772,693)	272,467,252	20,522,160
Net assets, beginning	629,143,323	607,848,470	36,359,891	37,132,584	665,503,214	644,981,054
Net assets, ending	\$ 903,726,359	\$ 629,143,323	\$ 34,244,107	\$ 36,359,891	\$ 937,970,466	\$ 665,503,214

Governmental Activities

The cost of all Governmental Activities in the current fiscal year was \$112.4 million. As shown on the Statement of Activities, \$30.8 million of the cost was paid by those who directly benefited from the programs, \$23.6 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$41.9 million was subsidized through taxes.

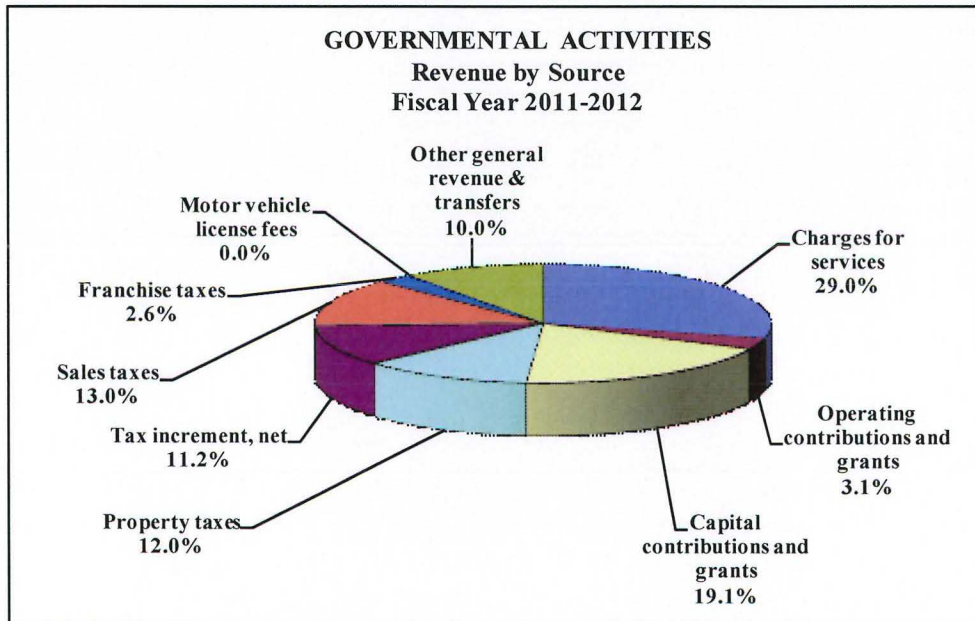
The City reported program revenues of \$54.4 million and general revenues of \$46.8 million.

The following table summarizes and presents governmental activities revenue by source and percentages for the fiscal year ended June 30, 2012 along with the percentage changes from the preceding year. The table below excludes the extraordinary gain of \$280.6 million from the transfer of net assets of the former RDA to the Successor Agency:

GOVERNMENTAL ACTIVITIES

Revenue by Source

REVENUE SOURCE	Fiscal Year 2011-2012	Percent of Total	Increase (Decrease) From 2010-2011	Percent Increase (Decrease)
Charges for services	\$ 30,824,136	29.0%	\$ 4,867,724	18.8%
Operating contributions and grants	3,333,506	3.1%	(214,173)	-6.0%
Capital contributions and grants	20,273,816	19.1%	5,246,119	34.9%
Property taxes	12,734,479	12.0%	361,399	2.9%
Tax increment, net	11,896,531	11.2%	(24,398,224)	-67.2%
Sales taxes	13,836,852	13.0%	744,992	5.7%
Franchise taxes	2,713,099	2.6%	35,548	1.3%
Motor vehicle license fees	42,071	0.0%	(340,204)	-89.0%
Other general revenue & transfers	10,665,838	10.0%	846,120	8.6%
TOTAL REVENUE	\$ 106,320,328	100.0%	\$ (12,850,699)	-10.8%

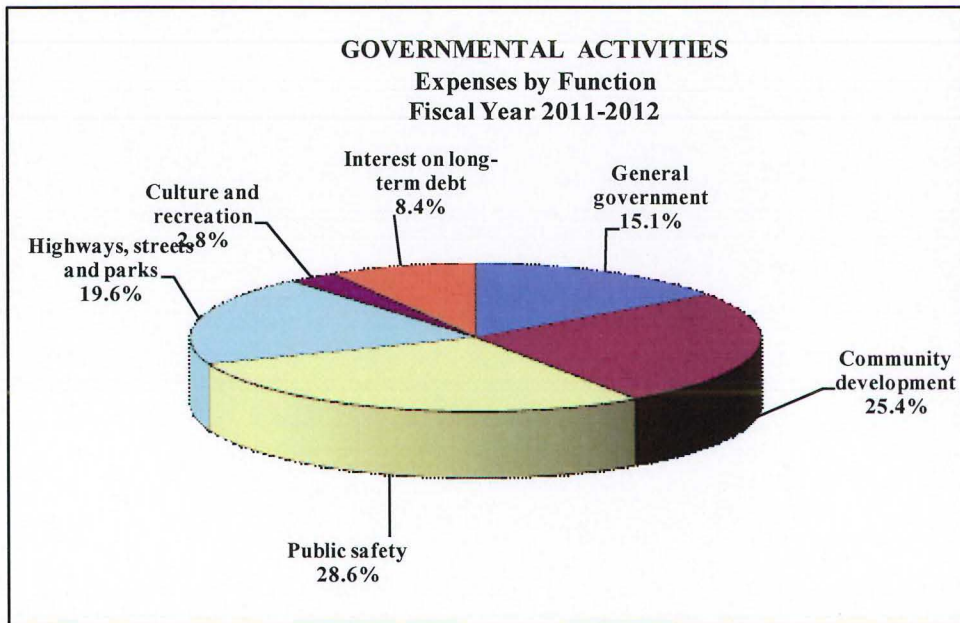


The following table summarizes and presents governmental activities expenses by function and percentages for the fiscal year ended June 30, 2012 along with the percentage changes from the previous year:

GOVERNMENTAL ACTIVITIES

Expenses by Function

FUNCTION	Fiscal Year 2011-2012	Percent of Total	Increase (Decrease) From 2010-2011	Percent Increase (Decrease)
General government	\$ 16,992,317	15.1%	\$ (1,114,376)	-6.2%
Community development	28,586,547	25.4%	22,847,016	398.1%
Public safety	32,163,467	28.6%	3,947,462	14.0%
Highways, streets and parks	22,057,522	19.6%	(4,350,966)	-16.5%
Culture and recreation	3,163,230	2.8%	83,487	2.7%
Interest on long-term debt	9,399,083	8.4%	(6,926,631)	-42.4%
TOTAL EXPENSES	\$ 112,362,166	100.0%	\$ 14,485,992	14.8%



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 decreased by \$2.1 million or 5.8% in the Enterprise Funds mainly as a result of operational transfers of \$5.1 million out to the General fund from the Creekside Marketplace Fund as anticipated. The intent of the City Council in regards to the Municipal Utility Fund 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 \$134.4 million, with a decrease of \$85.9 million from the previous year. Of this total amount, \$86.4 million constitutes unassigned 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 (\$15.5 million), debt service (\$71,000), capital projects (\$17.1 million), and other purposes (\$15.3 million).

Major Funds

The **General Fund** is the chief operating fund of the City. It represents \$51.9 million or 38.6% of the combined fund balances of the governmental funds. At the end of the current fiscal year, unassigned fund balance of the General Fund of \$35.0 million constituted 67.4% of total fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 51.7% of total General Fund expenditures and transfers out, while total fund balance represents 76.8% of that same amount.

The fund balance of the City's General Fund decreased by \$2.7 million during the current year due to a one-time expenditure of \$2.6 million to CalPERS. This payment was made to reduce future employer retirement contribution rates for safety employees. Revenues were up from the previous year by \$3.8 million (7.38%) and expenditures were up by \$5.3 million (8.58%) as follows:

General Fund Revenue				
	Fiscal Year 2011-2012	Fiscal Year 2010-2011	Increase (Decrease)	% Increase (Decrease)
Revenue:				
Taxes and special assessments	\$ 27,420,393	\$ 26,207,843	\$ 1,212,550	4.63%
Licenses and permits	5,210,749	4,722,075	488,674	10.35%
Intergovernmental	1,085,030	1,517,317	(432,287)	-28.49%
Charges for services/developer fees	13,976,641	11,273,011	2,703,630	23.98%
Fines and forfeitures	203,253	284,452	(81,199)	-28.55%
Use of money and property	6,652,636	6,817,267	(164,631)	-2.41%
Miscellaneous	343,839	297,849	45,990	15.44%
Total Revenue	\$ 54,892,541	\$ 51,119,814	\$ 3,772,727	7.38%

	General Fund Expenditure			
	Fiscal Year	Fiscal Year	Increase	% Increase
	2011-2012	2010-2011	(Decrease)	(Decrease)
Expenditure:				
General government	\$ 14,418,060	\$ 14,522,627	\$ (104,567)	-0.72%
Community development	6,213,544	5,514,814	698,730	12.67%
Public safety	30,262,221	27,317,174	2,945,047	10.78%
Highways, streets and parks	12,543,205	11,508,208	1,034,997	8.99%
Culture and recreation	2,836,660	2,711,871	124,789	4.60%
Capital outlay	1,270,763	635,062	635,701	100.10%
Debt service	-	-	-	0.00%
Total Expenditure	\$ 67,544,453	\$ 62,209,756	\$ 5,334,697	8.58%

Taxes and special assessments, including property taxes, property tax in-lieu of motor vehicle license fees, and sales tax came in at 0.60% over budget or \$163,000 over expectation. The actual increase from year to year was \$1.2 million (4.6%). Sales tax increased by \$612,500 (4.6%). Transient Occupancy Taxes increased over the prior year in the amount of \$103,100 (16.9%) due to the continued increase in bookings of the Residence Inn which opened in August 2011.

Property taxes represented 13.0% (\$7.1 million) of total revenues and ended the year with a net increase from the previous year of \$453,700. Property taxes received from the County for the City were down from the amended budget by \$258,000 (8.24%) and the Fire District was up by \$276,000 (6.92%). These amounts include the tax increment payments from the Redevelopment Agency. Countywide, assessed valuation increased by 0.73% in fiscal year 2011/12, while in San Marcos, it increased by 0.84%. The assessed value increase also affected the property taxes in-lieu of motor vehicle license fees which increased by \$43,230.

Use of Money and Property includes rental income and interest earnings on investments. Rental income was slightly higher by \$77,000 than expected due to increased collections from various lease agreements. Interest earnings on the City's portfolio were lower by \$159,000 than expected from lower than anticipated interest rates earned on cash and investments.

Miscellaneous revenues include one-time reimbursements and other various unanticipated revenues that do not occur on a regular basis and thus will vary year to year based on the nature of the revenue. The current year included a one-time property in-lieu fee payoff of \$240,000.

On the expenditures side, the net change from the preceding year was mainly due to expenditures relating to Public Safety. The current year included a one-time expenditure of \$2.6 million to CalPERS for a lump sum payment to reduce future employer retirement contribution rates for safety employees.

In previous fiscal years, the **Low and Moderate Income Housing Fund, Redevelopment Debt Service Funds and Redevelopment Capital project Funds** were all considered to be major funds for financial statement purposes. The City's Redevelopment Agency was reported within the reporting entity of the City as a blended component unit in previous years. With the dissolution of the all redevelopment agencies in the State of California pursuant to Assembly Bill x1 26, the City's Redevelopment Agency was dissolved and ceased to operate as a legal entity as of January 31, 2012. As such, the city's Redevelopment Agency Funds no longer exist as of January 31, 2012. At the date of dissolution, all cash held with a fiscal agent for future affordable housing projects and affordable housing loan receivables were transferred to the City's Affordable Housing Special Revenue Fund while the remaining assets and

liabilities were transferred to the City acting as the successor agency (trust funds) to hold the assets until they are distributed.

As mentioned above, the **San Marcos Affordable Housing Special Revenue Fund** accounts for funds to improve or preserve the community's supply of affordable housing. This fund ended the year with a \$51.5 million fund balance. Loans of \$18.5 million were made during the fiscal year to housing corporations to assist with the construction of affordable housing projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences in appropriations between the original budget and the final amended budget of the General Fund for the current fiscal year.

Ending fund balance was \$779,000 less than projected. Revenues and transfers in were \$361,000 (0.55%) under budget and expenditures and transfers out were \$417,000 (0.62%) over budget. The most significant revenue shortfalls from budget were interest income and transfers in which did not occur as anticipated.

Budgetary savings were realized in part-time salaries, consulting services, other contract services, the storm water program (NPDES), general liability insurance, tenant improvements and park electric costs. CalPERS costs (mainly related to a one time safety side fund payoff to reduce future rates), attorney services, building repair and maintenance and park water costs 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, 2012, amounted to \$664.1 million. This included land, land improvements, buildings, furniture and equipment, and infrastructure. The total net decrease in capital assets was \$4.2 million (-0.62%). The major additions and deletions to capital assets were as follows:

- Several land parcels were transferred from the City to a developer in order to construct the affordable housing development at Creekside. In return a \$7.5 million loan receivable was recorded in the City's Affordable Housing Special Revenue Fund.
- Several land parcels were purchased for future housing and infrastructure projects.
- A new fire engine in the amount of \$600,000 and 8 vehicles totaling \$195,000 were purchased.
- Infrastructures including right of way from new development of \$9.0 million were donated/taken over for maintenance by the City.
- Mission Sports Park was completed and capitalized at a cost of \$4.0 million. South Lake Community Park and Bradley Park Improvements were under construction.
- Several street construction/widening and expansion projects were completed at the end of the year including the following:
 - Rock Springs Rd./Richland Rd. Improvements \$3.0 million
 - Poinsettia Ave./La Mirada Dr. Improvements \$1.7 million
 - Descanso Ave. Box Culvert Extension Project \$1.1 million
 - Reconstruction of Mission Rd./Knoll Rd. Intersection \$369,000

- Other projects in progress at the end of the year include: San Marcos Creek Channel Improvements, Creekside Dr. and downtown promenade, San Marcos Blvd./Knight's Realm Intersection Improvements, and the Highway 78 Auxiliary Lane Improvement Project.
- Several land parcels and parks and street construction/widening projects in progress were transferred from the City's Redevelopment Agency to the Successor Agency (trust fund) after the dissolution of the Redevelopment Agency.

A summary of capital assets follows. Additional information can be found in note 08 of the notes to the financial statements.

CAPITAL ASSETS
(Net of Depreciation)
Governmental Activities

	Fiscal Year 2011-2012	Fiscal Year 2010-2011	Net Change
Land	\$ 272,142,230	\$ 280,663,098	\$ (8,520,868)
Land improvements	50,892,848	46,924,958	3,967,890
Buildings	52,344,460	53,837,580	(1,493,120)
Furniture and equipment	4,232,000	4,221,601	10,399
Infrastructure	232,968,537	196,426,872	36,541,665
Construction in progress	51,526,795	87,666,171	(36,139,376)
Total	<u>\$ 664,106,870</u>	<u>\$ 669,740,280</u>	<u>\$ (5,633,410)</u>

For the business-type activities, capital assets totaled \$27.9 million at June 30, 2012. There were no significant changes from the previous year.

DEBT ADMINISTRATION

At year-end, the City had \$10.9 million outstanding in one bond issue, one note payable and employee compensated absences. Although payments made on the City's outstanding debt created a reduction in the debt for the current fiscal year, the largest factor in the reduction of debt was the transfer of several bond issues and other outstanding debt from the Redevelopment Agency to the Successor Agency (trust fund) due to actions taken by the state to dissolve all redevelopment agencies.

