

City of SAN MARCOS CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2011

City of San Marcos

California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011



City Manager | Paul Malone
Finance Director | Laura Rocha

Prepared by the City of San Marcos Finance Department.

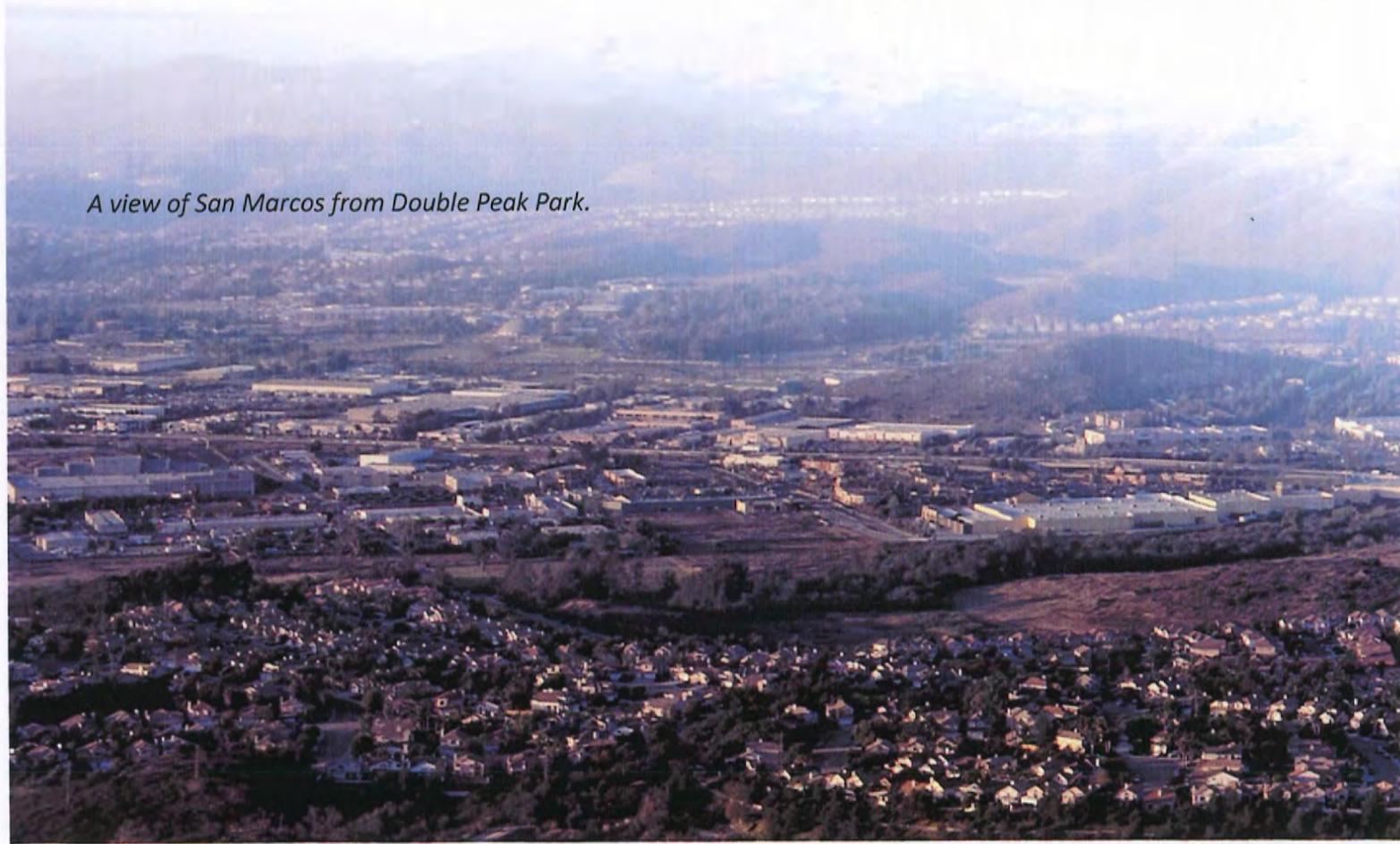
City of San Marcos

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.”

A view of San Marcos from Double Peak Park.



CITY OF SAN MARCOS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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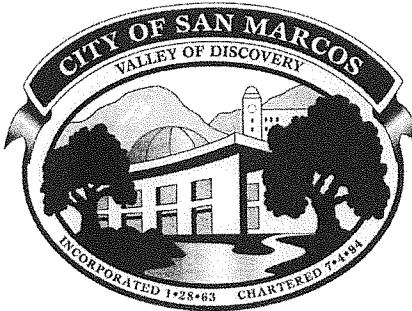
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February 29, 2012

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 2010-11 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 60,656 to 84,734, for an average annual growth of 3.96%. According to the San Diego Association of Governments, San Marcos will continue to be one of the fastest growing cities in San Diego County over the next 20 years.

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

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

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

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

LOCAL ECONOMY

The City of San Marcos has a well-balanced land use mix as a result of a comprehensive general plan update completed during fiscal year 1987-88. The ten top employers within the City in 2011 were Hunter Industries Inc., United Parcel Service, Oncore Manufacturing Services, Wal-mart, Lusardi Construction Co., PCL Construction Inc., Fry's Electronics, Southern California Permanente Medical Group, Costco Wholesale, and Vanpike Inc.

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

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

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

LONG-TERM FINANCIAL PLANNING

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

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

RELEVANT FINANCIAL POLICIES

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

MAJOR INITIATIVES

In the fall of 2009, the City kicked off a comprehensive update of its General Plan. The General Plan establishes a framework for achieving the City's goals for the future. Topics addressed in the General Plan include land use and development, transportation, open spaces and resource conservation. In this process, the City will be paying special attention to its long-term strategies for greenhouse gas emissions reduction and environmental sustainability. A comprehensive public participation program has been established so that the General Plan reflects the goals of the community. The General Plan is expected to be adopted in spring of 2012.

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

AWARDS AND ACKNOWLEDGEMENTS

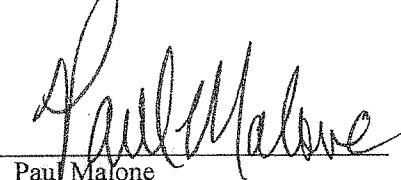
Award Programs.... The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Marcos for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