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

LONG-TERM DEBT OUTSTANDING

Governmental Activities

	Fiscal Year 2011-2012	Fiscal Year 2010-2011	Net Change
Bonds payable, net	\$ 5,288,939	\$ 340,239,509	\$ (334,950,570)
Note payable	743,880	2,646,245	(1,902,365)
Cooperation agreement	-	25,501,990	(25,501,990)
Compensated absences	4,927,203	4,072,212	854,991
Due to other governments	-	3,860,541	(3,860,541)
Total	\$ 10,960,022	\$ 376,320,497	\$ (365,360,475)

Additional information on the City's long-term debt can be found in note 09 of the notes to the financial statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET

It appears that the worst of the recession is behind us and the local economy is showing signs of recovery although gradual and uneven. The outlook for the U.S. reports that the Gross Domestic Product (GDP) and job formation will remain weak in the near-term, mirroring conditions that have prevailed for the last two years. GDP growth is forecasted to be 2.4% by the end of 2013, increasing to 3.4% in 2014. In California, slow and steady gains are anticipated throughout 2012. More anticipated growth in 2013 and 2014 could see California's unemployment rate decrease to 7.7% by the end of 2014. It has been suggested that the housing market may have bottomed out and that a recovery is underway. Foreclosures appear to have peaked and existing home sales are on the rise. Gradually improving labor markets, a rebound in household formations and record low mortgage rates have helped bolster this recovery.

The City faces several long-term financial challenges, including the funding of major infrastructure needs, worsened by the elimination of the City's Redevelopment Agency, and the continuing burden of rising pension costs. A large portion of City assets do not have dedicated funding sources that enable the City to keep up with their required maintenance, improvement and replacement. Consideration of recommendations for funding future capital maintenance and replacement costs will be a top priority in the coming fiscal year.

While we technically do not engage in zero base budgeting, departments are required to justify each and every appropriation requested. Management literally goes through each line item to assess the need and validity as well as the assumptions used. The direction to staff at the onset of the budget process was to maintain the fiscal years 2012/13 and 2013/14 expenditures at or below the level that is currently approved in the 2011/2012 budget. Next year's proposed budget is \$2.1 million (3.3%) lower than the current year amended budget. Primarily, savings were incurred as a result of the restructured employee compensation programs that went into effect January 1, 2012. Slight increases are expected in facilities maintenance, public safety and community service programs.

Several factors are taken into consideration when projecting both revenues and expenditures. For each account, we look at the trend for the past several years, the current year to date as well as where we

expect to end the year at, the economy, development activity both current and projected, inflation, new operating requirements (i.e. additional parks to maintain), new revenue sources (i.e. new tenants, new hotels) and other pertinent factors. The budget reflects all known and estimated increases in City cost.

In summary, by the end of the third year of the next budget cycle, General Fund reserves will be at \$53.2 million. The excess of revenues over expenditures in the next three years and the increase in revenues and expenditures are as follows:

	<u>FY 2012/13</u>	<u>FY 2013/14</u>	<u>FY 2014/15</u>
Excess of Revenues Over Expenditures	\$81,867	\$47,647	\$21,284
Inc (Dec) in Revenues	\$(921,974)	\$(57,893)	\$1.3 million
% Inc (Dec) in Revenues	(1.42%)	(.09%)	1.98%
Inc (Dec) in Expenditures	\$(2.1) million	\$(23,673)	\$1.3 million
% Inc (Dec) in Expenditures	(3.26%)	(.04%)	2.03 %

Incorporated in our revenue projections are transfers from the Creekside Marketplace Enterprise (CM) Fund in the amounts of \$5, \$4.25, and \$4.8 million in fiscal years ending 2013, 2014 and 2015, respectively. This Fund accounts for the activity of the Creekside Marketplace Shopping Center. Over the next several years, the Center will generate from \$3.5 to \$3.7 million in net revenues to support the General Fund. Transfers from this Fund to the General Fund are affected annually to the extent necessary to balance operations.

Updated current information, such as pension contribution requirements, health insurance premiums, salaries based on the latest staffing levels and pay ranges, workers' compensation, liability and property insurance, and departmental service needs were some of the more significant changes to the General Fund budget.

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, 2012

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (note 3)	\$ 79,466,982	\$ 6,361,650	\$ 85,828,632
Cash and investments with fiscal agents (note 3)	13,646,397		13,646,397
Receivables:			
Taxes and special assessments	2,138,010		2,138,010
Accounts	1,981,795		1,981,795
Interest	80,341	13,370	93,711
Notes (note 4)	115,615,649		115,615,649
Other (note 7)	410,070	836,576	1,246,646
Due from other governments	3,557,732		3,557,732
Due from successor agency (note 18)	24,477,901		24,477,901
Prepaid items	76,849		76,849
Deposits	2,513,667	7,248	2,520,915
Deferred charges (note 2)	178,477		178,477
Land held for resale	17,130,703		17,130,703
Capital assets, not depreciated (note 8)	374,561,873	11,865,697	386,427,570
Capital assets, net of depreciation (note 8)	289,544,997	16,059,368	305,604,365
Total assets	<u>925,381,443</u>	<u>35,143,909</u>	<u>960,525,352</u>
Liabilities:			
Accounts payable	6,285,651		6,285,651
Accrued liabilities	1,965,593		1,965,593
Claims payable	588,865		588,865
Unearned revenue (note 5)	151,503	836,576	988,079
Deposits payable	1,703,450	63,226	1,766,676
Noncurrent liabilities (note 9):			
Due within one year	2,112,860		2,112,860
Due in more than one year	8,847,162		8,847,162
Total liabilities	<u>21,655,084</u>	<u>899,802</u>	<u>22,554,886</u>
Net Assets:			
Invested in capital assets, net of related debt	658,296,750	27,925,065	686,221,815
Restricted/expendable for:			
Low and moderate income housing	163,429,723		163,429,723
Landscape Maintenance	9,389,874		9,389,874
Other purposes	6,506,958		6,506,958
Restricted/nonexpendable	1,147,835		1,147,835
Unrestricted	64,955,219	6,319,042	71,274,261
Total net assets	<u>\$ 903,726,359</u>	<u>\$ 34,244,107</u>	<u>\$ 937,970,466</u>

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 16,992,317	\$ 8,811,334	\$ 70,424	
Community development	28,586,547	5,179,421	178,422	\$ 1,202,154
Public safety	32,163,467	8,012,187	273,961	124,883
Highways, streets, and parks	22,057,522	6,943,057	2,671,063	18,946,779
Culture and recreation	3,163,230	1,878,137	139,636	
Interest on long-term debt	9,399,083			
Total governmental activities	112,362,166	30,824,136	3,333,506	20,273,816
Business-type activities:				
Creskide Marketplace	1,060,528	3,907,546		
Total	<u>\$ 113,422,694</u>	<u>\$ 34,731,682</u>	<u>\$ 3,333,506</u>	<u>\$ 20,273,816</u>

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)

Extraordinary Gain/(Loss)

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
\$ (8,110,559)		\$ (8,110,559)
(22,026,550)		(22,026,550)
(23,752,436)		(23,752,436)
6,503,377		6,503,377
(1,145,457)		(1,145,457)
(9,399,083)		(9,399,083)
(57,930,708)		(57,930,708)
	\$ 2,847,018	2,847,018
(57,930,708)	2,847,018	(55,083,690)
12,734,479		12,734,479
11,896,531		11,896,531
13,836,852		13,836,852
713,538		713,538
2,713,099		2,713,099
42,071		42,071
3,692,241	137,198	3,829,439
1,160,059		1,160,059
5,100,000	(5,100,000)	
280,624,874		280,624,874
332,513,744	(4,962,802)	327,550,942
274,583,036	(2,115,784)	272,467,252
629,143,323	36,359,891	665,503,214
\$ 903,726,359	\$ 34,244,107	\$ 937,970,466

CITY OF SAN MARCOS
Balance Sheet
Governmental Funds
June 30, 2012

Assets	General	Low and Moderate Income Housing	Redevelopment Agency Debt Service
Cash and investments (note 3)	\$ 37,471,248		
Cash and investments with fiscal agents (note 3)			
Receivables:			
Taxes and special assessments	2,118,971		
Accounts	1,956,803		
Interest	41,238		
Notes, net (note 4)			
Other (note 8)	272,465		
Due from other governments	385,405		
Due from other funds (note 6)	748,280		
Due from successor agency			
Prepaid items	76,849		
Deposits	1,293,104		
Land held for resale	15,554,499		
Total assets	<u>\$ 59,918,862</u>	<u>-</u>	<u>-</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 4,287,866		
Accrued liabilities	1,599,243		
Claims payable	588,865		
Due to other funds (note 6)			
Deferred revenue (note 5)	423,968		
Deposits	1,142,575		
Total liabilities	<u>8,042,517</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable:			
Noncurrent assets	15,554,499		
Prepaid items	76,849		
Deposits	1,293,104		
Permanent fund			
Restricted:			
Affordable housing			
Debt service reserves			
Transportation			
Lighting and landscaping			
Capital improvements			
Public facilities			
Other purposes			
Unassigned	34,951,893		
Total fund balances	<u>51,876,345</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 59,918,862</u>	<u>-</u>	<u>-</u>

See accompanying notes to basic financial statements.

San Marcos Affordable Housing	Non-Major Governmental Funds	Total
13,742,201	28,253,533	79,466,982
12,570,406	1,075,991	13,646,397
	19,039	2,138,010
24,992		1,981,795
3,870	35,233	80,341
114,304,447	1,311,202	115,615,649
	137,605	410,070
	3,172,327	3,557,732
		748,280
24,477,901		24,477,901
		76,849
3,143	1,217,420	2,513,667
717,856	858,348	17,130,703
<u>165,844,816</u>	<u>36,080,698</u>	<u>261,844,376</u>
8,975	1,988,810	6,285,651
	309,105	1,908,348
		588,865
	748,280	748,280
114,304,447	1,448,807	116,177,222
34,498	526,377	1,703,450
<u>114,347,920</u>	<u>5,021,379</u>	<u>127,411,816</u>
		15,554,499
		76,849
		1,293,104
	1,147,835	1,147,835
51,496,896		51,496,896
	70,772	70,772
	5,855,043	5,855,043
	9,391,026	9,391,026
	789,951	789,951
	12,699,291	12,699,291
	1,183,161	1,183,161
	(77,760)	34,874,133
<u>51,496,896</u>	<u>31,059,319</u>	<u>134,432,560</u>
<u>165,844,816</u>	<u>36,080,698</u>	<u>261,844,376</u>

CITY OF SAN MARCOS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2012

Fund balances of governmental funds	\$ 134,432,560
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 \$814,913,629 and the accumulated depreciation is \$141,850,520.	664,106,870
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).	178,477
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds (note 5).	116,025,719
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).	(10,960,022)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds	<u>(57,245)</u>
Net assets of governmental activities	<u><u>\$ 903,726,359</u></u>

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, 2012

	General	Low and Moderate Income Housing	Redevelopment Agency Debt Service
Revenues:			
Taxes and special assessments	\$ 27,420,393	888,743	11,418,665
Licenses and permits	5,210,749		
Intergovernmental	1,085,030		
Charges for services	13,430,631		
Developer fees	546,010		
Fines and forfeitures	203,253		
Use of money and property	6,652,636	190,432	186,459
Miscellaneous	343,839	152,865	440,411
Total revenues	<u>54,892,541</u>	<u>1,232,040</u>	<u>12,045,535</u>
Expenditures:			
Current:			
General government	14,418,060	437,574	36,031
Community development	6,213,544	4,008,732	
Public safety	30,262,221		
Highways, streets and parks	12,543,205		
Culture and recreation	2,836,660		
Tax increment distributions to other governmental agencies			410,877
Capital outlay	1,270,763	5,787,078	
Debt service:			
Principal		189,776	9,386,486
Interest and fiscal charges		2,011,701	7,163,028
Total expenditures	<u>67,544,453</u>	<u>12,434,861</u>	<u>16,996,422</u>
Excess (deficiency) of revenues over expenditures	<u>(12,651,912)</u>	<u>(11,202,821)</u>	<u>(4,950,887)</u>
Other financing sources (uses):			
Sale of capital assets	23,611		
Transfers in (note 6)	9,888,199		827,582
Transfers out (note 6)	(9,540)	(55,783,715)	
Total other financing sources (uses)	9,902,270	(55,783,715)	827,582
Extraordinary gain (loss)		(10,320,354)	(32,155,849)
Net change in fund balances	(2,749,642)	(77,306,890)	(36,279,154)
Fund balances, beginning	54,625,987	77,306,890	36,279,154
Fund balances, ending	<u>\$ 51,876,345</u>	<u>-</u>	<u>-</u>

See accompanying notes to basic financial statements.

San Marcos Affordable Housing	Non-Major Governmental Funds	Total
	5,083,327	44,811,128
		5,210,749
	13,572,617	14,657,647
		13,430,631
496,705	7,779,328	8,822,043
		203,253
651,039	1,029,997	8,710,563
728,992	354,279	2,020,386
1,876,736	27,819,548	97,866,400
286,232	462,117	15,640,014
7,096,222	398,863	17,717,361
		30,262,221
	1,510,293	14,053,498
	147,555	2,984,215
		410,877
	13,105,394	20,163,235
	327,366	9,903,628
	334,390	9,509,119
7,382,454	16,285,978	120,644,168
(5,505,718)	11,533,570	(22,777,768)
		23,611
54,956,133	9,540	65,681,454
	(4,788,199)	(60,581,454)
54,956,133	(4,778,659)	5,123,611
	(25,822,586)	(68,298,789)
49,450,415	(19,067,675)	(85,952,946)
2,046,481	50,126,994	220,385,506
51,496,896	31,059,319	134,432,560

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, 2012

Net change in fund balances - total governmental funds	\$ (85,952,946)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$17,492,199 exceeded depreciation of \$13,048,010.	4,444,189
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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.	1,329,770
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Long-term loans are reported as expenditures in the governmental funds, but not on the statement of activities.	13,673,662
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Increases in the allowance for uncollectible amounts are recognized as an expense in the statement of activities, but not as an expenditure in the governmental funds.	(16,986,836)
--	--------------

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).	9,890,647
---	-----------

Through the dissolution of the redevelopment agency, the following items were transferred to the Successor Agency:	
Capital assets	(3,907,369)
Net investment in direct financing lease	(3,595,261)
Long-term debt, net of premiums, discounts, deferred refunding charges, and debt issuance costs.	350,343,287

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).	5,343,893
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Change in net assets of governmental activities	\$ 274,583,036
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See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds		Total
	Creekside Marketplace	Non-Major Utility	
Assets			
Current assets:			
Cash and investments (note 3)	\$ 6,296,832	\$ 64,818	\$ 6,361,650
Receivables:			
Interest	13,292	78	13,370
Deposits	7,248		7,248
Total current assets	6,317,372	64,896	6,382,268
Noncurrent assets:			
Other receivable (note 8)	836,576		836,576
Capital assets (note 9):			
Land	11,865,697		11,865,697
Buildings, net of depreciation	16,059,368		16,059,368
Total noncurrent assets	28,761,641		28,761,641
Total assets	35,079,013	64,896	35,143,909
Liabilities			
Current liabilities:			
Deposits	63,226		63,226
Long-term liabilities:			
Unearned revenue (note 5)	836,576		836,576
Total liabilities	899,802		899,802
Net Assets			
Invested in capital assets	27,925,065		27,925,065
Unrestricted	6,254,146	64,896	6,319,042
Total net assets	\$ 34,179,211	\$ 64,896	\$ 34,244,107

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, 2012

	Enterprise Funds		
	Creekside Marketplace	Non-Major Utility	Total
Operating revenues:			
Rental income	\$ 3,404,398		3,404,398
Common area maintenance charges	503,148		503,148
Total operating revenues	3,907,546		3,907,546
Operating expenses:			
Property management	341,276		341,276
Janitorial	110,103		110,103
Repair and maintenance	226,794		226,794
Depreciation	382,355		382,355
Total operating expenses	1,060,528		1,060,528
Operating income	2,847,018		2,847,018
Non-operating revenues:			
Investment income	136,288	910	137,198
Income before transfer	2,983,306	910	2,984,216
Transfer out (note 6)	(5,100,000)		(5,100,000)
Change in net assets	(2,116,694)	910	(2,115,784)
Net assets, beginning	36,295,905	63,986	36,359,891
Net assets, ending	\$ 34,179,211	64,896	34,244,107

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds		
	Creekside Marketplace	Non-Major Utility	Total
Cash flows from operating activities:			
Payments to suppliers for goods and services	\$ (680,442)		\$ (680,442)
Receipts from customers	3,907,547		3,907,547
Net cash provided by (used for) operating activities	3,227,105		3,227,105
Cash flows from noncapital financing activities:			
Transfer to General Fund	(5,100,000)		(5,100,000)
Cash flows from investing activities:			
Interest received	144,199	\$ 959	145,158
Net increase (decrease) in cash and cash equivalents	(1,728,696)	959	(1,727,737)
Cash and cash equivalents, beginning	8,025,528	63,859	8,089,387
Cash and cash equivalents, ending	<u>\$ 6,296,832</u>	<u>\$ 64,818</u>	<u>\$ 6,361,650</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 2,847,018		\$ 2,847,018
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	382,355		382,355
Increase in deposit asset	(2,268)		(2,268)
Net cash provided by (used for) for operating activities	<u>\$ 3,227,105</u>	<u>\$ -</u>	<u>\$ 3,227,105</u>

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Agency Funds	Private- Purpose Trust Funds
ASSETS		
Current assets:		
Cash and investments (note 3)	\$ 3,571,193	45,699,481
Receivables:		
Accounts	13,728	15,000
Notes		696,339
Special assessments	47,970	
Interest	169	46,227
Direct financing lease		3,595,258
Other		
Deferred charges		5,719,682
Total current assets	3,633,060	55,771,987
Restricted assets:		
Cash and investments with fiscal agents (note 3)	16,020,838	64,887,087
Advances to other funds		-
Total restricted assets	16,020,838	64,887,087
Capital assets:		
Land		4,921,618
Equipment		73,541
Construction in progress		1,411,666
Total capital assets (net of accumulated depreciation)	-	6,406,825
Total noncurrent assets	16,020,838	71,293,912
Total assets	\$ 19,653,898	127,065,899
LIABILITIES		
Current liabilities:		
Accounts payable		19,948,906
Accrued liabilities		29,606
Accrued interest payable		6,083,296
Due to other taxing entities		6,828,668
Deposits payable	\$ 3,494,315	
Due to bondholders	16,159,583	
Noncurrent liabilities:		
Due within one year		7,662,212
Due in more than one year		373,388,985
Total liabilities	19,653,898	413,941,673
NET ASSETS		
Held in trust for other taxing entities	\$ -	(286,875,774)

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2012

	Private- Purpose Trust Fund
	<hr/>
Additions:	
Tax increment	\$ 4,319,258
Income from property and investments	58,781
Miscellaneous	<u>15,000</u>
Total additions	4,393,039
Deductions:	
General and administrative	880,281
Community development	318,809
Interest expense and fees	<u>9,444,849</u>
Total deductions	10,643,939
Extraordinary loss	<u>(280,624,874)</u>
Change in net assets	(286,875,774)
Net assets, beginning	<hr/> -
Net assets, ending	<u><u>\$ (286,875,774)</u></u>

See accompanying notes to basic financial statements.

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CITY OF SAN MARCOS
Notes to Basic Financial Statements
June 30, 2012

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. During the year ended June 30, 2012, the Agency was dissolved. Net assets were transferred to a fiduciary fund to be held pending liquidation and distribution to taxing entities.

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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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 are not prepared for these 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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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 San Marcos Affordable Housing Fund accounts for the in-lieu revenue received from developers to provide for affordable housing. Also accounts for the low and moderate income housing receivables of the former San Marcos Redevelopment Agency.

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 types:

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.

The Trust Funds account for the activities of the Redevelopment Obligation Retirement Funds, which accumulates resources for obligations previously incurred by the former City of San Marcos Redevelopment Agency.

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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.

Notes Receivable:

The accompanying financial statements reflect the recording of certain notes receivable that represent loans made to private developers and other parties. In certain cases, the amount of collection is dependent upon future residual receipts to be generated by the property or contingent upon the ability of the owner to sell the property at an amount sufficient to pay all liens against the property, including the obligation to the Agency. For certain loans, an allowance for uncollectible amounts has been established. Other loans may also be subject to the risk of non-collection, but the probable amounts of such loss cannot be reasonably estimated at this time.

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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

	<u>Years</u>
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 Balances:

Fund balances are reported in the fund financial statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance - this includes amounts that cannot be spent because they are either not spendable in physical form (such as inventory) or that are legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by external legal requirements imposed by other governments, external resource providers, or creditors. Restrictions imposed by the City Council do not create restricted fund

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance - this includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that it employed to previously commit those amounts. If the Council action that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The City Council considers a resolution to constitute a formal action of the City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated either by the City Council or be persons to whom the City Council has delegated the authority to assign amounts for specific purposes. The City Council has not delegated such authority to others in the City.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

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 \$(10,960,022) difference are as follows:

Bonds payable	\$ (5,435,000)
Less: Deferred charge on refunding	87,728
Issuance discount	58,333
Note payable	(743,880)
Compensated absences	<u>(4,927,203)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$(10,960,022)</u>

Another element of the reconciliation is cost of issuance of \$178,477 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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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 \$9,890,647 difference are as follows:

Principal repayments:	
Bonds	\$ 7,260,000
Note payable	292,142
Cooperation agreement	2,351,486
Amortization of:	
Deferred charges/cost of issuance	(7,139)
Deferred charge on bond refunding	(3,509)
Bond issuance discount	(2,333)
	<hr/>
Net adjustment to increase <i>net changes in fund balance – total governmental funds</i> to arrive at <i>changes in net assets – governmental activities</i>	\$ 9,890,647
	<hr/>

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 \$5,343,893 difference are as follows:

Change in compensated absences	\$ (854,991)
Change in accrued interest	6,198,884
	<hr/>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 5,343,893
	<hr/>

3. CASH AND INVESTMENTS

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

Statement of net assets:	
Cash and investments	\$ 85,828,632
Cash and investments with fiscal agents	13,646,397
Statement of fiduciary assets and liabilities:	
Cash and investments	49,270,674
Cash and investments with fiscal agents	80,907,925
	<hr/>
Total Cash and Investments	\$ 229,653,628
	<hr/>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Cash and investments at June 30, 2012 consisted of the following:

Demand deposits	\$ 1,896,716
Local Agency Investment Pool (LAIF)	38,038,948
California Asset Management Pool (CAMP)	35,548,239
Federal Agency Securities	54,787,869
U.S. Treasury	10,827,399
FDIC Insured Corporate Bonds	3,586,688
Commercial paper	1,108,664
Money market mutual funds	<u>83,859,105</u>
Total Cash and Investments	<u>\$ 229,653,628</u>

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.

<u>Investment Type</u> <u>Authorized by State Law</u>	<u>Authorized</u> <u>By City</u> <u>Policy</u>	<u>Maximum</u> <u>Maturity</u>	<u>Maximum</u> <u>Percentage</u> <u>of Portfolio</u>	<u>Maximum</u> <u>Investment</u> <u>in One Issuer</u>
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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
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:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13 to 60 Months</u>
Federal Agency Securities	\$ 46,363,859	\$ 4,066,046	\$ 42,297,813
U.S. Treasury	9,664,860	1,111,129	8,553,731
FDIC Insured Corporate Bonds	3,586,688	3,586,688	
LAIF	38,038,948	38,038,948	
CAMP	35,548,239	35,548,239	
Held by bond trustees:			
Money market mutual funds	83,859,105	83,859,105	
Commercial paper	1,108,664	1,108,664	
U.S. Treasury	1,162,539	1,162,539	
Federal Agency Securities	8,424,010	2,320,258	6,103,752
Total	<u>\$227,756,912</u>	<u>\$170,801,616</u>	<u>\$ 56,955,296</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Standard & Poor's Rating as of Year End</u>
Federal Agency Securities	\$ 46,363,859	N/A	AA+
U.S. Treasury	9,664,860	N/A	AA+
FDIC Insured Corporate Bonds	3,586,688	A	AA+
LAIF	38,038,948	N/A	Not Rated
CAMP	35,548,239	N/A	Not Rated
Held by bond trustees:			
Money market mutual funds	83,859,105	A	AAA
Commercial paper	1,108,664	A-1	A-1+
U.S. Treasury	1,162,539	N/A	AA+
Federal Agency Securities	<u>8,424,010</u>	N/A	AA+
Total	<u>\$227,756,912</u>		

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) must be disclosed. There are no investments at June 30, 2012 that meet the above criteria.

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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, 2012, notes receivable consisted of the following:

The City of San Marcos affordable housing program 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 Affordable Housing Special Revenue Fund.

\$ 2,395,385

The former City of San Marcos Redevelopment Agency made several loans to various housing developers for the acquisition, construction or rehabilitation of low and moderate housing. Upon the dissolution of the Redevelopment Agency, these loans were transferred to the City's affordable housing program. The loans were made in fiscal years 1997 through 2011 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 Affordable Housing Special Revenue Fund.

123,265,508

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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 in the Affordable Housing Special Revenue Fund. The balance at June 30, 2012 includes accrued interest of \$302,675.

1,622,675

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 in the Affordable Housing Special Revenue Fund. The balance at June 30, 2012 includes accrued interest of \$44,722.

744,722

The City made two loans for a total amount of \$1,260,625 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 in the Affordable Housing Special Revenue Fund. The balance at June 30, 2012 includes accrued interest of \$172,878.

1,433,503

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%. Due to the long-term nature of these loans, deferred revenue has been recorded in the HOME Grant Special Revenue Fund.

1,311,202

The former City of San Marcos Redevelopment Agency provided loans to individuals under a mortgage assistance program. The loans are to be repaid in 30 years and bear an interest of 3%. Upon the dissolution of the Redevelopment Agency, these loans were transferred to the City's affordable housing program. Due to the long-term nature of the loans, deferred revenue has been recorded in the Affordable Housing Special Revenue Fund.

1,229,490

Allowance for doubtful accounts (16,386,836)

Total notes receivable \$ 115,615,649

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:

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

	Unavailable Revenue	Unearned Revenue
Fees receivable from property owners under various agreements	\$ 410,070	
Rental revenue received prior to recognition date		\$ 151,503
Long-term loans to mobile home owners	2,395,384	
Long-term loans to developers for the acquisition, construction or rehabilitation of affordable housing	109,056,898	
Long-term loan to a developer for the acquisition, development and construction of a commercial pad	1,622,675	
Long-term loans to individuals under a mortgage assistance program	<u>2,540,692</u>	
Total deferred/unearned revenue for governmental funds	<u>\$116,025,719</u>	<u>\$ 151,503</u>

The Creekside Marketplace Enterprise Fund also reported unearned revenue of \$836,576 in conjunction with a receivable from a contractor as a result of a settlement agreement involving future rent losses (see note 7).

6. INTERFUND RECEIVABLES AND TRANSFERS

Loans between funds (Due to/Due from) were as follows at June 30, 2012:

Receivable Fund	Payable Fund	Amount
General Fund	Non-major governmental funds	\$ 748,280
Affordable Housing Fund	Private-Purpose Trust Fund	24,477,901
		<u>\$ 25,226,181</u>
Total		

The loans from the General Fund to the Non-major governmental funds were made to eliminate short-term cash deficits.

The loans from the Affordable Housing Fund to the Private-Purpose Trust Funds were made to fund the fiscal year 2003/2004 Educational Revenue Augmentation Fund (ERAF) payment and the fiscal year 2009/2010 and 2010/2011 Supplemental Educational Revenue Augmentation Fund (SERAF) payments.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Interfund transfers were as follows:

	Transfers In				Total Transfers Out
	General Fund	Affordable Housing Fund	RDA Debt Service Fund	Non-major Governmental	
Transfers Out:					
General Fund				\$ 9,540	\$ 9,540
Low and Moderate Income Housing Fund		\$ 54,956,134	\$ 827,581		55,783,715
Creekside Marketplace Enterprise	\$ 5,100,000				5,100,000
Non-major Governmental	4,788,199				4,788,199
Total Transfers In:	\$ 9,888,199	\$ 54,956,134	\$ 827,581	\$ 9,540	\$ 65,681,454

The transfer of \$9,540 from the General Fund to the non-major governmental funds was to fund capital project costs for the aquatic facilities.

The transfer of \$54,956,134 from the Low and Moderate Income Housing Fund to the City Affordable Housing Fund was to move certain cash and assets of the former Redevelopment Agency to the City per State Assembly Bills 1x 26 and 1484.

The transfer of \$827,581 from the Low and Moderate Income Housing Fund to the RDA Debt Service Fund was for debt service payments related to low and moderate income Tax Allocation Bonds.

\$5,100,000 was transferred from the Creekside Marketplace Enterprise Fund to the General Fund to fund operations.

The transfers of \$4,788,199 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.

7. OTHER RECEIVABLES

At June 30, 2012, other receivables consisted of the following:

Governmental Funds:

In fiscal year 1992-93, the City entered into an agreement whereby Scripps Memorial Hospital 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 an agreement with a property owner whereby certain public facilities fees are being deferred. The revenue has been deferred in the governmental funds. 120,516

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Other	289,554
Allowance for doubtful accounts	<u>(600,000)</u>
Total other receivables – governmental funds	<u>\$ 410,070</u>

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.