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

Respectfully submitted,

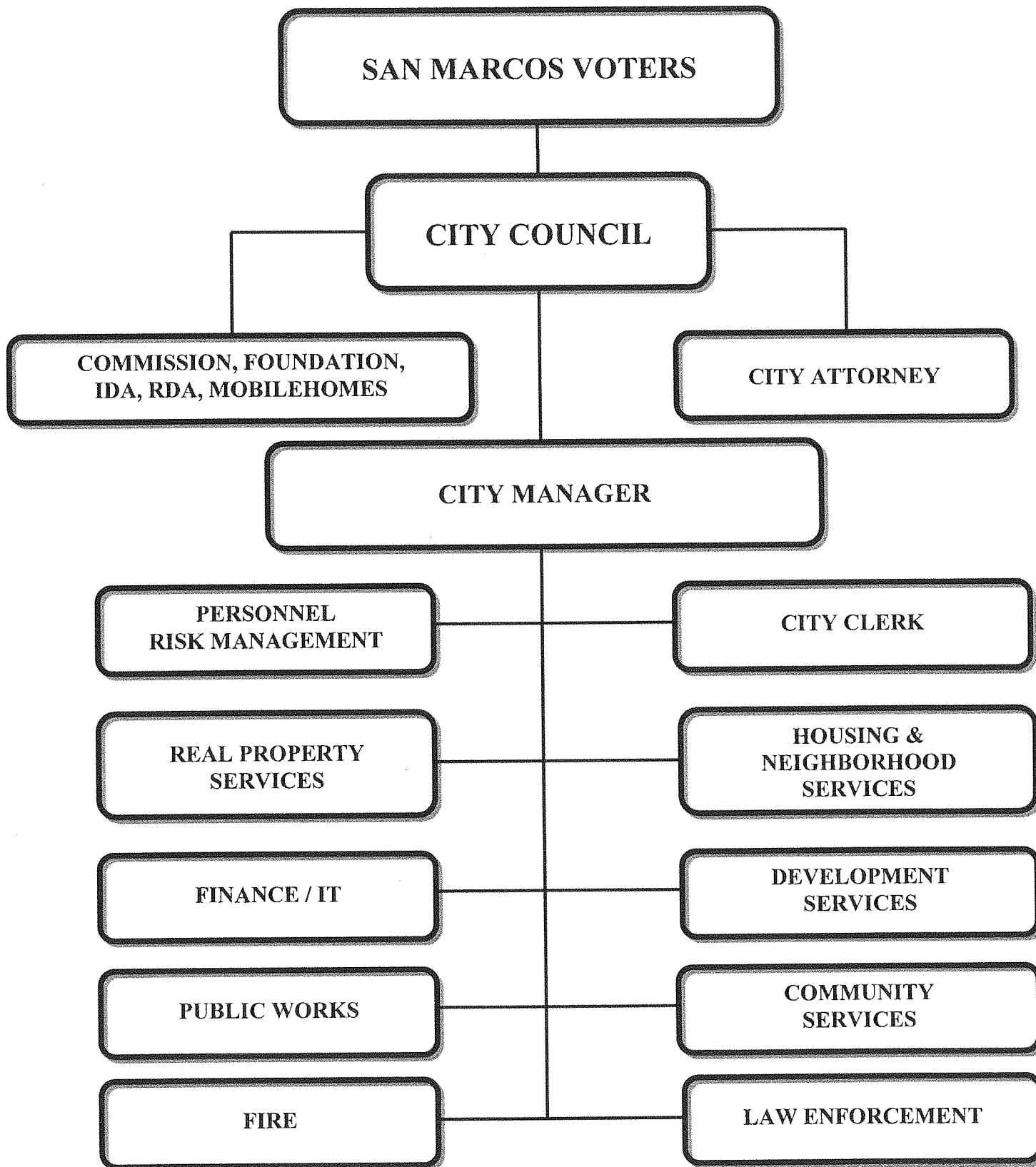


Paul Malone
City Manager



Laura Rocha, Finance Director

CITY OF SAN MARCOS
Organizational Chart
June 30, 2011



CITY OF SAN MARCOS LIST OF PRINCIPAL OFFICIALS

City Council

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

Administration

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

Department/Division Heads

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of San Marcos
California**

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

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.

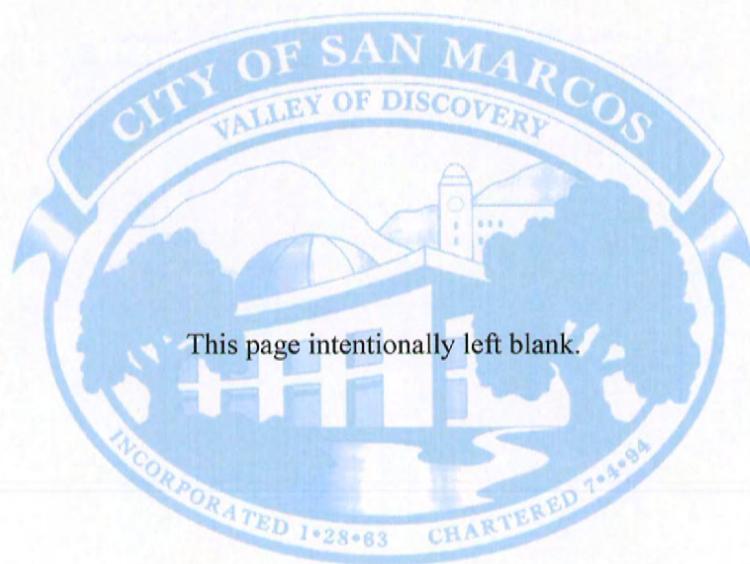


Linda C. Danison

President

Jeffrey P. Evans

Executive Director





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City Council
City of San Marcos, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of San Marcos. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, California, as of June 30, 2011, 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.

As discussed further in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the reporting fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Marcos's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial



City Council
City of San Marcos, California
Page Two

statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report on February 29, 2012 on our consideration of the City of San Marcos's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffmann McLennan A.C.

Irvine, California
February 29, 2012

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, 2011. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the City operates like a business, i.e. the Municipal Utility and the Creekside Marketplace Funds.
 - *Fiduciary funds* statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as an *agent* for the benefit of others, to whom the resources in question belong.

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

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities

in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental activities – Most of the City's basic services are reported in this category, such as general government, community development, public safety, highways and streets, and culture and recreation. Sales taxes, property taxes, state subventions, charges for services and other revenues finance most of these activities.
- Business-type activities – The City accounts for the Creekside Marketplace Shopping Center and the Discovery Valley Utility activities as business enterprises. The shopping center is owned and operated by the City and its principal source of income is rental revenue. The City's intent for the Discovery Valley Utility enterprise is to eventually charge a fee to customers to help it cover all or most of the cost of the services accounted for in this fund.

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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 373,540,026	\$ 322,105,503	\$ 8,971,766	\$ 9,368,475	\$ 382,511,792	\$ 331,473,978
Capital assets, net	669,740,280	654,270,555	28,307,420	28,689,775	698,047,700	682,960,330
Total assets	1,043,280,306	976,376,058	37,279,186	38,058,250	1,080,559,492	1,014,434,308
Long-term debt	376,320,497	334,405,969			376,320,497	334,405,969
Other liabilities	37,816,486	34,121,618	919,295	925,666	38,735,781	35,047,284
Total liabilities	414,136,983	368,527,587	919,295	925,666	415,056,278	369,453,253
Net assets:						
Invested in capital assets,						
net of related debt	499,416,669	484,423,039	28,307,420	28,689,775	527,724,089	513,112,814
Restricted	136,230,821	134,834,582			136,230,821	134,834,582
Unrestricted	(6,504,167)	(11,409,150)	8,052,471	8,442,809	1,548,304	(2,966,341)
Total net assets	\$ 629,143,323	\$ 607,848,471	\$ 36,359,891	\$ 37,132,584	\$ 665,503,214	\$ 644,981,055

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 \$665.5 million at the close of the fiscal year.

The largest portion of the City's net assets (\$527.7 million or 79.3%) 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 (\$136.2 million or 20.5%) 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 \$1.55 million at the end of the fiscal year. Overall, the City's net assets increased by \$20.5 million (3.18%) 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	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 25,956,412	\$ 25,829,861	\$ 3,523,109	\$ 3,639,134	\$ 29,479,521	\$ 29,468,995
Operating contributions and grants	3,547,679	2,392,703			3,547,679	2,392,703
Capital contributions and grants	15,027,697	25,090,511			15,027,697	25,090,511
General revenues:						
Property taxes	12,373,080	12,490,217			12,373,080	12,490,217
Tax increment, net	36,294,755	21,315,468			36,294,755	21,315,468
Sales taxes	13,091,860	12,269,791			13,091,860	12,269,791
Transient occupancy taxes	610,460	298,459			610,460	298,459
Franchise taxes	2,677,551	2,482,704			2,677,551	2,482,704
Gain on sale of land held	67,970				67,970	-
Motor vehicle license fees	382,275	246,496			382,275	246,496
Investment income	4,583,907	4,391,803	167,380	130,563	4,751,287	4,522,366
Other	1,390,381	1,943,136			1,390,381	1,943,136
Total revenues	<u>116,004,027</u>	<u>108,751,149</u>	<u>3,690,489</u>	<u>3,769,697</u>	<u>119,694,516</u>	<u>112,520,846</u>
Expenses						
General government	18,106,693	15,990,955			18,106,693	15,990,955
Community development	5,739,531	6,366,892			5,739,531	6,366,892
Public safety	28,216,005	28,603,083			28,216,005	28,603,083
Highways, streets and par	26,408,488	25,046,164			26,408,488	25,046,164
Culture and recreation	3,079,743	3,014,690			3,079,743	3,014,690
Interest on long-term debt	16,325,714	15,301,345			16,325,714	15,301,345
Creekside Marketplace			1,296,182	1,207,245	1,296,182	1,207,245
Total expenses	<u>97,876,174</u>	<u>94,323,129</u>	<u>1,296,182</u>	<u>1,207,245</u>	<u>99,172,356</u>	<u>95,530,374</u>
Increase in net assets before transfers	18,127,853	14,428,020	2,394,307	2,562,452	20,522,160	16,990,472
Transfers	<u>3,167,000</u>	<u>1,200,000</u>	<u>(3,167,000)</u>	<u>(1,200,000)</u>		
Change in net assets	21,294,853	15,628,020	(772,693)	1,362,452	20,522,160	16,990,472
Net assets, beginning	<u>607,848,470</u>	<u>592,220,451</u>	<u>37,132,584</u>	<u>35,770,132</u>	<u>644,981,054</u>	<u>627,990,583</u>
Net assets, ending	<u>\$ 629,143,323</u>	<u>\$ 607,848,471</u>	<u>\$ 36,359,891</u>	<u>\$ 37,132,584</u>	<u>\$ 665,503,214</u>	<u>\$ 644,981,055</u>

Governmental Activities

The cost of all Governmental Activities in the current fiscal year was \$97.9 million. As shown on the Statement of Activities, \$26 million of the cost was paid by those who directly benefited from the programs, \$18.6 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$62.4 million was subsidized through taxes.

The City reported program revenues of \$44.5 million and general revenues of \$71.5 million. Overall, the City's financial position has improved from the previous year.

The following table summarizes and presents governmental activities revenue by source and percentages for the fiscal year ended June 30, 2011 along with the percentage changes from the preceding year:

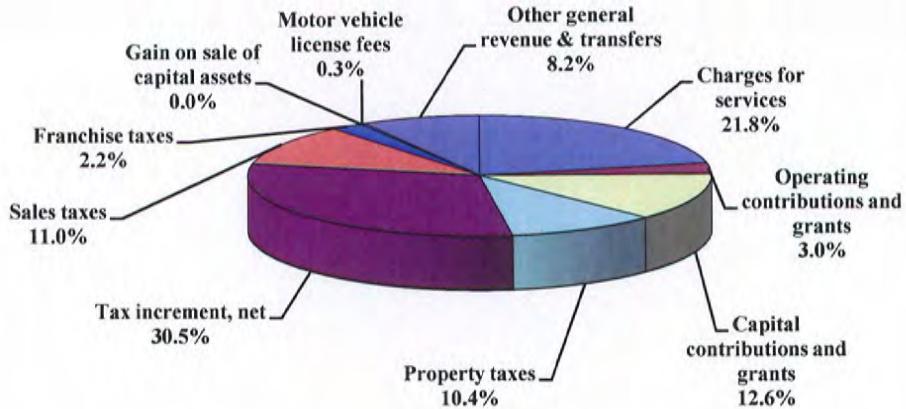
GOVERNMENTAL ACTIVITIES

Revenue by Source

REVENUE SOURCE	Fiscal Year 2010-2011	Percent of Total	Increase (Decrease)		Percent Increase (Decrease)
			From 2009-2010	2009-2010	
Charges for services	\$ 25,956,412	21.8%	\$ 126,551	0.5%	
Operating contributions and grants	3,547,679	3.0%	1,154,976	48.3%	
Capital contributions and grants	15,027,697	12.6%	(10,062,814)	-40.1%	
Property taxes	12,373,080	10.4%	(117,137)	-0.9%	
Tax increment, net	36,294,755	30.5%	14,979,287	70.3%	
Sales taxes	13,091,860	11.0%	822,069	6.7%	
Franchise taxes	2,677,551	2.2%	194,847	7.8%	
Gain on sale of capital assets		0.0%	-	0.0%	
Motor vehicle license fees	382,275	0.3%	135,779	55.1%	
Other general revenue & transfers	9,819,718	8.2%	1,986,320	25.4%	
TOTAL REVENUE	\$ 119,171,027	100.0%	\$ 9,219,878		8.4%

GOVERNMENTAL ACTIVITIES

Revenue by Source Fiscal Year 2010-2011



The following table summarizes and presents governmental activities expenses by function and percentages for the fiscal year ended June 30, 2011 along with the percentage changes from the previous year:

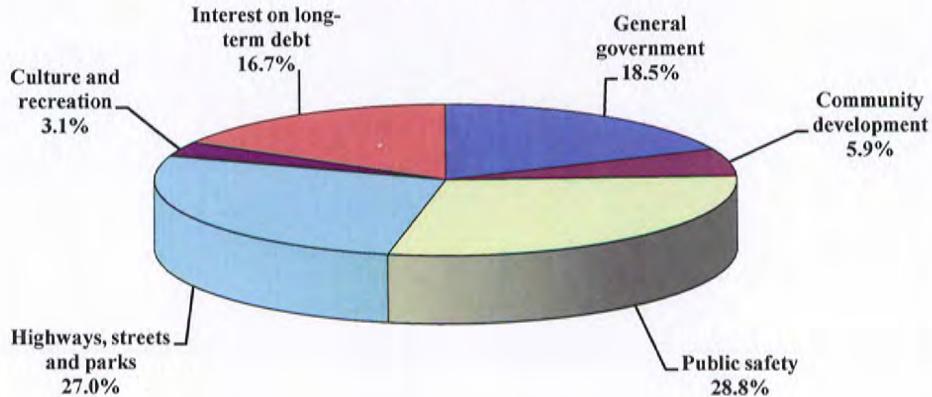
GOVERNMENTAL ACTIVITIES

Expenses by Function

FUNCTION	Fiscal Year 2010-2011	Percent of Total	Increase (Decrease)		Percent Increase (Decrease)
			From 2009-2010		
General government	\$ 18,106,693	18.5%	\$ 2,115,738		13.2%
Community development	5,739,531	5.9%	(627,361)		-9.9%
Public safety	28,216,005	28.8%	(387,078)		-1.4%
Highways, streets and parks	26,408,488	27.0%	1,362,324		5.4%
Culture and recreation	3,079,743	3.1%	65,053		2.2%
Interest on long-term debt	16,325,714	16.7%	1,024,369		6.7%
TOTAL EXPENSES	\$ 97,876,174	100.0%	\$ 3,553,045		3.8%

GOVERNMENTAL ACTIVITIES

Expenses by Function Fiscal Year 2010-2011



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 \$772,693 or 2.08% in the Enterprise Funds mainly as a result of operational transfers out to the General fund as anticipated. The Municipal Utility Fund, the intent of the City Council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. To date only start up costs have been incurred in this Fund and no revenue has been generated.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$220.4 million, with an increase of \$42.1 million from the previous year. Of this total amount, \$35.2 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 (\$49.6 million), low and moderate income housing (\$52 million), debt service (\$30.2 million), capital projects (\$36.6 million), and other purposes (\$7.4 million).

Major Funds

The **General Fund** is the chief operating fund of the City. It represents \$54.6 million or 24.8% 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 \$35.2 million constituted 64.4% 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 56.5% of total General Fund expenditures and transfers out, while total fund balance represents 87.8% of that same amount.

The fund balance of the City's General Fund decreased by \$3 million during the current year due to the use of one-time authorized reserves for costs associated with the General Plan Update (\$1.35 million) as well as a payoff of a retrospective prepayment of general liability insurance (\$1.51 million). Revenues were up from the previous year by \$39,878 (.08%) and expenditures were up by \$2.42 million (4.04%) as follows:

General Fund Revenue				
	Fiscal Year 2010-2011	Fiscal Year 2009-2010	Increase (Decrease)	% Increase (Decrease)
Revenue:				
Taxes and special assessments	\$ 26,207,843	\$ 25,174,783	\$ 1,033,060	4.10%
Licenses and permits	4,722,075	4,274,969	447,106	10.46%
Intergovernmental	1,517,317	1,813,837	(296,520)	-16.35%
Charges for services/developer fees	11,273,011	11,411,632	(138,621)	-1.21%
Fines and forfeitures	284,452	279,735	4,717	1.69%
Use of money and property	6,817,267	6,271,626	545,641	8.70%
Miscellaneous	297,849	1,853,354	(1,555,505)	-83.93%
Total Revenue	\$ 51,119,814	\$ 51,079,936	\$ 39,878	0.08%

General Fund Expenditure				
	Fiscal Year 2010-2011	Fiscal Year 2009-2010	Increase (Decrease)	% Increase (Decrease)
Expenditure:				
General government	\$ 14,522,627	\$ 11,324,360	\$ 3,198,267	28.24%
Community development	5,514,814	5,642,465	(127,651)	-2.26%
Public safety	27,317,174	27,461,612	(144,438)	-0.53%
Highways, streets and parks	11,508,208	11,084,060	424,148	3.83%
Culture and recreation	2,711,871	2,655,385	56,486	2.13%
Capital outlay	635,062	1,626,068	(991,006)	-60.94%
Debt service				0.00%
Total Expenditure	\$ 62,209,756	\$ 59,793,950	\$ 2,415,806	4.04%

Taxes and special assessments, including property taxes, property tax in-lieu of motor vehicle license fees, and sales tax came in at 1.01% over budget or \$175,100 million over expectation. The actual increase from year to year was \$1.03 million (4.10%). Sales tax increased by \$838,196 (6.77%). This slight increase over the prior year is primarily due to increased fuel prices and new business additions including restaurants, hotel, auto, and transportation. Transient Occupancy Taxes increased significantly over the prior year in the amount of \$312,001 (104.54%) due to the opening of the Residence Inn during the fiscal year.

Property taxes represented 12.6% (\$6.5 million) of total revenues and ended the year with a net decrease from the previous year of \$90,580. Property taxes received from the County for the City and Fire District were down from the amended budget by \$645,658 (12.2%) and \$90,044 (2.3%), respectively. These amounts include the tax increment payments from the Redevelopment Agency. Countywide, assessed valuation decreased by 1.56% in fiscal year 2010/11, while in San Marcos, it decreased by 1.28%. The assessed value decline also affected the property taxes in-lieu of motor vehicle license fees which dropped by \$76,206.

Use of Money and Property includes rental income and interest earnings on investments. Rental income was slightly lower than expected due to unanticipated vacancies and later than expected start dates on lease agreements for various ground leases. Interest earnings on the City's portfolio were higher by approx. \$353,000 than expected from higher cash balances and bond proceeds on hand.

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 prior year included a one-time project reimbursement that did not occur in the current year.

On the expenditures side, the net change from the preceding year was mainly due to expenditures relating to general government. The current year included a one-time expenditure of \$2.01 million for payment of the City's aggregate retrospective insurance deposit. In addition, the City's fiscal year 2010/11 insurance premium increased by \$440,000.