\$ 836,576

8. CAPITAL ASSETS

Capital asset activity was as follows for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 280,663,098	\$ 7,507,958	\$ (16,028,824)	\$ 272,142,232
Land improvements	46,924,958	3,967,891		50,892,849
Construction in progress	<u>87,666,171</u>	<u>13,628,024</u>	<u>(49,767,403)</u>	<u>51,526,792</u>
Total capital assets, not being depreciated	<u>415,254,227</u>	<u>25,103,873</u>	<u>(65,796,227)</u>	<u>374,561,873</u>
Capital assets being depreciated:				
Buildings	74,708,564			74,708,564
Furniture and equipment	16,214,254	1,078,916		17,293,170
Infrastructure	<u>293,821,985</u>	<u>47,028,038</u>		<u>340,850,023</u>
Total assets being depreciated	<u>384,744,803</u>	<u>48,106,954</u>		<u>432,851,757</u>
Less accumulated depreciation for:				
Buildings	(20,870,984)	(1,493,121)		(22,364,105)
Furniture and equipment	(11,992,653)	(1,068,517)		(13,061,170)
Infrastructure	<u>(97,395,113)</u>	<u>(10,486,372)</u>		<u>(107,881,485)</u>
Total accumulated depreciation	<u>(130,258,750)</u>	<u>(13,048,010)</u>		<u>(143,306,760)</u>
Total capital assets being depreciated, net	<u>254,486,053</u>	<u>35,058,944</u>		<u>289,544,997</u>
Total governmental activities	<u>\$ 669,740,280</u>	<u>\$ 60,162,817</u>	<u>\$ (65,796,227)</u>	<u>\$ 664,106,870</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
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	(2,676,035)	\$ (382,355)		(3,058,390)
Total capital assets being depreciated, net	16,441,723	(382,355)		16,059,368
Total business type activities	\$ 28,307,420	\$ (382,355)	\$ -	\$ 27,925,065

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 889,400
Community development	107,494
Public safety	1,006,562
Highways and streets	10,860,073
Culture and recreation	184,481
Total depreciation expense – governmental activities	<u>\$ 13,048,010</u>

Assets acquired through capital leases are as follows:

Furniture and equipment	\$ 3,608,837
Less: accumulated depreciation	<u>(3,364,262)</u>
Total	<u>\$ 244,575</u>

9. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Bonds payable	\$342,425,000		\$ 336,990,000	\$5,435,000	\$235,000
Plus (less) deferred amounts:					
Issuance premium	5,096,909		5,096,909	-	
Issuance discount	(2,084,914)		(2,026,581)	(58,333)	
Charge on refunding	(5,197,486)		(5,109,758)	(87,728)	
Total bonds payable	340,239,509		334,950,570	5,288,939	235,000

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Note payable	2,646,245		1,902,365	743,880	107,996
Cooperation agreement	25,501,990		25,501,990		
Compensated absences	4,072,212	3,550,740	2,695,749	4,927,203	1,769,864
Due to other governments	3,860,541		3,860,541		
Total	<u>\$376,320,497</u>	<u>\$ 3,550,740</u>	<u>\$368,911,215</u>	<u>\$10,960,022</u>	<u>\$2,112,860</u>

Bonds Payable:

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 fiscal year.

\$ 5,435,000

The bond documents for the San Marcos Public Facilities Authority 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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 235,000	\$ 236,490	\$ 71,490
2014	245,000	226,890	471,890
2015	250,000	216,990	466,990
2016	265,000	206,524	471,524
2017	275,000	195,353	470,353
2018-2022	1,565,000	783,988	2,348,988
2023-2027	1,965,000	383,777	2,348,777
2028-2029	635,000	23,366	658,366
Total	<u>\$5,435,000</u>	<u>\$2,273,378</u>	<u>\$ 7,708,378</u>

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.

\$ 743,880

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

Year Ending June 30	Principal	Interest	Total
2013	\$ 107,996	\$ 40,913	\$ 148,909
2014	113,935	34,974	148,909
2015	120,202	28,707	148,909
2016	126,813	22,096	148,909
2017	133,788	15,121	148,909
2018	141,146	7,763	148,909
Total	<u>\$ 743,880</u>	<u>\$ 149,574</u>	<u>\$ 893,454</u>

10. 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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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.

11. 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, 2012, the amount contributed by the City on behalf of the employees was \$1,088,762. The City is also required to contribute at an actuarially determined rate. The rates for 2012 were 24.958% for miscellaneous employees, and 29.231% 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, 2012, the City's annual pension cost (employer contribution) of \$5,351,632 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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 3.55% 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 eighteen years for safety and twenty-three years for miscellaneous employees.

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Notes to Basic Financial Statements (Continued)
June 30, 2012

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
6/30/09	\$76,471,895	\$49,829,978	\$26,641,917	65.2%	\$12,579,983	211.8%
6/30/10	82,290,473	53,988,712	28,301,761	65.6	12,750,052	222.0
6/30/11	86,945,272	58,675,644	28,269,628	67.5	13,264,398	213.1

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
6/30/10	20.764%	\$2,728,066	100%	-
6/30/11	21.028	2,742,723	100%	-
6/30/12	24.958	3,385,713	100%	-

ANNUAL PENSION COST (SAFETY)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/10	23.147%	\$1,565,318	100%	-
6/30/11	24.257	1,658,850	100%	-
6/30/12	29.231	1,965,919	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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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, 2012, the City's total payroll and covered payroll for part-time employees was \$1,171,963. The City made employer contributions of \$22,849 (1.9% of current covered payroll), and employees contributed \$65,098 (5.6% of current covered payroll).

12. INSURANCE

The City is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §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 lines of 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.

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

General Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program (formerly called environmental 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 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the Authority. City property currently has all-risk property insurance protection in the amount of \$222,450,144. 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 retrospective 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. City property currently has earthquake protection in the amount of \$107,854,784. 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 retrospective adjustments.

Crime Insurance

The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

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 agency property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2011-12.

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, 2012, the City had \$673,910 on deposit with PASIS and claims payable of \$588,865. Both are included within the General Fund.

13. JOINT VENTURES

- a) The City is a member of the North County Dispatch Joint Powers Authority (the JPA). The JPA was formed on June 11, 1984 and other member agencies include the Rancho Santa Fe Fire Protection District, the North County Fire Protection District and the cities of Vista, Solana Beach, Oceanside, Encinitas and Carlsbad. 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 eight directors who are appointed by each member's governing body. Summarized audited information of the JPA for the fiscal year ended June 30, 2012, the most current available information, is as follows:

Total assets	\$ 3,919,924
Liabilities	<u>(1,123,363)</u>
Net assets	<u>\$ 2,796,561</u>
Revenues	\$ 3,574,891
Expenses	<u>(3,239,533)</u>
Change in net assets	<u>\$ 335,358</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

The City'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 Drive (P.O. Box 410), Rancho Santa Fe, CA 92067.

- b) The former San Marcos Redevelopment Agency and the City of Holtville 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 MFA was dissolved in February 2012 and the remaining assets were distributed between the former San Marcos Redevelopment Agency and the City of Holtville.

14. 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, 2012
City of San Marcos Community Facilities District No. 88-1, Special Tax Refunding Bonds, Series 2012, (Improvement Area No. 1, 2, 3)	\$ 22,425,000	\$ 22,425,000
City of San Marcos Community Facilities District No. 91-01, Special Tax Bonds, 2004 Series B	3,690,000	2,320,000
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	28,865,000
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	12,710,000
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Refunding Bonds, Series 2012A (Improvement Area No. 1)	13,820,000	13,820,000

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Notes to Basic Financial Statements (Continued)
June 30, 2012

	<u>Amount of Issue</u>	<u>Outstanding June 30, 2012</u>
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Refunding Bonds, Series 2012B (Improvement Area No. 1)	4,240,000	4,240,000
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	12,780,000
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	<u>24,485,000</u>
Total outstanding		<u>\$ 121,645,000</u>

The City, the Successor Agency to the former 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, Successor 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.

	<u>Outstanding June 30, 2012</u>
\$2,300,000 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Villa Serena Apartments), 2000 Series A	\$ 1,835,783
\$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	8,530,324
\$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	38,350,000

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

	<u>Outstanding June 30, 2012</u>
\$56,860,000 San Marcos Public Financing Authority Tax Increment Pass-through Revenue Refunding Bonds, San Marcos Unified School District, 2006 Series A	52,005,000
\$44,640,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Refunding Bonds, Series 2006 A, B, C (Union City Tropics)	41,075,000
\$11,655,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Fresno/Oceano)	9,880,000
\$21,985,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Rancho Vallecitos)	<u>19,500,000</u>
	<u>\$ 190,566,107</u>

15. 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.

16. 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.

17. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures exceeded appropriation control levels in the General Fund (\$407,839), the Community Facilities District 98-02 Special Revenue Fund (\$70,989), the Community Development Block Grant Special Revenue Fund (\$221), the HOME Grant Special Revenue Fund (\$104,932) and the Traffic Congestion Relief Special Revenue Fund (\$127).

18. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

action impacted the reporting entity of the City of San Marcos that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the Bill as part of City resolution number 2012-7607.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligation of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former Redevelopment Agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City. The ability of the Successor Agency to repay the City is dependent upon the sufficiency of available tax revenues to fund such repayment. Revenues are only available for repayment to the extent that all other obligations of the Successor Agency have been provided for in accordance with a complex computation set forth in California Assembly Bill No. 1484. The City believes that there will be sufficient tax revenue to permit eventual repayment in full to the City.

Prior to dissolution of the Redevelopment Agency on February 1, 2012, the final seven months of the activity of the Redevelopment Agency were reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved Redevelopment Agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City, pending the liquidation and distribution of the assets and liabilities of the former Redevelopment Agency to other taxing entities in accordance with state law.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

The transfer of the assets and liabilities of the former Redevelopment Agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Extraordinary loss reported in governmental funds	\$ 68,298,789
Add capital assets recorded in the government-wide financial statements	3,907,372
Add direct financing lease reported in the government-wide financial statements	3,595,258
Accrued interest payable as of February 1, 2012	(6,083,006)
Less debt reported in the government-wide financial statements, net of premiums, discounts, deferred refunding charges, and debt issuance costs	<u>(350,343,287)</u>
Extraordinary loss reported in the Successor Agency private-purpose trust fund	\$(280,624,874)

Note Receivable

In July 1989, the former 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 former 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.

Upon the dissolution of the Redevelopment Agency, this loan was transferred to the Successor Agency of the former Redevelopment Agency. The outstanding balance of the note at June 30, 2012 is \$696,339.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Due to the City of San Marcos

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.

\$ 94,158

The Low and Moderate Income Housing Special Revenue Fund loaned \$24,383,743 to the San Marcos Redevelopment Agency Debt Service Funds to fund the fiscal year 2009/2010 and 2010/2011 Supplemental Educational Revenue Augmentation Fund (SERAF) payments. The loans bear an interest rate equal to the City's average portfolio rate and are to be repaid no later than June 30, 2015 for the fiscal year 2009/2010 amount no later than June 30, 2016 for the fiscal year 2010/2011 amount.

24,383,743

\$ 24,477,901

Net Investment in Direct Financing Lease

In fiscal year 1992-93, the former San Marcos Redevelopment Agency entered into a direct financing lease with the San Marcos Unified School District whereby the Agency had 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. Upon the dissolution of the Redevelopment Agency, this lease was transferred to the Successor Agency of the former Redevelopment Agency.

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. A net investment in direct financing lease has been recorded in the Successor Agency Trust to account for the net present value of the lease payments at June 30, 2012.

The following lists the components of the net investment in the direct financing lease as of June 30, 2012:

Total minimum lease payments to be received	\$ 5,173,250
Less unearned income	<u>1,577,992</u>
Net investment in direct financing lease	<u>\$ 3,595,258</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

At June 30, 2012, the future minimum lease payments are as follows:

Year Ending June 30	
2013	\$ 323,138
2014	323,138
2015	323,138
2016	323,138
2017	323,138
2018-2022	1,615,689
2023-2027	1,051,720
2028-2032	890,151
	<u>890,151</u>
Total	<u>\$ 5,173,250</u>

Capital Assets

Capital asset activity was as follows for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land		\$ 4,921,618		\$ 4,921,618
Construction in progress		1,485,207	\$ (73,541)	1,411,666
Total capital assets, not being depreciated		6,406,825	(73,541)	6,333,284
Capital assets being depreciated:				
Furniture and equipment		73,541		73,541
Total assets being depreciated		73,541		73,541
Less accumulated depreciation for:				
Furniture and equipment				
Total accumulated depreciation				
Total capital assets being depreciated, net		73,541		73,541
Total capital assets	\$ -	\$ 6,480,366	\$ (73,541)	\$ 6,406,825

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Bonds payable		\$ 329,730,000		\$329,730,000	\$7,320,000
Plus (less) deferred amounts:					
Issuance premium		5,096,909	\$ 209,587	4,887,322	
Issuance discount		(2,024,247)	(98,513)	(1,925,734)	
Charge on refunding		(5,106,249)	(352,593)	(4,753,656)	
Total bonds payable		327,696,413	(241,519)	327,937,932	7,320,000
Note payable		1,637,640	138,113	1,499,527	342,212
Cooperation agreement		25,501,990	2,226,694	23,275,296	
Due to San Marcos					
Affordable Housing Fund		24,477,901		24,477,901	
Due to other governments		3,860,541		3,860,541	
Total	\$ -	\$ 383,174,485	\$ 2,123,288	\$381,051,197	\$7,662,212

Bonds Payable:

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.

\$ 42,965,000

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

In July 1997, the former 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.

6,890,000

In April 1998, the former 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.

5,585,000

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 fiscal year.

58,640,000

In May 2003, the San Marcos Public Facilities Authority issued

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

\$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 the end of the fiscal year.

18,150,000

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 fiscal year.

28,140,000

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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 fiscal year.

28,925,000

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 fiscal year.

54,765,000

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 5.10%. 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 fiscal year.

32,865,000

In January 2011, the former Redevelopment Agency issued \$52,805,000 2010 Tax Allocation Bonds to finance costs of low and moderate income housing projects, including the acquisition of land and improvements and the construction of certain infrastructure improvements. The bonds consist of serial bonds of \$10,590,000 maturing from 2013 to 2021 in annual installments of \$1,655,000 to \$2,565,000 and term bonds of \$42,215,000 maturing from 2018 to 2030. Interest is payable semi-annually on April 1 and October 1 commencing April 1, 2011 at rates ranging from 3.25% to 8.5%. Bonds maturing on

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

or after October 1, 2021 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2020. Bonds maturing on October 1, 2018, October 1, 2026, and October 1, 2030 are subject to mandatory sinking fund redemption, in part, on October 1, of each year commencing October 1, 2018. The reserve requirement was fully funded at the end of the fiscal year.

52,805,000

Total bonds payable

\$329,730,000

The bond documents for the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds Series A and B and the 2005 Tax Allocation Revenue Bonds Series A and B 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
2013	\$ 7,320,000	\$ 17,491,648	\$ 24,811,648
2014	9,275,000	17,150,958	26,425,958
2015	9,655,000	16,755,957	26,410,957
2016	9,480,000	16,316,371	25,796,371
2017	9,955,000	15,833,253	25,788,253
2018-2022	58,005,000	70,608,652	128,613,652
2023-2027	74,535,000	52,294,000	126,829,000
2028-2032	89,475,000	27,894,669	117,369,669
2033-2037	52,600,000	8,255,454	60,855,454
2038-2039	9,430,000	477,250	9,907,250
Total	<u>\$329,730,000</u>	<u>\$243,078,212</u>	<u>\$572,808,212</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

Note Payable:

In fiscal year 2010-11, the former Redevelopment Agency entered into a note payable with BCR and B Investments LLC to finance the acquisition of a site within the San Marcos Creek Specific Plan for the ultimate purposes of providing low and moderate income housing. Payment of the note will be in sixty (60) equal monthly installments including interest at 4.5% commencing on August 1, 2011. Upon the dissolution of the Redevelopment Agency, this note was transferred to the Successor Agency of the former Redevelopment Agency.

\$ 1,499,527

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

Year Ending June 30	Principal	Interest	Total
2013	\$ 342,212	\$ 60,477	\$ 402,689
2014	357,932	44,757	402,689
2015	374,376	28,313	402,689
2016	391,575	11,114	402,689
2017	33,432	126	33,558
Total	<u>\$ 1,499,527</u>	<u>\$ 144,787</u>	<u>\$ 1,644,314</u>

Cooperation Agreement:

In fiscal year 1993-94, the former 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%

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2012

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.

\$ 23,275,296

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.