The **Low and Moderate Income Housing Fund** accounts for the tax increment which is required to be set-aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing. This fund ended the year with a \$77.3 million fund balance, \$24.5 million of which consisted of advances to other funds. Fund balance increased by \$46 million, mainly due to the proceeds of the new debt issue. Tax increment dropped by \$1.7 million (2.9%) year over year as a result of a continued decline in assessed valuation in all three

Project Areas and delinquencies. Loans of \$3.3 million were made to housing corporations to effect the construction of low and moderate income housing projects. This Fund loaned an additional \$4.2 million to the San Marcos Redevelopment Agency Debt Service Funds to finance the fiscal year 2010/2011 Supplemental Educational Revenue Augmentation Fund (SERAF) payments. The loans are to be repaid no later than June 30, 2016.

The **Redevelopment Agency Debt Service Funds, Project Areas No. 1, No. 2, and No. 3** account for the accumulation of resources for the payment of principal, interest, and related costs of the Agency's long-term debt. These funds ended the year with a \$0.2 million, \$13.7 million, and \$22.4 million fund balances, respectively. Tax increment did not change significantly from the previous year in Project Area No. 2 and was down by \$0.6 million (5.1%) and \$0.5 million (2.2%) in Projects Areas No. 1 and No. 3, respectively. Included in the tax increment distributions to other governmental agencies of \$20.4 million were the SERAF payments of \$1.1 million, \$.8 million and \$2.2 million in Project Areas No. 1, No. 2 and No. 3, respectively.

The **Redevelopment Agency Capital Projects Funds, Project Areas No. 1, No. 2, and No. 3** account for the administrative expenditures of the Agency and the non-housing redevelopment activity. These funds ended the year with a \$(6.5) million, \$14.2 million, and \$19.8 million fund balance/(deficit), respectively. The deficit in Project Area No. 1 is expected to be eliminated from future property tax revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences in appropriations between the original budget and the final amended budget of the General Fund totaled \$167,962 of carryovers from the previous year budget as follows:

- General Government - \$85,500
- Capital Outlay - \$82,462

Ending fund balance was \$2.6 million less than projected due to the use of one-time authorized reserves for costs associated with the General Plan Update (\$1.35 million) as well as a payoff of a retrospective prepayment of general liability insurance (\$1.51 million). Revenues and transfers in were \$2.37 million (3.8%) under budget and expenditures and transfers out were \$270,229 (.004%) 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 salaries and benefits, contract maintenance services, consulting services, other contract services, the storm water program (NPDES) and other various accounts. Attorney services, general liability insurance, and workers compensation claims were higher than anticipated.

CAPITAL ASSETS

The City's investment in capital assets net of accumulated depreciation for its governmental activities as of June 30, 2011, amounted to \$669.7 million. This included land, land improvements, buildings, furniture and equipment, and infrastructure. The total net increase in capital assets was \$15.5 million (2.4%). The major additions to capital assets were as follows:

- Several parcels were purchased for redevelopment, housing projects and infrastructure projects.
- Infrastructures including right of way from new development of \$4.0 million were donated/taken over for maintenance by the City.

- Walnut Grove Park and the Civic Center Recreation Area were completed and capitalized at a cost of \$6.9 million and \$1.2 million, respectively. South Lake Community Park and Bradley Park Improvements were under construction.
- Several street construction/widening and expansion projects were either completed or in progress at the end of the year including the Highway 78/Woodland Parkway Interchange improvements; the Twin Oaks Valley Road improvements, San Marcos Blvd to Borden Road; the San Marcos Creek undercrossing/West side of Highway 78 to the Recreation Vehicle Mall; the Grand Avenue Bridge at Discovery; the South Santa Fe/Smilax to Bosstick; the San Marcos Boulevard/Rancho Santa Fe to Acacia; the Highway 78 Eastbound Auxiliary Lane improvement project between Woodland Parkway and Nordahl Road; the Rock Springs Road and Richland Road Street Improvements/Safe Route to School; and the San Marcos Creek/Craven to Bent.

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

CAPITAL ASSETS
(Net of Depreciation)
Governmental Activities

	Fiscal Year 2010-2011	Fiscal Year 2009-2010	Net Change
Land	\$ 280,663,098	\$ 262,774,273	\$ 17,888,825
Land improvements	46,924,958	38,764,433	8,160,525
Buildings	53,837,580	55,330,697	(1,493,117)
Furniture and equipment	4,221,601	3,889,902	331,699
Infrastructure	196,426,872	202,570,980	(6,144,108)
Construction in progress	87,666,171	90,940,270	(3,274,099)
 Total	 \$ 669,740,280	 \$ 654,270,555	 \$ 15,469,725

For the business-type activities, capital assets totaled \$28.3 million at June 30, 2011. There were no significant changes from the previous year.

DEBT ADMINISTRATION

At year-end, the City and its component units had a number of debt issues outstanding including \$65.73 million of tax allocation bonds and \$276.23 million of revenue bonds. Total bonded debt increased by \$45.98 million or 15.5%. During the fiscal year, the Redevelopment Agency issued \$52.8 million of Tax Allocation Bonds to finance costs for low and moderate income housing projects. The City maintains ratings on its various bonds of "A, AA-, and A-" from Standard & Poor's.

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

LONG-TERM DEBT OUTSTANDING
Governmental Activities

	Fiscal Year	Fiscal Year	Net
	2010-2011	2009-2010	Change
Bonds payable, net	\$ 341,959,334	\$ 295,982,963	\$ 45,976,371
Note payable	2,646,245	943,274	1,702,971
Cooperation agreement	25,501,990	27,807,536	(2,305,546)
Compensated absences	4,072,212	5,095,013	(1,022,801)
Due to other governments	<u>3,860,541</u>	<u>4,577,183</u>	<u>(716,642)</u>
Total	<u>\$ 378,040,322</u>	<u>\$ 334,405,969</u>	<u>\$ 43,634,353</u>

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

FACTORS AFFECTING NEXT YEAR'S BUDGET

Market participants have begun to debate the possibility of the economy slipping back into another recession. U.S. unemployment remains high and the housing market may be experiencing a double-dip. Political turmoil related to the international debt crisis has also led to increased uncertainty about the future course of the economy. The Federal Reserve kept the federal funds rate at all time lows and stated that it expected to maintain exceptionally easy monetary conditions "at least through mid-2013". Consumer and business spending has rebounded from the depths of the recession to moderate activity, however, still far short of the heights of the previous economic expansion. It is still not clear what the primary driver of economic activity will be in the near future which indicates that the economic recovery remains tepid.

Incorporated in the City's revenue projections over the next three years are transfers from the Creekside Marketplace Enterprise Fund (CM Fund) of \$7.95 million, \$7.9 million, and \$3.5 million to compensate for the projected revenue shortfalls. This Fund accounts for the activity of the Creekside Marketplace Shopping Center. Over the next several years, the Center will generate from \$3.4 to \$3.5 million in net revenues to support the General Fund. Reserves of \$8.1 million in the CM Fund at the beginning of fiscal year 2011/12 along with net income generated in that Fund over the next three years will help balance the General Fund budget during the current economic downturn which is expected to last at least through 2013/14. However, by the third year reserves will be depleted in the CM Fund and only net income will be available to support General Fund operations. A deficit of close to \$5 million between revenues and expenditures is projected in the General Fund by the end of the third year.

Management is currently evaluating measures to address the General Fund structural deficit expected in fiscal year 2013/14. Negotiations are underway to reduce employee compensation packages as well as

pension costs. Due to the level of benefits provided by the City's pension plan and the recent significant portfolio losses realized by the California Public Employees Retirement System (PERS), the cost of the retirement plan will not be sustainable in the foreseeable future.

It is imperative that steps be taken now to attempt to close the projected gap. The City is hopeful that a combination of factors such as cost containment, the Creekside Shopping Center, the deferral of equipment replacement reserves and one-time revenues will contribute to the City's ability to maintain the level of services expected by Council and the citizenry.