\$ 3,860,541

Pledged Revenues

The Successor Agency has 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. This percentage also approximates 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
Housing Tax Increment	2,730,088	1,192,111	44%
Non-Housing Tax Increment	13,896,578	23,626,489	170%

19. **SUBSEQUENT EVENTS**

In October 2012, the San Marcos Public Financing Authority issued \$12,585,000 Special Tax Revenue Refunding Bonds Series 2012D to refund \$12,450,000 outstanding of the San Marcos Public Facilities Authority Special Tax Revenue Bonds, 2004 Series A. Net proceeds of \$12,447,719 (including an original issue premium of \$189,751 and after the payment of underwriting fees and other issuance costs), plus \$1,006,875 of 2004 bond debt service reserves and other available moneys were used to cash fund a defeasance escrow for the 2004 bonds. Said monies were deposited in an irrevocable trust with an escrow agent to provide for the full redemption of the 2004 bonds on November 13, 2012. The bonds were fully redeemed on November 13, 2012.

**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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 27,257,445	\$ 27,257,445	\$ 27,420,393	\$ 162,948
Licenses and permits	4,646,457	4,646,457	5,210,749	564,292
Intergovernmental	1,250,472	1,250,472	1,085,030	(165,442)
Charges for services	11,293,628	11,293,628	13,430,631	2,137,003
Developer fees			546,010	546,010
Fines and forfeitures	256,000	256,000	203,253	(52,747)
Use of money and property	6,727,763	6,727,763	6,652,636	(75,127)
Miscellaneous	551,187	551,187	343,839	(207,348)
Total revenues	51,982,952	51,982,952	54,892,541	2,909,589
Expenditures:				
Current:				
General government	14,256,149	14,421,182	14,418,060	3,122
Community development	5,985,062	6,766,373	6,213,544	552,829
Public safety	29,789,813	29,808,813	30,262,221	(453,408)
Highways, streets and parks	12,083,906	12,136,996	12,543,205	(406,209)
Culture and recreation	2,766,304	2,766,304	2,836,660	(70,356)
Capital outlay	1,236,946	1,236,946	1,270,763	(33,817)
Total expenditures	66,118,180	67,136,614	67,544,453	(407,839)
Excess (deficiency) of revenues over expenditures	(14,135,228)	(15,153,662)	(12,651,912)	2,501,750
Other financing sources (uses):				
Sale of capital assets	26,250	26,250	23,611	(2,639)
Transfers in	13,156,501	13,156,501	9,888,199	(3,268,302)
Transfers out			(9,540)	(9,540)
Total other financing sources (uses)	13,182,751	13,182,751	9,902,270	(3,280,481)
Net change in fund balance	(952,477)	(1,970,911)	(2,749,642)	(778,731)
Fund balance, beginning	54,625,987	54,625,987	54,625,987	
Fund balance, ending	\$ 53,673,510	\$ 52,655,076	\$ 51,876,345	\$ (778,731)

CITY OF SAN MARCOS
Note to Required Supplementary Information
June 30, 2012

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 \$1,018,434 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 Traffic Congestion Relief and Center Drive Maintenance District Special Revenue Fund and also 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.

The City controls its expenditures without the use of encumbrance accounting.

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 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 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.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

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 RDA Capital Improvements Fund is used to account for capital projects funded with Redevelopment Agency funds.

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.

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CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
<hr/>			
Assets			
Cash and investments	\$ 12,554,209		\$ 15,697,016
Cash and investments with fiscal agents		\$ 368,760	707,231
Receivables:			
Taxes and special assessments	19,039		
Interest	18,608		16,625
Notes	1,311,202		
Other	17,089		120,516
Due from other governments	828,095		2,344,232
Land held for resale			858,348
Deposits			71,893
	<hr/>		
Total assets	<u>\$ 14,748,242</u>	<u>\$ 368,760</u>	<u>\$ 19,815,861</u>
	<hr/>		
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 135,106		\$ 1,853,704
Accrued liabilities	51,093		258,012
Due to other funds	450,292	\$ 297,988	
Deferred revenue	1,328,291		120,516
Deposits	10,389		515,988
	<hr/>		
Total liabilities	<u>1,975,171</u>	<u>297,988</u>	<u>2,748,220</u>
	<hr/>		
Fund balances:			
Nonspendable:			
Permanent fund			
Restricted:			
Debt service reserves		70,772	
Transportation	3,252,762		2,602,281
Lighting and landscaping	9,391,026		
Capital improvements			789,951
Public facilities			12,699,291
Other purposes	207,043		976,118
Unassigned	(77,760)		
	<hr/>		
Total fund balances	<u>12,773,071</u>	<u>70,772</u>	<u>17,067,641</u>
	<hr/>		
Total liabilities and fund balances	<u>\$ 14,748,242</u>	<u>\$ 368,760</u>	<u>\$ 19,815,861</u>

Permanent Fund		
Community Foundation		Total
\$ 2,308	\$ 28,253,533	
	1,075,991	
	19,039	
	35,233	
	1,311,202	
	137,605	
	3,172,327	
	858,348	
1,145,527	1,217,420	
<u>\$ 1,147,835</u>	<u>\$ 36,080,698</u>	
	\$ 1,988,810	
	309,105	
	748,280	
	1,448,807	
	526,377	
-	5,021,379	
1,147,835	1,147,835	
	70,772	
	5,855,043	
	9,391,026	
	789,951	
	12,699,291	
	1,183,161	
	(77,760)	
1,147,835	31,059,319	
<u>\$ 1,147,835</u>	<u>\$ 36,080,698</u>	

CITY OF SAN MARCOS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Revenues:			
Taxes and special assessments	\$ 5,083,327		
Intergovernmental	4,099,835		9,472,782
Developer fees	15,881		7,763,447
Use of money and property	191,233	490,225	348,539
Miscellaneous	43,026		311,253
	<u>9,433,302</u>	<u>490,225</u>	<u>17,896,021</u>
Total revenues			
Expenditures:			
Current:			
General government		3,631	458,486
Community development	398,863		
Highways, streets and parks	1,510,293		
Culture and recreation	92,957		
Capital outlay	1,167,911		11,937,483
Debt service:			
Principal		225,000	102,366
Interest and fiscal charges		245,690	46,543
	<u>3,170,024</u>	<u>474,321</u>	<u>12,544,878</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>6,263,278</u>	<u>15,904</u>	<u>5,351,143</u>
Other financing sources (uses):			
Transfers in			9,540
Transfers out	(4,788,199)		
Extraordinary loss			(25,822,586)
	<u>(4,788,199)</u>		<u>(25,813,046)</u>
Total other financing sources (uses)			
Net change in fund balances	1,475,079	15,904	(20,461,903)
Fund balances, beginning	<u>11,297,992</u>	<u>54,868</u>	<u>37,529,544</u>
Fund balances, ending	<u>\$ 12,773,071</u>	<u>70,772</u>	<u>17,067,641</u>

Permanent Fund	
Community Foundation	Total
	5,083,327
	13,572,617
	7,779,328
	1,029,997
	354,279
-	27,819,548
	462,117
	398,863
	1,510,293
54,598	147,555
	13,105,394
	327,366
42,157	334,390
96,755	16,285,978
(96,755)	11,533,570
	9,540
	(4,788,199)
	(25,822,586)
	(30,601,245)
(96,755)	(19,067,675)
1,244,590	50,126,994
1,147,835	31,059,319

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2012

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Street Lighting District	Senior Nutrition Grant
Assets					
Cash and investments	\$ 2,414,438	580,163	9,358,869	1,151	76,907
Receivables:					
Taxes and special assessments			16,427	2,612	
Interest	2,810	694	14,578	289	91
Notes					
Other		17,089			
Due from other governments	239,549	24,704			13,873
Total assets	\$ 2,656,797	622,650	9,389,874	4,052	90,871
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 41,359	19,022			9,223
Accrued liabilities	48,260				2,833
Due to other funds				2,900	
Deferred revenue		17,089			
Deposits		10,389			
Total liabilities	89,619	46,500		2,900	12,056
Fund balances:					
Restricted					
Transportation	2,567,178	576,150			
Lighting and landscaping			9,389,874	1,152	
Other purposes					78,815
Unassigned					
Total fund balances	2,567,178	576,150	9,389,874	1,152	78,815
Total liabilities and fund balances	\$ 2,656,797	622,650	9,389,874	4,052	90,871

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
148			109,304	13,229	12,554,209
					19,039
			130	16	18,608
	1,311,202				1,311,202
					17,089
387,272	162,697				828,095
387,420	1,473,899	-	109,434	13,245	14,748,242
65,302	200				135,106
					51,093
207,135	240,257				450,292
	1,311,202				1,328,291
					10,389
272,437	1,551,659	-		-	1,975,171
			109,434		3,252,762
					9,391,026
114,983				13,245	207,043
	(77,760)				(77,760)
114,983	(77,760)	-	109,434	13,245	12,773,071
387,420	1,473,899	-	109,434	13,245	14,748,242

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, 2012

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Street Lighting District	Senior Nutrition Grant
Revenues:					
Taxes and special assessments			4,530,190	534,266	
Intergovernmental	\$ 2,374,304	259,999			98,196
Developer fees		15,881			
Use of money and property	29,217	7,978	150,067	1,949	599
Miscellaneous			1,000		40,841
Total revenues	2,403,521	283,858	4,681,257	536,215	139,636
Expenditures:					
Current:					
Community development			70,989		
Highways, streets and parks	1,510,166				
Culture and recreation					92,957
Capital outlay		159,263			7,302
Total expenditures	1,510,166	159,263	70,989	-	100,259
Excess (deficiency) of revenues over expenditures	893,355	124,595	4,610,268	536,215	39,377
Other financing sources (uses):					
Transfers out			(4,253,136)	(535,063)	
Total other financing sources (uses)	-	-	(4,253,136)	(535,063)	-
Net change in fund balances	893,355	124,595	357,132	1,152	39,377
Fund balances, beginning	1,673,823	451,555	9,032,742		39,438
Fund balances, ending	\$ 2,567,178	576,150	9,389,874	1,152	78,815

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
876,310	165,742		18,871	325,284	5,083,327
					4,099,835
			1,423		15,881
146	625			414	191,233
					43,026
876,456	166,367	-	20,294	325,698	9,433,302
83,747	244,127				398,863
		127			1,510,293
677,726				323,620	92,957
					1,167,911
761,473	244,127	127	-	323,620	3,170,024
114,983	(77,760)	(127)	20,294	2,078	6,263,278
					(4,788,199)
-	-	-	-	-	(4,788,199)
114,983	(77,760)	(127)	20,294	2,078	1,475,079
		127	89,140	11,167	11,297,992
114,983	(77,760)	-	109,434	13,245	12,773,071

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 2,280,717	2,280,717	2,374,304	93,587
Use of money and property	2,500	2,500	29,217	26,717
Total revenues	2,283,217	2,283,217	2,403,521	120,304
Expenditures:				
Current:				
Highways, streets and parks	3,826,564	3,826,564	1,510,166	2,316,398
Net change in fund balance	(1,543,347)	(1,543,347)	893,355	2,436,702
Fund balance, beginning	1,673,823	1,673,823	1,673,823	
Fund balance, ending	\$ 130,476	130,476	2,567,178	2,436,702

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 300,000	300,000	259,999	(40,001)
Developer fees	15,881	15,881	15,881	
Use of money and property	5,435	5,435	7,978	2,543
Total revenues	321,316	321,316	283,858	(37,458)
Expenditures:				
Capital outlay	172,320	172,320	159,263	13,057
Net change in fund balance	148,996	148,996	124,595	(24,401)
Fund balance, beginning	451,555	451,555	451,555	
Fund balance, ending	\$ 600,551	600,551	576,150	(24,401)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 4,573,490	4,573,490	4,530,190	(43,300)
Use of money and property	200,000	200,000	150,067	(49,933)
Miscellaneous	5,000	5,000	1,000	(4,000)
Total revenues	4,778,490	4,778,490	4,681,257	(97,233)
Expenditures:				
Current:				
Community development			70,989	(70,989)
Excess (deficiency) of revenues over expenditures	4,778,490	4,778,490	4,610,268	(168,222)
Other financing uses:				
Transfers out	(4,450,000)	(4,450,000)	(4,253,136)	196,864
Net change in fund balance	328,490	328,490	357,132	28,642
Fund balance, beginning	9,032,742	9,032,742	9,032,742	
Fund balance, ending	<u>\$ 9,361,232</u>	<u>9,361,232</u>	<u>9,389,874</u>	<u>28,642</u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 533,230	533,230	534,266	1,036
Use of money and property	500	500	1,949	1,449
Total revenues	533,730	533,730	536,215	2,485
Other financing uses:				
Transfers out	(533,730)	(533,730)	(535,063)	(1,333)
Net change in fund balance	-	-	1,152	1,152
Fund balance, beginning				
Fund balance, ending	\$ -	-	1,152	1,152

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 100,000	100,000	98,196	(1,804)
Use of money and property	100	100	599	499
Miscellaneous	35,080	35,080	40,841	5,761
Total revenues	135,180	135,180	139,636	4,456
Expenditures:				
Current:				
Culture and recreation	135,180	135,180	92,957	42,223
Capital outlay			7,302	(7,302)
Total expenditures	135,180	135,180	100,259	34,921
Net change in fund balance	-	-	39,377	39,377
Fund balance, beginning	39,438	39,438	39,438	
Fund balance, ending	\$ 39,438	39,438	78,815	39,377

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 914,688	914,688	876,310	(38,378)
Miscellaneous			146	146
Total revenues	<u>\$ 914,688</u>	<u>914,688</u>	<u>876,456</u>	<u>(38,232)</u>
Expenditures:				
Current:				
Community development	36,400	36,400	83,747	(47,347)
Capital outlay	<u>724,852</u>	<u>724,852</u>	<u>677,726</u>	<u>47,126</u>
Total expenditures	<u>761,252</u>	<u>761,252</u>	<u>761,473</u>	<u>(221)</u>
Excess (deficiency) of revenues over expenditures	153,436	153,436	114,983	(38,453)
Other financing uses:				
Transfers out	<u>(123,436)</u>	<u>(123,436)</u>		<u>123,436</u>
Net change in fund balance	30,000	30,000	114,983	84,983
Fund balance, beginning				
Fund balance, ending	<u>\$ 30,000</u>	<u>30,000</u>	<u>114,983</u>	<u>84,983</u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 142,030	142,030	165,742	23,712
Miscellaneous			625	625
Total revenues	142,030	142,030	166,367	24,337
Expenditures:				
Current:				
Community development	139,195	139,195	244,127	(104,932)
Excess (deficiency) of revenues over expenditures	2,835	2,835	(77,760)	(80,595)
Other financing uses:				
Transfers out	(2,835)	(2,835)		2,835
Net change in fund balances	-	-	(77,760)	(77,760)
Fund balance, beginning				
Fund balance, ending	\$ -	-	(77,760)	(77,760)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Highways, streets and parks			127	(127)
Fund balance, beginning	127	127	127	
Fund balance, ending	\$ 127	127	-	127

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 384,705	384,705	325,284	(59,421)
Miscellaneous			414	414
Total revenues	384,705	384,705	325,698	(59,007)
Expenditures:				
Capital outlay	384,705	384,705	323,620	61,085
Total expenditures	384,705	384,705	323,620	61,085
Net change in fund balance			2,078	2,078
Fund balance, beginning	11,167	11,167	11,167	
Fund balance, ending	\$ 11,167	11,167	13,245	2,078

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Debt Service Funds
June 30, 2012

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
<u>Assets</u>			
Cash and investments with fiscal agents	\$ -	368,760	368,760
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds		297,988	297,988
Fund balances:			
Restricted:			
Debt service reserves	\$ -	70,772	70,772
Total liabilities and fund balances	\$ -	368,760	368,760