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, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (note 3)	\$ 115,677,657	\$ 8,089,387	\$ 123,767,044
Cash and investments with fiscal agents (note 3)	102,230,315		102,230,315
Receivables:			
Taxes and special assessments	2,378,486		2,378,486
Accounts	4,634,167		4,634,167
Interest	382,057	21,328	403,385
Notes (note 4)	111,368,770		111,368,770
Other (note 8)	979,837	856,069	1,835,906
Due from other governments	3,498,593		3,498,593
Prepaid items	860,262		860,262
Deposits	2,632,905	4,982	2,637,887
Deferred charges (note 2)	6,160,010		6,160,010
Net investment in direct financing lease (note 7)	3,781,887		3,781,887
Land held for resale	18,955,080		18,955,080
Capital assets, not depreciated (note 9)	415,254,227	11,865,697	427,119,924
Capital assets, net of depreciation (note 9)	254,486,053	16,441,723	270,927,776
Total assets	1,043,280,306	37,279,186	1,080,559,492
Liabilities:			
Accounts payable	5,136,176		5,136,176
Accrued liabilities	8,291,594		8,291,594
Claims payable	656,062		656,062
Due to other governments	22,080,087		22,080,087
Unearned revenue (note 5)	150,754	856,069	1,006,823
Deposits payable	1,501,813	63,226	1,565,039
Noncurrent liabilities (note 10):			
Due within one year	12,454,792		12,454,792
Due in more than one year	363,865,705		363,865,705
Total liabilities	414,136,983	919,295	415,056,278
Net Assets:			
Invested in capital assets, net of related debt	499,416,669	28,307,420	527,724,089
Restricted/expendable for:			
Low and moderate income housing	119,927,089		119,927,089
Landscape Maintenance	9,032,742		9,032,742
Other purposes	6,026,400		6,026,400
Restricted/nonexpendable	1,244,590		1,244,590
Unrestricted	(6,504,167)	8,052,471	1,548,304
Total net assets	\$ 629,143,323	\$ 36,359,891	\$ 665,503,214

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 18,106,693	\$ 7,569,325	\$ 51,191	\$ 7,443
Community development	5,739,531	2,131,886	626,558	2,601,660
Public safety	28,216,005	7,266,747	256,991	57,920
Highways, streets, and parks	26,408,488	7,150,548	2,482,739	11,752,674
Culture and recreation	3,079,743	1,837,906	130,200	608,000
Interest on long-term debt	<u>16,325,714</u>			
Total governmental activities	97,876,174	25,956,412	3,547,679	15,027,697
Business-type activities:				
Creekside Marketplace	<u>1,296,182</u>	<u>3,523,109</u>		
Total	<u><u>\$ 99,172,356</u></u>	<u><u>\$ 29,479,521</u></u>	<u><u>\$ 3,547,679</u></u>	<u><u>\$ 15,027,697</u></u>

General revenues:

Taxes:

Property taxes

Tax increment, net

Sales taxes

Transient occupancy taxes

Franchise taxes

Motor vehicle license fees, unrestricted

Investment income, unrestricted

Gain on sale of land held for resale

Other

Transfers (Note 6)

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

See accompanying notes to basic financial statements.

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

Governmental Activities	Business-Type Activities	Total
\$ (10,478,734)	\$ (10,478,734)	
(379,427)	(379,427)	
(20,634,347)	(20,634,347)	
(5,022,527)	(5,022,527)	
(503,637)	(503,637)	
<u>(16,325,714)</u>	<u>(16,325,714)</u>	
(53,344,386)	(53,344,386)	
	<hr/> \$ 2,226,927	<hr/> 2,226,927
<u>(53,344,386)</u>	<u>2,226,927</u>	<u>(51,117,459)</u>

12,373,080	12,373,080
36,294,755	36,294,755
13,091,860	13,091,860
610,460	610,460
2,677,551	2,677,551
382,275	382,275
4,583,907	167,380
67,970	4,751,287
1,390,381	67,970
3,167,000	1,390,381
<u>74,639,239</u>	<u>(3,167,000)</u>
<u>74,639,239</u>	<u>(2,999,620)</u>
21,294,853	71,639,619
(772,693)	20,522,160
<u>607,848,470</u>	<u>37,132,584</u>
<u>\$ 629,143,323</u>	<u>\$ 36,359,891</u>
<u>\$ 629,143,323</u>	<u>\$ 36,359,891</u>
<u>\$ 629,143,323</u>	<u>\$ 665,503,214</u>

CITY OF SAN MARCOS
Balance Sheet
Governmental Funds
June 30, 2011

Assets	General	Low and Moderate Income Housing	Redevelopment Agency Debt Service
Cash and investments (note 3)	\$ 34,837,039	14,480,737	46,095,886
Cash and investments with fiscal agents (note 3)		37,473,490	12,849,086
Receivables:			
Taxes and special assessments	1,792,218	137,903	422,030
Accounts	2,049,473	11,112	
Interest	92,929	101,386	126,546
Notes (note 4)		106,492,536	696,339
Other (note 8)	826,384		
Due from other governments	458,941		
Due from other funds (note 6)	2,931,916		17,287,408
Advances to other funds (note 6)		24,522,934	5,404,880
Prepaid items	860,262		
Deposits	1,290,227		
Net investment in direct financing lease (note 7)			3,781,887
Land held for resale			
Total assets	<u>17,312,967</u>	<u>783,765</u>	<u>86,664,062</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 3,735,117	47,160	
Accrued liabilities	1,568,482	122,779	
Claims payable	656,062		
Due to other funds (note 6)			22,080,087
Due to other governments			24,522,934
Advances from other funds (note 6)	977,136	106,492,536	3,781,887
Deferred revenue (note 5)	889,572	34,498	
Deposits			
Total liabilities	<u>7,826,369</u>	<u>106,696,973</u>	<u>50,384,908</u>
Fund balances:			
Nonspendable:			
Noncurrent assets	17,312,967		
Prepaid items	860,262		
Deposits	1,290,227		
Permanent fund			
Restricted:			
Low and moderate income housing		77,306,890	
Debt service			36,279,154
Capital projects			
Other purposes			
Unassigned	35,162,531		
Total fund balances	<u>54,625,987</u>	<u>77,306,890</u>	<u>36,279,154</u>
Total liabilities and fund balances	<u>\$ 62,452,356</u>	<u>184,003,863</u>	<u>86,664,062</u>

See accompanying notes to basic financial statements.

Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
50,920,416	20,263,995 987,323	115,677,657 102,230,315
3,360	26,335 2,570,222	2,378,486 4,634,167
65	61,131	382,057
	4,179,895	111,368,770
	153,453	979,837
	3,039,652	3,498,593
	20,219,324	
	29,927,814	
	860,262	
	1,342,678	2,632,905
		3,781,887
	858,348	18,955,080
50,923,841	33,483,032	417,527,154

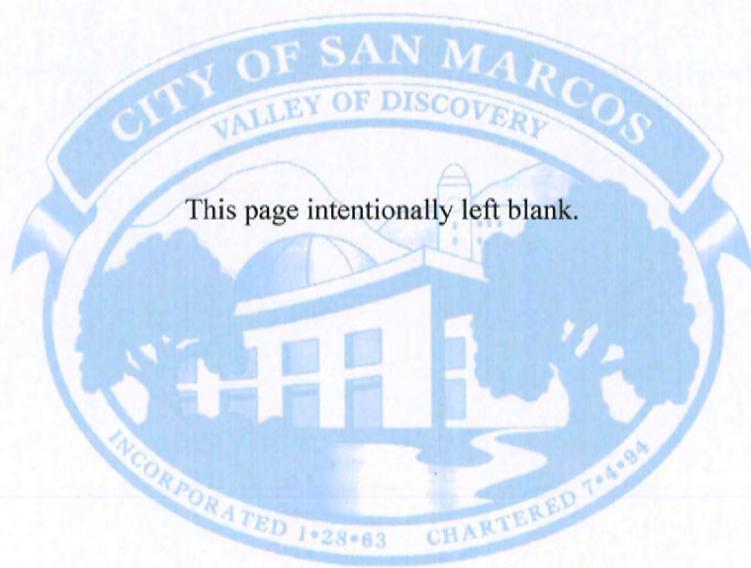
703,817	650,082	5,136,176
90,428	253,776	2,035,465
		656,062
17,287,408	2,931,916	20,219,324
		22,080,087
5,404,880		29,927,814
	4,333,348	115,584,907
	577,743	1,501,813
23,486,533	8,746,865	197,141,648

17,312,967		
860,262		
1,290,227		
1,244,590	1,244,590	
		77,306,890
	54,868	36,334,022
27,437,308	10,092,236	37,529,544
	13,344,473	13,344,473
		35,162,531
27,437,308	24,736,167	220,385,506
50,923,841	33,483,032	417,527,154

CITY OF SAN MARCOS
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2011

Fund balances of governmental funds	\$ 220,385,506
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 \$799,999,030 and the accumulated depreciation is \$130,258,750.	669,740,280
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).	6,160,010
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds (note 5).	115,434,153
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).	(376,320,497)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds	<u>(6,256,129)</u>
Net assets of governmental activities	<u><u>\$ 629,143,323</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, 2011

	General	Low and Moderate Income Housing	Redevelopment Agency Debt Service
Revenues:			
Taxes and special assessments	\$ 26,207,843	13,144,947	42,862,987
Licenses and permits	4,722,075		
Intergovernmental	1,517,317		
Charges for services	11,273,011		
Developer fees	102,204		
Fines and forfeitures	284,452		
Use of money and property	6,817,267	839,159	958,360
Miscellaneous	195,645	90,053	438,111
 Total revenues	 51,119,814	 14,074,159	 44,259,458
 Expenditures:			
Current:			
General government	14,522,627	1,062,920	548,026
Community development	5,514,814	3,781,487	
Public safety	27,317,174		
Highways, streets and parks	11,508,208		
Culture and recreation	2,711,871		
Tax increment distributions to other governmental agencies			16,266,743
SERAF payment	635,062	8,060,417	4,163,078
Capital outlay			
Debt service:			
Principal			9,254,656
Interest and fiscal charges	732,003	14,658,783	
Cost of issuance	674,238		
 Total expenditures	 62,209,756	 14,311,065	 44,891,286
 Excess (deficiency) of revenues over expenditures	 (11,089,942)	 (236,906)	 (631,828)
 Other financing sources (uses):			
Gain on sale of land held for resale		67,970	
Long-term debt issued (note 10)		54,605,000	174,110
Discount on bonds issued		(1,719,824)	
Sale of capital assets	38,876		
Transfers in (note 6)	8,084,359		1,181,230
Transfers out (note 6)	(51,558)	(6,706,720)	
 Total other financing sources (uses)	 8,071,677	 46,246,426	 1,355,340
 Net change in fund balances	 (3,018,265)	 46,009,520	 723,512
Fund balances, beginning	57,644,252	31,297,370	35,555,642
Fund balances, ending	 \$ 54,625,987	 77,306,890	 36,279,154

See accompanying notes to basic financial statements.

Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total
	5,120,789	87,336,566
		4,722,075
	9,208,189	10,725,506
		11,273,011
	3,632,543	3,734,747
		284,452
4,998	1,036,521	9,656,305
1,044,674	216,267	1,984,750
1,049,672	19,214,309	129,717,412
1,074,840	249,484	17,457,897
	926,709	10,223,010
		27,317,174
1,871,590		13,379,798
	102,183	2,814,054
		16,266,743
		4,163,078
11,223,675	6,370,414	26,289,568
	312,029	9,566,685
84,995	306,568	15,782,349
		674,238
12,383,510	10,138,977	143,934,594
(11,333,838)	9,075,332	(14,217,182)
		67,970
		54,779,110
		(1,719,824)
		38,876
5,525,490	52,365	14,843,444
	(4,918,166)	(11,676,444)
5,525,490	(4,865,801)	56,333,132
(5,808,348)	4,209,531	42,115,950
33,245,656	20,526,636	178,269,556
27,437,308	24,736,167	220,385,506

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, 2011

Net change in fund balances - total governmental funds	\$ 42,115,950
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 \$20,999,199 exceeded depreciation of \$10,111,231.	10,887,968
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.	
	4,581,757
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,350,067
Long-term loans are reported as expenditures in the governmental funds but not on the statement of activities.	4,209,533
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).	(42,491,230)
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).	<hr/> 640,808
Change in net assets of governmental activities	<hr/> \$ 21,294,853

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds		
	Creekside Marketplace	Utility	Total
	Assets		
Current assets:			
Cash and investments (note 3)	\$ 8,025,528	\$ 63,859	\$ 8,089,387
Receivables:			
Interest	21,201	127	21,328
Deposits	<u>4,982</u>	<u> </u>	<u>4,982</u>
Total current assets	<u>8,051,711</u>	<u>63,986</u>	<u>8,115,697</u>
Noncurrent assets:			
Other receivable (note 8)	856,069		856,069
Capital assets (note 9):			
Land	11,865,697		11,865,697
Buildings, net of depreciation	<u>16,441,723</u>	<u> </u>	<u>16,441,723</u>
Total noncurrent assets	<u>29,163,489</u>	<u> </u>	<u>29,163,489</u>
Total assets	<u>37,215,200</u>	<u>63,986</u>	<u>37,279,186</u>
Liabilities			
Current liabilities:			
Deposits	63,226		63,226
Long-term liabilities:			
Unearned revenue (note 5)	<u>856,069</u>	<u> </u>	<u>856,069</u>
Total liabilities	<u>919,295</u>	<u> </u>	<u>919,295</u>
Net Assets			
Invested in capital assets	28,307,420		28,307,420
Unrestricted	<u>7,988,485</u>	<u>63,986</u>	<u>8,052,471</u>
Total net assets	<u>\$ 36,295,905</u>	<u>\$ 63,986</u>	<u>\$ 36,359,891</u>

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, 2011

	Enterprise Funds		
	Creekside Marketplace	Utility	Total
Operating revenues:			
Rental income	\$ 3,115,531		3,115,531
Common area maintenance charges	407,578		407,578
 Total operating revenues	 3,523,109		 3,523,109
Operating expenses:			
Property management	510,056		510,056
Janitorial	107,604		107,604
Repair and maintenance	296,167		296,167
Depreciation	382,355		382,355
 Total operating expenses	 1,296,182		 1,296,182
 Operating income	 2,226,927		 2,226,927
Non-operating revenues:			
Investment income	166,308	1,072	167,380
 Income before transfer	 2,393,235	 1,072	 2,394,307
 Transfer out (note 6)	 (3,167,000)		 (3,167,000)
 Change in net assets	 (773,765)	 1,072	 (772,693)
 Net assets, beginning	 37,069,670	 62,914	 37,132,584
 Net assets, ending	 \$ 36,295,905	 63,986	 36,359,891

CITY OF SAN MARCOS
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds		
	Creekside		
	Marketplace	Utility	Total
Cash flows from operating activities:			
Payments to suppliers for goods and services	\$ (925,505)		\$ (925,505)
Receipts from customers	<u>3,552,468</u>		<u>3,552,468</u>
Net cash provided by (used for) operating activities	2,626,963		2,626,963
Cash flows from noncapital financing activities:			
Transfer to General Fund	(3,167,000)		(3,167,000)
Cash flows from investing activities:			
Interest received	<u>161,038</u>	\$ 1,056	<u>162,094</u>
Net increase (decrease) in cash and cash equivalents	(378,999)	1,056	(377,943)
Cash and cash equivalents, beginning	<u>8,404,527</u>	62,803	<u>8,467,330</u>
Cash and cash equivalents, ending	<u>\$ 8,025,528</u>	<u>\$ 63,859</u>	<u>\$ 8,089,387</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 2,226,927		\$ 2,226,927
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	382,355		382,355
Decrease in deposit asset	4,559		4,559
Increase in deposits payable	<u>13,122</u>		<u>13,122</u>
Net cash provided by (used for) for operating activities	<u>\$ 2,626,963</u>	<u>\$ -</u>	<u>\$ 2,626,963</u>

CITY OF SAN MARCOS
 Statement of Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2011

Assets	
Cash and investments (note 3)	\$ 3,078,210
Cash and investments with fiscal agents (note 3)	17,912,465
Receivables:	
Special assessments	48,632
Interest	<u>61,978</u>
Total assets	<u><u>\$ 21,101,285</u></u>
Liabilities	
Due to bondholders	\$ 18,106,426
Deposits payable	<u>2,994,859</u>
Total liabilities	<u><u>\$ 21,101,285</u></u>

See accompanying notes to basic financial statements.

CITY OF SAN MARCOS
Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description and Scope of the Reporting Entity:

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

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

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

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

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

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

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

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

Government-wide and Fund Financial Statements:

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the City and its blended component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursements under state and federal grants are accrued if received within 180 days. Revenues that are accrued generally include real property taxes, sales tax, transient occupancy taxes, franchise fees, vehicle license fees, highway users tax, interest, and some state and federal grants.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund type:

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

For both the government-wide and proprietary fund financial statements, the City applies all Governmental Accounting Standards Board (GASB) pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles 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.

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

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

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

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

Deposits and Investments:

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

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

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

Receivables and Payables:

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

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

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. The portion of these receivables that may not be collectible is not reasonably estimable 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.

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

Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. Sick leave accrued but unused is cumulative from year to year. Employees are allowed to cash out sick leave hours over certain balances once a year and upon termination. All vacation pay and applicable sick leave is accrued when incurred in the government-wide financial statements. A

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All compensated absences are liquidated in the General Fund.

Long-term Obligations:

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

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

Postemployment Benefits Other Than Pensions:

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

Fund Equity:

During the year ending 2011, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". As a result, the accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Due to the implementation of GASB 54, the components of the fund balances of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB 54.

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

providers, or creditors. Restrictions imposed by the City Council do not create restricted fund 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 (for example, resolution, ordinance, minutes action, etc.) 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 by 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 \$(376,320,497) difference are as follows:

Bonds payable	\$ (342,425,000)
Less: Deferred charge on refunding	5,197,486
Issuance discount	2,084,914
Plus: Issuance premium	(5,096,909)
Note payable	(2,646,245)
Cooperation agreement	(25,501,990)
Compensated absences	(4,072,212)
Due to other governments	<u>(3,860,541)</u>

Net adjustment to reduce *fund balance – total governmental funds* to
arrive at *net assets – governmental activities* \$(376,320,497)

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

Another element of the reconciliation is cost of issuance of \$6,160,010 which is deferred and amortized over the life of the bonds in the Statement of Net Assets as opposed to expended in the funds in the year of issuance.