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, 2012

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
Revenues:			
Use of money and property		490,225	490,225
Expenditures:			
General government	\$ 3,631		3,631
Debt service:			
Principal		225,000	225,000
Interest and fiscal charges		245,690	245,690
Total expenditures	3,631	470,690	474,321
Net change in fund balances	(3,631)	19,535	15,904
Fund balances, beginning	3,631	51,237	54,868
Fund balances, ending	\$ -	70,772	70,772

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 498,397	498,397	490,225	(8,172)
Expenditures:				
Debt service:				
Principal	225,000	225,000	225,000	
Interest and fiscal charges	245,690	245,690	245,690	
Total expenditures	470,690	470,690	470,690	
Net change in fund balance	27,707	27,707	19,535	(8,172)
Fund balance, beginning	51,237	51,237	51,237	
Fund balance, ending	\$ 78,944	78,944	70,772	(8,172)

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Capital Projects Funds
June 30, 2012

	Transportation Development Act	Public Facility	Capital Improvements
Assets			
Cash and investments	\$ 275,095	12,182,112	792,290
Cash and investments with fiscal agents			
Receivables:			
Interest	330	13,756	
Other		120,516	
Due from other governments			1,811,943
Deposits		71,893	
Land held for resale		858,348	
	<u>275,425</u>	<u>13,246,625</u>	<u>2,604,233</u>
Total assets	<u>\$ 275,425</u>	<u>13,246,625</u>	<u>2,604,233</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable		426,818	1,040,282
Accrued liabilities			258,012
Deferred revenue		120,516	
Deposits			515,988
		<u>547,334</u>	<u>1,814,282</u>
Total liabilities	<u>-</u>	<u>547,334</u>	<u>1,814,282</u>
Fund balances:			
Restricted for:			
Capital improvements			789,951
Transportation	275,425		
Public facilities		12,699,291	
Other purposes			
	<u>275,425</u>	<u>12,699,291</u>	<u>789,951</u>
Total fund balances	<u>275,425</u>	<u>12,699,291</u>	<u>789,951</u>
Total liabilities and fund balances	<u>\$ 275,425</u>	<u>13,246,625</u>	<u>2,604,233</u>

Redevelopment Agency Capital Projects	Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
	4,957 707,231	2,178,954	263,608	15,697,016 707,231
	6	2,217	316	16,625
		532,289		120,516
				2,344,232
				71,893
				858,348
-	712,194	2,713,460	263,924	19,815,861
		386,604		1,853,704
				258,012
				120,516
				515,988
-	-	386,604		2,748,220
		2,326,856		789,951
				2,602,281
				12,699,291
	712,194		263,924	976,118
-	712,194	2,326,856	263,924	17,067,641
-	712,194	2,713,460	263,924	19,815,861

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, 2012

	Transportation Development Act	Public Facility	Capital Improvements
Revenues:			
Intergovernmental			3,143,420
Developer fees		7,763,447	
Use of money and property	\$ 3,555	155,543	960
Miscellaneous			311,253
	<u>3,555</u>	<u>7,918,990</u>	<u>3,455,633</u>
Total revenues			
Expenditures:			
General government			
Capital outlay	366	1,665,380	4,155,359
Debt service:			
Principal		102,366	
Interest and fiscal charges		46,543	
	<u>366</u>	<u>1,814,289</u>	<u>4,155,359</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	3,189	6,104,701	(699,726)
Other financing sources:			
Transfers in			9,540
	<u>-</u>	<u>-</u>	<u>9,540</u>
Total other financing sources			
Extraordinary loss			
	<u>3,189</u>	<u>6,104,701</u>	<u>(690,186)</u>
Net change in fund balances			
Fund balances, beginning	272,236	6,594,590	1,480,137
Fund balances, ending	<u>\$ 275,425</u>	<u>12,699,291</u>	<u>789,951</u>

Redevelopment Agency Capital Projects	Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
		6,329,362		9,472,782
				7,763,447
175,748	132	8,900	3,701	348,539
				311,253
175,748	132	6,338,262	3,701	17,896,021
458,486				458,486
1,331,984		4,784,394		11,937,483
				102,366
				46,543
1,790,470	-	4,784,394	-	12,544,878
(1,614,722)	132	1,553,868	3,701	5,351,143
				9,540
-	-	-	-	9,540
(25,822,586)				(25,822,586)
(27,437,308)	132	1,553,868	3,701	(20,461,903)
27,437,308	712,062	772,988	260,223	37,529,544
-	712,194	2,326,856	263,924	17,067,641

CITY OF SAN MARCOS
Combining Balance Sheet
All Agency Funds
June 30, 2012

	1915 Act Assessment District	Deposits	Twin Oaks Reimbursement	Community Facilities District 88-1
Assets				
Cash and investments	\$ 56,556	3,469,805	10,782	1,062
Cash and investments with fiscal agents				4,382,248
Receivables:				
Accounts		13,728		
Special assessments				9,054
Interest	68			18
Total assets	<u>\$ 56,624</u>	<u>3,483,533</u>	<u>10,782</u>	<u>4,392,382</u>
Liabilities				
Due to bondholders	\$ 56,624			4,392,382
Deposits payable		3,483,533	10,782	
Total liabilities	<u>\$ 56,624</u>	<u>3,483,533</u>	<u>10,782</u>	<u>4,392,382</u>

Community Facilities District 99-1	Community Facilities District 02-01	Total
27,888	5,100	3,571,193
10,337,526	1,301,064	16,020,838
		13,728
34,022	4,894	47,970
40	43	169
10,399,476	1,311,101	19,653,898
10,399,476	1,311,101	16,159,583
		3,494,315
10,399,476	1,311,101	19,653,898

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>1915 ACT Assessment District</u>				
Assets:				
Cash and investments	\$ 55,897	676	17	56,556
Interest receivable	110	68	110	68
Total assets	<u>\$ 56,007</u>	<u>744</u>	<u>127</u>	<u>56,624</u>
Liabilities:				
Due to bondholders	<u>\$ 56,007</u>	<u>744</u>	<u>127</u>	<u>56,624</u>
 <u>Deposits</u>				
Assets:				
Cash and investments	\$ 2,994,324	1,493,877	1,018,396	3,469,805
Accounts receivable		13,728		13,728
Interest receivable	535		535	
Total assets	<u>2,994,859</u>	<u>1,507,605</u>	<u>1,018,931</u>	<u>3,483,533</u>
Liabilities:				
Deposits payable	<u>\$ 2,994,859</u>	<u>1,507,605</u>	<u>1,018,931</u>	<u>3,483,533</u>
 <u>Twin Oaks Reimbursement</u>				
Assets:				
Cash and investments		10,782		10,782
Total assets	<u>\$ -</u>	<u>10,782</u>	<u>-</u>	<u>10,782</u>
Liabilities:				
Deposits payable	<u>\$ -</u>	<u>10,782</u>	<u>-</u>	<u>10,782</u>

(Continued)

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds (Continued)
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Community Facilities District 88-1</u>				
Assets:				
Cash and investments	\$ 7	2,719,813	2,718,758	1,062
Cash and investments with fiscal agents	4,866,768	6,156,413	6,640,933	4,382,248
Special assessments receivable	18,819	9,054	18,819	9,054
Interest receivable	48,856	16	48,854	18
	<u>\$ 4,934,450</u>	<u>8,885,296</u>	<u>9,427,364</u>	<u>4,392,382</u>
Total assets				
Liabilities:				
Due to bondholders	<u>\$ 4,934,450</u>	<u>8,885,296</u>	<u>9,427,364</u>	<u>4,392,382</u>
<u>Community Facilities District 99-1</u>				
Assets:				
Cash and investments	\$ 2,825	6,548,072	6,523,009	27,888
Cash and investments with fiscal agents	10,313,147	16,882,770	16,858,391	10,337,526
Special assessments receivable	25,278	34,022	25,278	34,022
Interest receivable	9,607	40	9,607	40
	<u>\$ 10,350,857</u>	<u>23,464,904</u>	<u>23,416,285</u>	<u>10,399,476</u>
Total assets				
Liabilities:				
Due to bondholders	<u>\$ 10,350,857</u>	<u>23,464,904</u>	<u>23,416,285</u>	<u>10,399,476</u>

(Continued)

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds (Continued)
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Community Facilities District 02-01</u>				
Cash and investments	\$ 25,157	2,965,396	2,985,453	5,100
Cash and investments with fiscal agents	2,732,550	4,070,582	5,502,068	1,301,064
Special assessments receivable	4,535	4,894	4,535	4,894
Interest receivable	2,870	43	2,870	43
	<u>2,765,112</u>	<u>7,040,915</u>	<u>8,494,926</u>	<u>1,311,101</u>
Total assets	\$ 2,765,112	7,040,915	8,494,926	1,311,101
Liabilities:				
Due to bondholders	\$ 2,765,112	7,040,915	8,494,926	1,311,101
	<u>2,765,112</u>	<u>7,040,915</u>	<u>8,494,926</u>	<u>1,311,101</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 3,078,210	13,738,616	13,245,633	3,571,193
Cash and investments with fiscal agents	17,912,465	27,109,765	29,001,392	16,020,838
Accounts receivable		13,728		13,728
Special assessments receivable	48,632	47,970	48,632	47,970
Interest receivable	61,978	167	61,976	169
	<u>21,101,285</u>	<u>40,910,246</u>	<u>42,357,633</u>	<u>19,653,898</u>
Total assets	\$ 21,101,285	40,910,246	42,357,633	19,653,898
Liabilities:				
Due to bondholders	\$ 18,106,426	39,391,859	41,338,702	16,159,583
Deposits payable	2,994,859	1,518,387	1,018,931	3,494,315
	<u>21,101,285</u>	<u>40,910,246</u>	<u>42,357,633</u>	<u>19,653,898</u>
Total liabilities	\$ 21,101,285	40,910,246	42,357,633	19,653,898

CITY OF SAN MARCOS
Combining Statement of Changes in Fiduciary Net Assets by Project Area
Private-Purpose Trust Funds
June 30, 2012

	Redevelopment Retirement Obligation Trust Fund Housing	Redevelopment Retirement Obligation Trust Fund Project Area #1	Redevelopment Retirement Obligation Trust Fund Project Area #2	Redevelopment Retirement Obligation Trust Fund Project Area #3	Total Private- Purpose Trust Funds
Assets:					
Current Assets:					
Cash and investments	\$ 9,864,992	\$ (635,775)	\$ 16,846,650	\$ 19,623,614	\$ 45,699,481
Receivables:					
Accounts			15,000		15,000
Notes		696,339			696,339
Interest	3,616		19,986	22,625	46,227
Direct financing lease		1,438,082	898,801	1,258,375	3,595,258
Deferred charges	640,526	1,756,791	1,185,700	2,136,665	5,719,682
Total current assets	10,509,134	3,255,437	18,966,137	23,041,279	55,771,987
Restricted assets:					
Cash and investments with fiscal agents	5,108,691	6,551,047	19,957,577	33,269,772	64,887,087
Interfund advances		(7,651,880)		7,651,880	
Total restricted assets	5,108,691	(1,100,833)	19,957,577	40,921,652	64,887,087
Capital assets:					
Land	1,042,443		2,690,146	1,189,029	4,921,618
Equipment				73,541	73,541
Construction in progress	4,104			1,407,562	1,411,666
Total capital assets	1,046,547	-	2,690,146	2,670,132	6,406,825
Total assets	16,664,372	2,154,604	41,613,860	66,633,063	127,065,899
Liabilities:					
Current liabilities:					
Accounts payable	6,624,700	3,551,245	2,128,029	7,644,932	19,948,906
Accrued liabilities	16,537	4,357	4,355	4,357	29,606
Accrued interest payable	491,643	2,005,280	1,443,369	2,143,004	6,083,296
Due to other taxing entities		1,145,812	3,507,300	2,175,556	6,828,668
Noncurrent liabilities:					
Due within one year	342,212	2,568,300	2,090,050	2,661,650	7,662,212
Due in more than one year	52,328,482	120,655,747	63,844,752	136,560,004	373,388,985
Total liabilities	59,803,574	129,930,741	73,017,855	151,189,503	413,941,673
Net assets:					
Held in trust for other taxing entities	\$ (43,139,202)	\$ (127,776,137)	\$ (31,403,995)	\$ (84,556,440)	\$ (286,875,774)

CITY OF SAN MARCOS
Combining Statement of Changes in Fiduciary Net Assets by Project Area
Private-Purpose Trust Funds
For the Year Ended June 30, 2012

	Redevelopment Retirement Obligation Trust Fund Housing	Redevelopment Retirement Obligation Trust Fund Project Area #1	Redevelopment Retirement Obligation Trust Fund Project Area #2	Redevelopment Retirement Obligation Trust Fund Project Area #3	Total Private- Purpose Trust Funds
Additions:					
Tax increment	1,841,345	756,468	422,160	1,299,285	4,319,258
Income from property and investments	38,238	8,814	11,729		58,781
Miscellaneous			15,000		15,000
Interfund Transfers	(364,476)		364,476		
Total additions	1,515,107	765,282	813,365	1,299,285	4,393,039
Deductions:					
General and administrative	385,760	171,248	137,355	185,918	880,281
Community development			304,238	14,571	318,809
Interest expense and fees	2,076,099	2,781,374	1,432,916	3,154,460	9,444,849
Total deductions	2,461,859	2,952,622	1,874,509	3,354,949	10,643,939
Extraordinary loss	(42,192,450)	(125,588,797)	(30,342,851)	(82,500,776)	(280,624,874)
Change in net position	(43,139,202)	(127,776,137)	(31,403,995)	(84,556,440)	(286,875,774)
Net assets, beginning	-	-	-	-	-
Net assets, ending	(43,139,202)	(127,776,137)	(31,403,995)	(84,556,440)	(286,875,774)

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.

CONTENTS	Page
Financial Trends	110
These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time.	
Revenue Capacity	120
These schedules contain information to help the reader assess one of the City's most significant local revenue source, the property tax.	
Debt Capacity	126
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and its ability to issue additional debt in the future.	
Demographic and Economic Information	135
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	138
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.	

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		
	2005	2006	2007
Governmental Activities:			
Invested in capital assets, net of related debt	\$ 307,123,731	\$ 341,437,352	\$ 376,880,228
Restricted/expendable for:			
Capital projects	28,457,759		
Low and moderate income housing	56,344,305	67,616,923	81,735,288
Landscape Maintenance	4,876,677	6,888,685	8,722,189
Other purposes	3,104,720	3,287,401	3,937,485
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	(4,329,030)	7,941,869	13,628,356
Total governmental activities net assets	<u>\$ 396,578,162</u>	<u>\$ 428,172,230</u>	<u>\$ 485,903,546</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 30,590,054	\$ 30,219,195	\$ 29,836,841
Unrestricted	3,518,958	3,859,791	2,586,159
Total business-type activities net assets	<u>\$ 34,109,012</u>	<u>\$ 34,078,986</u>	<u>\$ 32,423,000</u>
Primary Government:			
Invested in capital assets, net of related debt	\$ 337,713,785	\$ 371,656,547	\$ 406,717,069
Restricted/expendable for:			
Capital projects	28,457,759	-	
Low and moderate income housing	56,344,305	67,616,923	81,735,288
Landscape Maintenance	4,876,677	6,888,685	8,722,189
Other purposes	3,104,720	3,287,401	3,937,485
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	(810,072)	11,801,660	16,214,515
Total primary government net assets	<u>\$ 430,687,174</u>	<u>\$ 462,251,216</u>	<u>\$ 518,326,546</u>

Note:

(1) The City implemented GASB 44 in fiscal year 2005. Therefore, ten years of data is not available.

Fiscal Year				
2008	2009	2010	2011	2012
\$ 430,516,043	\$ 460,101,619	\$ 484,423,039	\$ 499,416,669	\$ 658,296,750
99,574,127	115,805,089	120,917,457	119,927,089	163,429,723
8,662,907	8,999,420	8,514,304	9,032,742	9,389,874
4,012,114	3,904,177	4,378,971	6,026,400	6,506,958
1,000,000	905,850	1,023,850	1,244,590	1,147,835
8,782,155	2,504,296	(11,409,150)	(6,504,167)	64,955,219
<u>\$ 552,547,346</u>	<u>\$ 592,220,451</u>	<u>\$ 607,848,471</u>	<u>\$ 629,143,323</u>	<u>\$ 903,726,359</u>
\$ 29,454,485	\$ 29,072,130	\$ 28,689,775	\$ 28,307,420	\$ 27,925,065
3,464,423	6,698,002	8,442,809	8,052,471	6,319,042
<u>\$ 32,918,908</u>	<u>\$ 35,770,132</u>	<u>\$ 37,132,584</u>	<u>\$ 36,359,891</u>	<u>\$ 34,244,107</u>
\$ 459,970,528	\$ 489,173,749	\$ 513,112,814	\$ 527,724,089	\$ 686,221,815
99,574,127	115,805,089	120,917,457	119,927,089	163,429,723
8,662,907	8,999,420	8,514,304	9,032,742	9,389,874
4,012,114	3,904,177	4,378,971	6,026,400	6,506,958
1,000,000	905,850	1,023,850	1,244,590	1,147,835
12,246,578	9,202,298	(2,966,341)	1,548,304	71,274,261
<u>\$ 585,466,254</u>	<u>\$ 627,990,583</u>	<u>\$ 644,981,055</u>	<u>\$ 665,503,214</u>	<u>\$ 937,970,466</u>

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

	Fiscal Year			
	2005	2006	2007	2008
Expenses:				
Governmental Activities:				
General government	\$ 8,712,101	\$ 10,209,504	\$ 12,936,083	\$ 14,175,161
Community development	9,493,749	4,559,304	6,445,848	4,912,297
Public safety	19,739,954	23,522,750	25,457,293	27,983,233
Highways, streets and parks	37,769,998	50,801,530	39,763,214	30,364,607
Culture and recreation	2,448,993	2,728,120	2,940,238	3,008,578
Interest on long-term debt	13,778,060	15,377,060	17,108,204	17,742,768
Total governmental activities expenses	91,942,855	107,198,268	104,650,880	98,186,644
Business-type activities:				
Creskide Marketplace	771,116	1,170,953	1,136,959	1,002,389
Utility	47,908	20,395		
Total business-type activities expenses	819,024	1,191,348	1,136,959	1,002,389
Total primary government expenses	92,761,879	108,389,616	105,787,839	99,189,033
Program Revenues:				
Governmental Activities:				
Charges for services:				
General government (3)	4,753,376	5,233,634	6,116,176	7,347,275
Community development (3)	8,411,715	5,787,928	2,996,263	2,037,057
Public safety	6,395,110	6,846,519	7,191,131	7,582,159
Highways, streets and parks (2) (3)	5,197,553	6,452,402	6,768,511	6,664,978
Culture and recreation (2)	1,210,905	1,372,086	1,502,296	1,544,763
Operating grants and contributions	2,151,934	2,533,966	2,802,258	2,505,258
Capital contributions and grants	65,927,749	30,747,184	38,214,638	44,448,900
Total governmental activities program revenues	94,048,342	58,973,719	65,591,273	72,130,390
Business-type activities:				
Charges for services:				
Creskide Marketplace	3,435,437	3,954,995	4,192,527	4,069,128
Total business-type activities program revenues	3,435,437	3,954,995	4,192,527	4,069,128
Total primary government program revenues	97,483,779	62,928,714	69,783,800	76,199,518
Net (expenses) revenues:				
Governmental activities	(48,224,549)	(39,059,607)	(26,056,254)	(47,527,759)
Business-type activities	2,763,647	3,055,568	3,066,739	2,717,184
Total primary government net (expenses)/revenues	(45,460,902)	(36,004,039)	(22,989,515)	(44,810,575)

Notes:

- (1) The City implemented GASB 44 in fiscal year 2005. 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			
2009	2010	2011	2012
\$ 14,639,790	\$ 15,990,955	\$ 18,106,693	\$ 16,992,317
4,815,602	6,366,892	5,739,531	28,586,547
28,733,922	28,603,083	28,216,005	32,163,467
26,532,368	25,046,164	26,408,488	22,057,522
3,124,741	3,014,690	3,079,743	3,163,230
15,984,417	15,307,372	16,325,714	9,399,083
93,830,840	94,329,156	97,876,174	112,362,166
1,072,662	1,207,245	1,296,182	1,060,528
1,072,662	1,207,245	1,296,182	1,060,528
94,903,502	95,536,401	99,172,356	113,422,694
7,121,094	8,017,989	7,569,325	8,811,334
1,501,973	1,568,683	2,131,886	5,179,421
8,293,907	7,623,734	7,266,747	8,012,187
6,744,066	6,793,677	7,150,548	6,943,057
1,590,115	1,825,778	1,837,906	1,878,137
2,135,832	2,392,703	3,547,679	3,333,506
18,916,094	25,090,511	15,027,697	20,273,816
46,303,081	53,313,075	44,531,788	54,431,458
3,789,846	3,639,134	3,523,109	3,907,546
3,789,846	3,639,134	3,523,109	3,907,546
50,092,927	56,952,209	48,054,897	58,339,004
(41,016,081)	(41,016,081)	(53,344,386)	(57,930,708)
2,431,889	2,431,889	2,226,927	2,847,018
(38,584,192)	(38,584,192)	(51,117,459)	(55,083,690)

(Continued)

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

	Fiscal Year			
	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets:				
Governmental activities:				
Taxes:				
Property taxes	9,261,347	11,502,364	12,716,298	13,146,445
Tax increment, net	27,029,309	34,534,046	41,975,892	45,397,153
Sales taxes	14,906,391	16,329,030	16,153,930	15,615,135
Transient occupancy taxes	282,909	327,632	363,885	383,001
Franchise taxes	1,845,266	1,995,384	2,210,341	2,148,183
Gain/(Loss) on sale of capital assets				
Motor Vehicle license fees	1,515,555	476,482	448,352	356,472
Investment income	5,906,949	9,259,909	15,899,432	11,275,635
Other	2,158,669	2,405,041	2,022,793	1,628,030
Transfers	(5,781,245)	2,988,729	5,000,000	2,750,000
Extraordinary Gain				
Total governmental activities	<u>57,125,150</u>	<u>79,818,617</u>	<u>96,790,923</u>	<u>92,700,054</u>
Business-type activities:				
Investment income	31,982	195,056	288,446	179,169
Transfers	<u>5,781,245</u>	<u>(2,988,729)</u>	<u>(5,000,000)</u>	<u>(2,750,000)</u>
Total business-type activities	<u>5,813,227</u>	<u>(2,793,673)</u>	<u>(4,711,554)</u>	<u>(2,570,831)</u>
Total primary government	<u>62,938,377</u>	<u>77,024,944</u>	<u>92,079,369</u>	<u>90,129,223</u>
Change in Net Assets:				
Governmental activities	8,900,601	40,759,010	70,734,669	45,172,295
Business-type activities	<u>8,576,874</u>	<u>261,895</u>	<u>(1,644,815)</u>	<u>146,353</u>
Total primary government	<u>\$ 17,477,475</u>	<u>\$ 41,020,905</u>	<u>\$ 69,089,854</u>	<u>\$ 45,318,648</u>

Fiscal Year			
2009	2010	2011	2012
12,718,633	12,490,217	12,373,080	12,734,479
45,214,569	21,315,468	36,294,755	11,896,531
13,432,391	12,269,791	13,091,860	13,836,852
330,412	298,459	610,460	713,538
2,442,412	2,482,704	2,677,551	2,713,099
3,180,648		67,970	
283,349	246,496	382,275	42,071
6,226,240	4,397,830	4,583,907	3,692,241
3,372,210	1,943,136	1,390,381	1,160,059
	1,200,000	3,167,000	5,100,000
			280,624,874
87,200,864	56,644,101	74,639,239	332,513,744
134,040	130,563	167,380	137,198
	(1,200,000)	(3,167,000)	(5,100,000)
134,040	(1,069,437)	(2,999,620)	(4,962,802)
87,334,904	55,574,664	71,639,619	327,550,942
46,184,783	15,628,020	21,294,853	274,583,036
2,565,929	1,362,452	(772,693)	(2,115,784)
\$ 48,750,712	\$ 16,990,472	\$ 20,522,160	\$ 272,467,252

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

	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund:					
Pre-GASB 54:					
Reserved for:					
Noncurrent assets	\$ 11,699,500	\$ 11,812,000			\$ 13,397,269
Prepaid items	380,038	377,225	\$ 414,987	\$ 477,867	1,247,217
Deposits	562,587	571,066	583,314	607,328	637,832
Unreserved, designated	18,974,195	26,985,000	44,232,034	52,052,115	37,344,377
Unreserved, undesignated		87,323	5,367,873	5,461,289	6,208,292
GASB 54:					
Nonspendable					
Restricted					
Unassigned					
Total General Fund	<u>31,616,320</u>	<u>39,832,614</u>	<u>50,598,208</u>	<u>58,598,599</u>	<u>58,834,987</u>
All Other Governmental Funds:					
Pre-GASB 54:					
Reserved for:					
Noncurrent assets	16,162,467	15,631,543	13,650,334	13,210,952	13,090,353
Prepaid items					
Deposits					
Low and moderate income housing	15,756,971	19,020,746	25,165,312	33,719,308	46,474,660
Landscape maintenance	910,510	1,319,468	1,572,128	3,420,234	2,324,008
Debt service	11,420,167	8,904,716	4,994,488	4,660,884	4,682,091
Capital projects	53,264,147	47,801,292	123,338,627	131,608,970	120,276,053
Other purposes	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Unreserved, reported in:					
Special revenue funds	2,715,922	6,020,196	8,597,890	8,441,925	12,544,241
Debt service funds	(15,977,920)	(5,498,649)	14,256,219	28,238,856	40,577,486
Capital projects funds	8,192,525	(1,913,516)	(5,883,850)	(13,963,277)	(19,311,650)
Permanent fund	113,782	104,770	88,283	147,814	249,217
GASB 54:					
Nonspendable					
Restricted					
Unassigned					
Total all other governmental funds	<u>93,558,571</u>	<u>92,390,566</u>	<u>186,779,431</u>	<u>210,485,666</u>	<u>221,906,459</u>
Total governmental funds	<u>\$ 125,174,891</u>	<u>\$ 132,223,180</u>	<u>\$ 237,377,639</u>	<u>\$ 269,084,265</u>	<u>\$ 280,741,446</u>

Fiscal Year				
2008	2009	2010	2011	2012
\$ 13,397,269	\$ 13,397,269	\$ 13,447,269		
492,546	558,711	1,000,066		
723,685	771,931	1,001,672		
36,814,029	37,521,231	36,200,000		
6,045,355	6,058,840	5,995,245		
			\$ 19,463,456	\$ 16,924,452
			35,162,531	34,951,893
57,472,884	58,307,982	57,644,252	54,625,987	51,876,345
2,702,903	8,112,147	28,282,658		
542,923	640,408	102,982		
59,766,836	35,347,108	10,056,506		
5,368,912	5,845,298	5,845,298		
4,625,869	10,850,533	12,941,982		
90,471,205	68,302,091	45,462,977		
1,000,000	905,850	1,023,850		
9,489,562	10,127,713	6,468,443		
34,366,082	32,924,058	16,466,613		
212,545	(5,658,656)	(6,026,005)		
98,318				
			1,244,590	1,147,835
			164,514,929	81,486,140
208,645,155	167,396,550	120,625,304	165,759,519	82,633,975
\$ 266,118,039	\$ 225,704,532	\$ 178,269,556	\$ 220,385,506	\$ 134,510,320

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues:					
Taxes and special assessments	\$ 43,981,688	\$ 56,601,047	\$ 71,181,516	\$ 87,121,780	\$ 94,466,701
Licenses and permits	4,871,768	6,466,027	6,179,840	5,116,926	4,753,491
Intergovernmental	11,487,938	9,841,835	14,537,688	15,192,674	9,093,528
Charges for services	10,663,696	11,188,371	11,495,652	11,544,038	11,486,338
Developer fees	18,068,287	10,910,960	12,589,123	8,809,768	5,774,108
Fines and forfeitures	137,912	141,438	131,081	169,261	181,280
Use of money and property	6,081,552	6,477,568	9,380,735	13,474,072	19,676,632
Contributions from property owners	5,302,996	17,567,040	31,808,603		11,424,122
Miscellaneous	3,548,668	4,059,192	2,502,536	6,158,895	3,500,561
Total Revenues	104,144,505	123,253,478	159,806,774	147,587,414	160,356,761
Expenditures:					
Current:					
General government (3)	6,576,034	6,933,237	7,958,025	8,835,833	11,867,052
Community development (3)	7,463,021	8,450,713	10,164,579	6,903,003	6,888,307
Public safety	14,735,620	17,014,795	18,739,876	22,454,034	24,441,222
Highways, streets and parks (2) (3)	7,915,752	7,676,236	9,065,061	11,953,716	12,371,008
Culture and recreation (2)	2,047,676	1,995,952	2,221,286	2,424,190	2,708,416
Tax increment distrib. to other gov. agencies	9,232,309	12,199,149	16,644,360	20,603,185	19,001,916
SERAF payment					
Capital outlay	40,816,183	51,577,449	49,655,461	67,138,844	55,027,905
Debt service:					
Principal retirement	9,516,478	3,910,503	7,908,488	4,900,575	6,571,846
Interest and fiscal charges	10,863,390	10,879,082	14,154,572	13,420,348	16,988,635
Payment to bond escrow agent	7,033,707		5,031,723		
Cost of issuance	2,671,395		3,166,552	935,126	214,172
Total expenditures	118,871,565	120,637,116	144,709,983	159,568,854	156,080,479
Excess/(deficiency) of Revenues Over Expenditures	(14,727,060)	2,616,362	15,096,791	(11,981,440)	4,276,282
Other financing sources (uses):					
Long-term debt issued	94,101,743	4,375,123	129,992,578	40,717,247	8,752,626
Gain on sale of land held for resale	90,645	45,304	48,167	69,577	100,328
Premium on bonds issued	2,645,051		3,885,710		
Discount on bonds issued			(259,360)	(116,318)	(69,998)
Payment to bond escrow agent	(45,848,180)		(42,020,421)		(6,440,273)
Sale of capital assets	7,100	11,500	23,554	17,500	38,216
Transfers in	5,551,195	6,500,817	5,051,872	10,497,941	17,690,782
Transfers out	(5,551,195)	(6,500,817)	(6,664,372)	(7,497,941)	(12,690,782)
Extraordinary Loss					
Total other financing sources (uses)	50,996,359	4,431,927	90,057,728	43,688,006	7,380,899
Net Change in Fund Balances	\$ 36,269,299	\$ 7,048,289	\$ 105,154,519	\$ 31,706,566	\$ 11,657,181
Debt service as a percentage of noncapital expenditures	29.42%	18.11%	23.28%	14.43%	18.21%