Explanation of Certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$42,491,230 difference are as follows:

Debt issued or incurred:	
Cooperation agreement	\$ (174,110)
Tax allocation bonds	(52,805,000)
Less issuance discount	674,238
Less deferred costs of issuance	1,719,824
Note payable	(1,800,000)
Principal repayments:	
Bonds	6,990,000
Note payable	97,029
Cooperation agreement	2,479,656
Due to other governments	716,642
Amortization of:	
Deferred charges/cost of issuance	(228,138)
Deferred charge on bond refunding	(356,102)
Bond issuance discount	(14,855)
Bond issuance premium	<u>209,586</u>
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>	<u>\$ (42,491,230)</u>

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 \$(640,808) difference are as follows:

Change in compensated absences	\$ (1,022,802)
Change in accrued interest	<u>381,994</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (640,808)</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

3. CASH AND INVESTMENTS

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

Statement of net assets:	
Cash and investments	\$ 123,767,044
Cash and investments with fiscal agents	102,230,315
Statement of fiduciary assets and liabilities:	
Cash and investments	3,078,210
Cash and investments with fiscal agents	<u>17,912,465</u>
Total Cash and Investments	<u>\$ 246,988,034</u>

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

Demand deposits	\$ 1,768,738
Local Agency Investment Pool (LAIF)	68,324,613
California Asset Management Pool (CAMP)	31,641
Federal Agency Securities	51,606,566
U.S. Treasury	11,812,383
FDIC Insured Corporate Bonds	41,956,977
Investment agreements	2,639,193
Money market mutual funds	<u>68,847,923</u>
Total Cash and Investments	<u>\$ 246,988,034</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.

Investment Type <u>Authorized by State Law</u>	Authorized By City Policy	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	Yes	180 days	40%	10%
Commercial Paper	Yes	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	30 days	50%	None
Reverse Repurchase Agreements	No	1 year	20%	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

<u>Investment Type</u> <u>Authorized by State Law</u>	<u>Authorized By City Policy</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
California Asset Management Program (CAMP)	Yes	N/A	None	None
County Pooled Investment Funds	No	N/A	None	None

Investments Authorized by Debt Agreements:

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

<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>Remaining Maturity (in Months)</u>		
	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 60 Months</u>
Federal agency securities	\$ 35,258,034	\$ 2,534,400	\$ 32,723,634
U.S. Treasury	9,599,676	1,553,496	8,046,180
FDIC Insured Corporate Bonds	11,862,555	8,222,475	3,640,080
LAIF	68,324,613	68,324,613	
CAMP	31,641	31,641	

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>		
	Total	12 Months or Less	13 to 60 Months
Held by bond trustees:			
Money market mutual funds	68,847,923	68,847,923	
Investment contracts	2,639,193		\$ 2,639,193
U.S. Treasury	2,212,707	704,415	1,508,292
FDIC Insured Corporate Bonds	30,094,422	30,094,422	
Federal agency securities	16,348,532	11,801,589	4,546,943
Total	\$245,219,296	\$192,114,974	\$ 50,465,129
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>Rating as of Year End</u>			
	Total	Minimum Legal Rating	AAA	Not Rated
Federal agency securities	\$ 35,258,034	N/A	\$ 35,258,034	
U.S. Treasury	9,599,676		9,599,676	
FDIC Insured Corporate Bonds	11,862,555		11,862,555	
LAIF	68,324,613	N/A		\$ 68,324,613
CAMP	31,641	N/A		31,641
Held by bond trustees:				
Money market mutual funds	68,847,923	A	68,847,923	
Investment contracts	2,639,193	N/A		2,639,193
U.S. Treasury	2,212,707		2,212,707	
FDIC Insured Corporate Bonds	30,094,422		30,094,422	
Federal agency securities	16,348,532	N/A	16,348,532	
Total	\$245,219,296		\$174,223,849	\$ 70,995,447

Concentration of Credit Risk:

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

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

<u>Fund</u>	<u>Issuer/Type</u>	<u>Reported Amount</u>
Redevelopment Agency Capital Project Fund	FDIC Insured Corp. Bonds	\$ 30,094,422
Redevelopment Agency Capital Projects Fund	Federal Home Loan Bank	9,430,893

Custodial Credit Risk:

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

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

Managed Investment Pools:

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

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

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

4. NOTES RECEIVABLE

At June 30, 2011, notes receivable consisted of the following:

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

\$ 2,425,964

The City of San Marcos Redevelopment Agency has made several loans to various housing developers for the acquisition, construction or rehabilitation of low and moderate housing. The loans were made in fiscal years 1997 through 2010 at various amounts and at interest rates ranging from 3% to 5.9% per annum. Principal and interest are due at various maturity dates but no later than 55 years from the date of the note. Due to the long-term nature of the loans, deferred revenue has been recorded in the Low and Moderate Income Housing Special Revenue Fund.

102,984,002

In July 1989, the City of San Marcos Redevelopment Agency entered into an Agreement of Cooperation with the San Diego County Office of Education for the option of borrowing \$800,000 from the Agency for the acquisition of land for a joint use facility with the San Marcos Unified School District. On June 9, 1998, the Office of Education borrowed the funds. The loan is at an interest rate equal to the interest rate of the debt instrument used by the Agency to fund the loan and is compounded annually on the balance of the loan. Beginning in the Trigger Year, 39% of the District's portion of General District Tax Revenues (after deduction of the 2% revenues) is to be allocated to repayment of the loan until the principal and interest have been repaid. Due to the long-term nature of the loan, fund balance has been reserved in the San Marcos Redevelopment Agency Debt Service Fund for the principal portion.

696,339

In June 2001, the City loaned \$1,320,000 to a developer for the acquisition, development and construction of a commercial pad. The loan has a term of thirty years and bears an interest rate of 3%. Payments from residual receipts, if any, are to be made on an annual basis beginning with May 15 of the year first following the date the project is completed. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2011 includes accrued interest of \$263,075.

1,583,075

In December 2004, the City loaned \$700,000 to Assisted Living Foundation of America (ALFA), a non-profit corporation, to assist with the development of a 120 unit senior housing project. The loan is payable in full on June 1, 2038 and bears an interest rate of 1%. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2011 includes accrued interest of \$37,722.

737,722

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

In March 2006, the City loaned \$700,000 to ALFA to assist with the development of a 100-unit affordable rental housing project. The loan is payable in full on June 1, 2040 and bears an interest rate of 3%. Due to the long-term nature of the loan, deferred revenue has been recorded. The balance at June 30, 2011 includes accrued interest of \$84,000.	784,000
The City has provided loans to several individuals under a Federal (HOME) mortgage assistance loan program. The loans are to be repaid in 30 years and bear an interest rate of 3%. Deferred revenue has been recorded in the HOME Grant Special Revenue Fund due to the long-term nature of the notes.	1,075,098
The City of San Marcos Redevelopment Agency has provided loans to individuals under a mortgage assistance program. The loans are to be repaid in 30 years and bear an interest of 3%. Deferred revenue has been recorded in the Low and Moderate Income Housing Fund due to the long-term nature of the notes.	1,082,570
Total notes receivable	<u>\$ 111,368,770</u>

5. DEFERRED/UNEARNED REVENUE

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

	Unavailable Revenue	Unearned Revenue
Fees receivable from property owners under various agreements	\$ 979,836	
Rental revenue received prior to recognition date		\$ 150,754
Long-term loans to mobile home owners	2,425,964	
Long-term loans to developers for the acquisition, construction or rehabilitation of low and moderate income housing	104,505,724	
Long-term loan to a developer for the acquisition, development and construction of a commercial pad	1,583,075	
Investment in direct financing lease	3,781,887	
Long-term loans to individuals under a mortgage assistance program	2,157,667	
Total deferred/earned revenue for governmental funds	<u>\$115,434,153</u>	<u>\$ 150,754</u>

The Creekside Marketplace Enterprise Fund also reported unearned revenue of \$856,069 in conjunction with a receivable from a contractor as a result of a settlement agreement involving future rent losses (see note 8).

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

6. INTERFUND RECEIVABLES AND TRANSFERS

Short-term loans between funds (Due to/Due from) were as follows at June 30, 2011:

Receivable Fund	Payable Fund	Amount
General Fund	Non-major governmental funds	\$ 2,931,916
Redevelopment Agency Debt Service	Redevelopment Agency Capital Projects	<u>17,287,408</u>
Total		<u><u>\$ 20,219,324</u></u>

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

Long-term loans between funds (Advances to/Advances from) were as follows at June 30, 2011:

The Low and Moderate Income Housing Special Revenue Fund loaned \$419,755 to the San Marcos Redevelopment Agency Debt Service Fund to fund the fiscal year 2003/2004 Educational Revenue Augmentation Fund (ERAF) payment. The loan bears an interest rate of 3.0% and is to be repaid in ten years in annual installments of \$49,208. The balance outstanding at June 30, 2011 was \$139,191.

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 (SERAFF) payments. The loans bear an interest rate equal to the City's average portfolio rate and is 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. The balance outstanding at June 30, 2011 was \$24,383,743.