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			
	2008	2009	2010	2011	2012
\$	97,363,686	\$ 94,097,283	\$ 87,852,421	\$ 87,336,566	\$ 44,811,128
	3,907,123	4,229,537	4,274,969	4,722,075	5,210,749
	6,587,388	10,406,686	6,816,194	10,725,506	14,657,647
	11,429,757	11,783,938	11,341,050	11,273,011	13,430,631
	1,776,517	3,773,174	2,860,402	3,734,747	8,822,043
	269,365	292,642	279,735	284,452	203,253
	19,925,978	11,422,319	9,248,874	9,656,305	8,710,563
	1,452,870	4,444,346	3,358,490	1,984,750	2,020,386
	142,712,684	140,449,925	126,032,135	129,717,412	97,866,400
	12,733,906	13,333,406	14,825,068	17,457,897	15,640,014
	8,761,007	43,870,002	17,085,690	10,223,010	17,717,361
	26,225,302	27,392,057	27,461,612	27,317,174	30,262,221
	15,223,370	15,455,033	14,040,659	13,379,798	14,053,498
	2,556,853	2,822,593	2,763,210	2,814,054	2,984,215
	18,747,685	18,086,645	37,060,348	16,266,743	410,877
				4,163,078	
	46,197,846	39,281,839	38,456,751	26,289,568	20,163,235
	11,079,781	9,481,695	9,325,010	9,566,685	9,903,628
	19,984,462	15,911,227	15,221,332	15,782,349	9,509,119
				674,238	
	161,510,212	185,634,497	176,239,680	143,934,594	120,644,168
	(18,797,528)	(45,184,572)	(50,207,545)	(14,217,182)	(22,777,768)
	1,441,826	730,998	330,709	54,779,110	
				67,970	
				(1,719,824)	
	30,541	3,991,821	1,241,860	38,876	23,611
	32,041,467	6,772,976	8,056,903	14,843,444	65,681,454
	(29,291,467)	(6,772,976)	(6,856,903)	(11,676,444)	(60,581,454)
	4,222,367	4,722,819	2,772,569	56,333,132	5,123,611
\$	(14,575,161)	\$ (40,461,753)	\$ (47,434,976)	\$ 42,115,950	\$ (17,654,157)
	23.41%	15.80%	16.08%	22.07%	20.52%

CITY OF SAN MARCOS
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	City (1)					Direct Tax Rate (3)
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value		
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	
2011	8,829,981,997	343,767,058	(432,933,115)	8,740,815,940	0.0883	
2012	8,908,023,695	342,676,146	(441,238,868)	8,809,460,973	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
\$ 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
5,593,688,336	285,261,217	(274,668,889)	5,604,280,664	1.00
5,653,565,275	283,043,617	(283,674,242)	5,652,934,650	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
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
2011	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200	1.0000
2012	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
0.0257 %	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
0.0559	1.0560
0.0994	1.0994

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

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
World Premier Investments	\$ 131,353,824	1	1.49 %			
Hunter Industries Inc.	95,326,094	2	1.08	\$ 40,311,769	1	0.90 %
Willmark Communities Inc.	79,724,086	3	0.90			
Urban Villages San Marcos LLC	61,819,098	4	0.70			
Camden USA Inc.	55,961,157	5	0.64			
San Elijo Hills Development Company	38,269,400	6	0.43			
Ralphs Grocery Company	35,252,670	7	0.40			
Autumn Terraces LLC	35,171,499	8	0.40			
Woodland Parkway Development LLC	32,676,352	9	0.37			
BLC of California - San Marcos LP	28,629,283	10	0.32			
Judd Wire, Inc.				29,864,196	2	0.66
Napp Systems USA Inc.				29,234,418	3	0.65
Edwards Theatres Circuit Inc.				22,033,159	4	0.49
Kaiser Foundation Hospitals				21,822,059	5	0.49
Prince Alpine Villa Proprties LP				21,744,360	6	0.48
Signet Armorlite Inc.				21,167,559	7	0.47
Kenneth G & Nancy M Walker Trust				20,703,034	8	0.46
Scripps Health				18,892,242	9	0.42
IGPX Mission Park Associates LP				18,744,601	10	0.42
Total	<u>\$ 594,183,463</u>		<u>6.74 %</u>	<u>\$ 244,517,397</u>		<u>5.44 %</u>

Source: Rosenow Spevacek Group, Inc.

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
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
2011	5,604,503	5,413,368	96.59	226,828	5,640,196	100.64
2012	5,645,057	5,477,833	97.04	130,736	5,608,569	99.35

Notes:

- (1) The amounts presented include City and Fire District property taxes.
(2) Includes prior years' delinquent collections, penalties and interest.

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

Fiscal Year	Governmental Activities				
	General Obligation Bonds	Revenue Bonds	Tax Allocation Bonds	Notes Payable	Capital Leases
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	-
2011	-	49,925,000	292,500,000	2,646,245	-
2012	-	48,400,000	286,765,000	2,243,406	-

Note:

(1) Details regarding the City's outstanding 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
\$	21,608,928	\$ 8,371,359	\$ 246,173,964	10.84 %	3,664
	24,667,706	7,979,128	247,046,354	9.54	3,395
	28,240,032	7,543,702	327,825,018	11.10	4,273
	32,335,372	6,947,144	363,845,127	11.08	4,559
	34,347,998	6,430,930	359,174,693	10.04	4,341
	31,611,278	5,877,439	348,983,247	9.27	4,197
	29,959,866	5,250,946	339,606,057	8.95	4,048
	27,807,535	4,577,183	329,937,992	8.70	3,894
	25,501,989	3,860,541	374,433,775	9.46	4,427
	23,196,443	3,143,899	363,748,748	9.19	4,251

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
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	-	51,395,000	245,215,000	(43,774,591)
2010	-	51,395,000	245,215,000	(29,408,595)
2011	-	49,925,000	292,500,000	(36,334,022)
2012	-	48,400,000	286,765,000	(70,772)

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
\$	209,665,000	4.854 %	3,120
	204,018,933	4.039	2,804
	268,844,233	4.380	3,504
	290,757,260	3.829	3,643
	270,945,423	3.023	3,275
	270,893,049	2.796	3,258
	252,835,409	2.650	3,014
	267,201,405	3.016	3,694
	306,090,978	3.502	3,619
	335,094,228	3.804	3,916

CITY OF SAN MARCOS
Direct and Overlapping Debt
As of June 30, 2012

2011-12 City Assessed Valuation: \$8,907,897,773
Redevelopment Incremental Valuation: 5,652,944,697
Adjusted Assessed Valuation: \$3,254,953,076

	Percentage	Outstanding Debt	Estimated
	Applicable (1)	June 30, 2011	Share of
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			Overlapping
Metropolitan Water District	0.179%	\$ 196,545,000	\$ 351,816
Palomar Community College District	4.190%	318,573,901	13,348,246
San Marcos Unified School District	39.144%	207,041,998	81,044,520
San Marcos Unified School District Facilities Improvement District No. 1	33.787%	10,333,019	3,491,217
San Marcos Unified School District Community Facilities District No. 2	100.00%	1,485,000	1,485,000
San Marcos Unified School District Community Facilities District No. 3	100.00%	1,710,000	1,710,000
San Marcos Unified School District Community Facilities District No. 4	64.163%	22,190,000	14,237,770
Other School Districts	Various	316,398,585	112,517
Palomar Pomerado Hospital	5.625%	479,863,205	26,992,305
City of San Marcos	100.00%	0	0
San Marcos Community Facilities District No. 88-1	100.00%	22,465,888	22,465,888
San Marcos Community Facilities District No. 91-01	100.00%	2,349,447	2,349,447
San Marcos Community Facilities District No. 99-01	100.00%	79,201,353	79,201,353
San Marcos Community Facilities District No. 2002-01	100.00%	18,060,000	18,060,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u>264,850,079</u>
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	0.94%	395,115,000	3,729,886
San Diego County Pension Obligations	0.94%	787,112,618	7,430,343
San Diego County Superintendent of Schools Obligations	0.94%	18,750,000	177,000
Palomar Community College District General Fund Obligations	4.19%	5,820,000	243,858
San Marcos Unified School District General Fund Obligations	39.14%	55,863,327	21,867,141
Other School District Certificates of Participation	Various	94,440,000	57,889
City of San Marcos General Fund Obligations	100.00%	48,400,000	48,400,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>81,906,117</u>
COMBINED TOTAL DEBT (2)			<u>\$ 346,756,196</u>

(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 2011-12 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.97%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$49,925,000)	1.49%
Combined Total Debt	10.65%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

Source: California Municipal Statistics, Inc.

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

	2003	2004	2005	2006	2007
Total assessed valuation	\$ 4,491,090,843	\$ 5,255,000,096	\$ 6,362,863,325	\$ 7,853,343,239	\$ 9,250,035,247
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,122,772,711	1,313,750,024	1,590,715,831	1,963,335,810	2,312,508,812
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	168,415,907	197,062,504	238,607,375	294,500,371	346,876,322
Total net debt applicable to limit: General obligation bonds	160,000	-	-	-	-
Legal debt margin	<u>\$ 168,255,907</u>	<u>\$ 197,062,504</u>	<u>\$ 238,607,375</u>	<u>\$ 294,500,371</u>	<u>\$ 346,876,322</u>
Total debt applicable to the limit as a percentage of debt limit	0.095%	0.000%	0.000%	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.

Fiscal Year				
2008	2009	2010	2011	2012
\$ 10,023,511,536	\$ 9,949,048,058	\$ 9,292,290,923	\$ 9,173,749,055	\$ 9,250,699,841
25%	25%	25%	25%	25%
2,505,877,884	2,487,262,015	2,323,072,731	2,293,437,264	2,312,674,960
15%	15%	15%	15%	15%
375,881,683	373,089,302	348,460,910	344,015,590	346,901,244
-	-	-	-	-
<u>\$ 375,881,683</u>	<u>\$ 373,089,302</u>	<u>\$ 348,460,910</u>	<u>\$ 344,015,590</u>	<u>\$ 346,901,244</u>
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				
Fiscal Year	Tax Increment Revenue	Debt Service (2)			Tax Increment Revenue (3)	Debt Service			Coverage
		Principal	Interest	Coverage		Principal	Interest	Coverage	
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	
2011	13,144,947	425,000	1,499,668	6.83	42,862,987	6,350,000	13,354,716	2.18	
2012	888,743	450,000	4,675,261	0.17	11,418,665	6,585,000	13,108,438	0.58	

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

Revenue	Debt Service			Coverage
	Principal	Interest		
\$ 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
469,490	215,000	254,490		1.00
470,690	225,000	245,690		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)
2003	31.33	63,591	4.84	\$ 2,272,021,700	\$ 35,620	4.90
2004	31.33	67,048	5.44	2,589,310,912	38,536	4.50
2005	31.37	72,564	8.23	2,952,124,992	40,569	4.10
2006	31.37	76,303	5.15	3,283,599,825	42,797	4.00
2007	33.10	79,273	3.89	3,578,131,584	44,832	4.60
2008	33.10	82,116	3.59	3,763,813,584	45,488	6.00
2009	33.10	82,879	0.93	3,794,088,870	45,630	9.60
2010	33.10	83,781	1.09	3,865,692,500	46,075	10.53
2011	33.10	84,586	0.96	3,958,624,800	46,800	10.00
2012	33.07	85,569	1.16	(1)	(1)	9.05

(1) Personal income and per capita personal income data for 2012 are unavailable.

(2) Final unemployment rate for 2012 is unavailable; rate presented is average unemployment rate for 10 months of 2012.

(3) Data presented is for San Diego/Carlsbad/San Marcos economic area.

Sources:

Population information provided by the State Department of Finance.

Personal income data provided by the U.S. Department of Commerce.

Unemployment data provided by the California Employment Development Department

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

Employer	2012			2003		
	Number of Employees	Rank	Percent of Total Employment (1)	Number of Employees	Rank	Percent of Total Employment (1)
Hunter Industries, Inc.	729	1	2.53%	814	1	2.94%
United Parcel Service	434	2	1.51%	431	2	1.56%
Wal-Mart	359	3	1.25%			
So. CA Permanente Med Group	301	4	1.04%			
Lusardi Construction Co	300	5	1.04%			
Vanpike, Inc.	286	6	0.99%	181	15	0.65%
Fry's Electronics	276	7	0.96%	300	4	1.08%
Costco Wholesale	267	8	0.93%	251	6	0.91%
Oncore Manufacturing Services	257	9	0.89%			
RB III Associates, Inc.	237	10	0.82%	250	7	0.90%
University Aux. & Research Svcs. (2)	230	11	0.80%	230	9	0.83%
24 Hour Fitness	221	12	0.77%			
Falmat Inc.	200	13	0.69%			
Fluid Components Intl., LLC	200	14	0.69%	150	17	0.54%
Hughes Circuits Inc	194	15	0.67%			
Plum Health Care Group	187	16	0.65%			
Signet Armorlite, Inc.	184	17	0.64%	425	3	1.53%
Hollandia Dairy Inc.	180	18	0.62%	222	10	0.80%
K-Tech Machine, Inc.	150	19	0.52%			
Diamond Environmental Svcs LP	150	20	0.52%			
South Coast Framers				230	8	0.83%
Walker Wood Products, Inc.				275	5	0.99%
Home Depot				200	11	0.72%
Stonecraft Industries LLC				198	12	0.71%
Jacques Gourmet				198	13	0.71%
Ortho Organizers, Inc.				194	14	0.70%
Quadra Med Corporation				160	16	0.58%
Edward Theaters Inc.				150	18	0.54%
Napp Systems, Inc.				150	19	0.54%
Rex Industries				125	20	0.45%
Total	5,342		18.53%	5,134		18.53%

Note:

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

(2) Formerly the "CA State University SM Foundation."

Sources: City of San Marcos Business License Directory.
California Employment Development Department.

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

Function/Program:	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General government	35	33	35	37	45	51	50	60	59	55
Community development	34	33	38	44	43	40	37	44	39	38
Public safety (1)	55	64	72	85	84	91	94	101	97	92
Highways, streets and parks	67	69	73	76	87	77	66	71	76	77
Culture and recreation	<u>106</u>	<u>128</u>	<u>153</u>	<u>137</u>	<u>126</u>	<u>141</u>	<u>126</u>	<u>120</u>	<u>128</u>	<u>126</u>
Total	<u><u>297</u></u>	<u><u>327</u></u>	<u><u>371</u></u>	<u><u>379</u></u>	<u><u>385</u></u>	<u><u>400</u></u>	<u><u>373</u></u>	<u><u>396</u></u>	<u><u>399</u></u>	<u><u>388</u></u>

Notes:

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

Source: City Finance Department.

CITY OF SAN MARCOS
Operating Indicators by Function (1)
Last Seven Fiscal Years (2)

<u>Function/Program</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
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.

<u>2010-11</u>	<u>2011-12</u>
5,330	5,455
202	270
93	86
13,020	11,810
6,928	7,382
2,101	2,367
36	24
3	1
14,976	14,976
-	-
474	580
757	761
34,494	40,820
35,105	38,897
18,105	13,714
13,295	14,031
618	866
24,888	28,466
878	814

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

<u>Function/Program</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Public Safety:						
Police (1)						
Fire						
Number of fire stations	3	3	3	4	4	4
Number of emergency vehicles	26	26	29	32	33	35
Highways and Streets:						
Miles of streets	175	175	200	212	236	236
Number of street lights	2,202	2,267	2,383	2,428	2,600	2,625
Culture and Recreation:						
Parks	24	25	27	27	28	28
Acres of park land	279	317	331	336	366	373
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.
- (2) An audit of the City's street inventory was conducted during the fiscal year and it was determined that private streets were being included in the total miles of streets. Private streets have now been removed from the total.

Sources: Various City departments.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
4	4	4	4	
33	40	31	32	
236	236	241	194	(2)
2,645	2,659	2,695	2,691	
30	32	33	34	
373	377	379	380	
2	2	2	2	