The Redevelopment Agency Debt Service Fund loaned \$5,404,880 to the Redevelopment Agency Capital Projects Fund to fund the purchase of property for future redevelopment. The loan accrues interest at the City's average monthly investment portfolio rate and is to be repaid over the next fifteen years to the extent that funds are available. The balance outstanding at June 30, 2011 was \$5,404,880.

Interfund transfers were as follows:

	Transfers In				Total Transfers Out
	General Fund	RDA Debt Service	RDA Capital Projects	Non-major Governmental	
Transfers Out:					
General Fund				\$ 51,558	\$ 51,558
Low & Moderate Income Housing		\$ 1,181,230	\$ 5,525,490		6,706,720
Creekside Marketplace Enterprise	\$ 3,167,000				3,167,000

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

	Transfers In				Total Transfers Out
	General Fund	RDA Debt Service	RDA Capital Projects	Non-major Governmental	
Non-major Governmental	4,917,359			807	4,918,166
Total Transfers In:	<u>\$ 8,084,359</u>	<u>\$ 1,181,230</u>	<u>\$ 5,525,490</u>	<u>\$ 52,365</u>	<u>\$ 14,843,444</u>

The transfers of \$51,558 from the General Fund to the non-major governmental funds were to fund various capital project costs.

The transfer of \$1,181,230 from the Low and Moderate Income Housing Special Revenue Fund to the Redevelopment Agency Debt Service Fund was to fund the debt service payments on the \$9,465,000 1997 Series A Tax Allocation bonds and the \$7,490,000 1998 Series A Tax Allocation bonds.

\$3,167,000 was transferred from the Creekside Marketplace Enterprise Fund to the General Fund to fund operations.

The Low and Moderate Income Housing Fund transferred \$5,525,490 to the Project Area No. 2 Capital Projects Fund to reimburse the fund for a property purchase that will be used to construct low and moderate income housing.

The transfers of \$4,917,359 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 (\$4,217,743).

7. NET INVESTMENT IN DIRECT FINANCING LEASE

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

The terms of the amended lease call for semi-annual payments of \$98,906 including interest at 5.87% each July and January 15 commencing July 15, 2002 to July, 2031 and payments of \$62,663 with no interest from July 15, 2002 to July 15, 2022. The following lists the components of the net investment in the direct financing lease as of June 30, 2011:

Total minimum lease payments to be received	\$ 5,496,388
Less unearned income	<u>1,714,501</u>
Net investment in direct financing lease	<u>\$ 3,781,887</u>

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

At June 30, 2011, the future minimum lease payments are as follows:

<u>Year Ending June 30</u>	
2012	\$ 323,138
2013	323,138
2014	323,138
2015	323,138
2016	323,138
2017-2021	1,615,689
2022-2026	1,177,046
2027-2031	989,057
2032	<u>98,906</u>
	<u><u>\$ 5,496,388</u></u>

A net investment in direct financing lease and corresponding deferred revenue amount have been recorded in the Redevelopment Agency Debt Service Fund to account for the net present value of the lease payments at June 30, 2011.

8. OTHER RECEIVABLES

At June 30, 2011, other receivables consisted of the following:

Governmental Funds:

In fiscal year 1992-93, the City entered into an agreement whereby Scripps Memorial Hospital has agreed to pay \$300,000 per year in public facilities fees for eight years. The City has recorded a receivable and deferred revenue for the future payments.

\$ 600,000

The City has entered into agreements with several property owners whereby certain public facilities fees are being deferred. The revenue has been deferred in the governmental funds.

120,516

Other

259,321

Total other receivables – governmental funds \$979,837

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.

\$ 856,069

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 262,774,273	\$ 17,888,825		\$ 280,663,098
Land improvements	38,764,433	8,160,525		46,924,958
Construction in progress	90,940,270	5,828,780	(9,102,879)	87,666,171
Total capital assets, not being depreciated	<u>392,478,976</u>	<u>31,878,130</u>	<u>(9,102,879)</u>	<u>415,254,227</u>
Capital assets being depreciated:				
Buildings	74,708,564			74,708,564
Furniture and equipment	16,125,661	1,416,971	(1,328,378)	16,214,254
Infrastructure	291,104,873	2,717,112		293,821,985
Total assets being depreciated	<u>381,939,098</u>	<u>4,134,083</u>	<u>(1,328,378)</u>	<u>384,744,803</u>
Less accumulated depreciation for:				
Buildings	(19,377,867)	(1,493,117)		(20,870,984)
Furniture and equipment	(12,235,759)	(1,046,396)	1,289,502	(11,992,653)
Infrastructure	(88,533,893)	(8,861,220)		(97,395,113)
Total accumulated depreciation	<u>(120,147,519)</u>	<u>(11,400,733)</u>	<u>1,289,502</u>	<u>(130,258,750)</u>
Total capital assets being depreciated, net	<u>261,791,579</u>	<u>(7,266,650)</u>	<u>(38,876)</u>	<u>254,486,053</u>
Total governmental activities	<u>\$ 654,270,555</u>	<u>\$ 24,611,480</u>	<u>\$ (9,141,755)</u>	<u>\$ 669,740,280</u>
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	(2,293,680)	\$ (382,355)		(2,676,035)
Total capital assets being depreciated, net	<u>16,824,078</u>	<u>(382,355)</u>		<u>16,441,723</u>
Total business type activities	<u>\$ 28,689,775</u>	<u>\$ (382,355)</u>	<u>\$ -</u>	<u>\$ 28,307,420</u>

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

The deletion in construction in progress of \$9,102,879 resulted in additions to land improvements and infrastructure.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 892,757
Community development	107,493
Public safety	923,121
Highways and streets	9,292,883
Culture and recreation	184,479
Total depreciation expense – governmental activities	<u>\$ 11,400,733</u>

Assets acquired through capital leases are as follows:

Furniture and equipment	\$ 2,819,406
Less: accumulated depreciation	<u>(2,502,492)</u>
Total	<u>\$ 316,914</u>

10. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
Bonds payable	\$296,610,000	\$ 52,805,000	\$ 6,990,000	\$342,425,000	\$7,260,000
Plus (less) deferred amounts:					
Issuance premium	5,306,495		209,586	5,096,909	
Issuance discount	(379,944)	(1,719,824)	(14,854)	(2,084,914)	
Charge on refunding	<u>(5,553,588)</u>		<u>(356,102)</u>	<u>(5,197,486)</u>	
Total bonds payable	295,982,963	51,085,176	6,828,630	340,239,509	7,260,000
Note payable	943,274	1,800,000	97,029	2,646,245	402,839
Cooperation agreement	27,807,536	174,110	2,479,656	25,501,990	2,351,486
Compensated absences	5,095,013	2,000,321	3,023,122	4,072,212	1,769,864
Due to other governments	<u>4,577,183</u>		<u>716,642</u>	<u>3,860,541</u>	<u>670,603</u>
Total	<u>\$334,405,969</u>	<u>\$ 55,059,607</u>	<u>\$13,145,079</u>	<u>\$376,320,497</u>	<u>\$12,454,792</u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

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.	\$ 44,265,000
In July 1997, the Redevelopment Agency issued \$9,465,000 1997 Series A Tax Allocation Bonds to finance the acquisition, construction and rehabilitation of affordable housing. The bonds consist of serial bonds of \$1,645,000 maturing from 1998 to 2007 in annual installments of \$135,000 to \$200,000 and term bonds of \$7,820,000 maturing October 1, 2027. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1997 at rates ranging from 4.2% to 6%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemption, in part, on October 1 of each year commencing 2008. The reserve requirement was fully funded at the end of the fiscal year.	7,145,000
In April 1998, the Redevelopment Agency issued \$7,490,000 1998 Series 1998A Tax Allocation Bonds to finance the acquisition and rehabilitation of an affordable housing project. The bonds consist of serial bonds of \$1,525,000 maturing from 1999 to 2009 in annual installments of \$110,000 to \$175,000 and term bonds of \$5,965,000 maturing October 1, 2028. Interest is payable semi-annually on April 1 and October 1 commencing October 1, 1998 at rates ranging from 3.95% to 5.67%. Bonds maturing on or after October 1, 2008 are subject to optional redemption, in whole or in part, on any date on or after October 1, 2007. Bonds maturing on October 1, 2028 are subject to mandatory sinking fund redemption, in part, on October 1, of each year commencing October 1, 2010. The reserve requirement was fully funded at the end of the fiscal year.	5,780,000

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

In May 2003, the San Marcos Public Facilities Authority issued \$69,740,000, 2003 Tax Allocation Revenue Bonds, Series A, to currently refund the Authority's Tax Allocation Bonds, 1993 Series A and to provide funds for certain capital projects. The bonds consists of serial bonds of \$33,810,000 maturing from 2004 to 2022 in annual installments of \$545,000 to \$2,395,000 and term bonds of \$9,110,000 and \$26,820,000 maturing August 1, 2026 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 2.50% to 5.25%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2013. A premium of \$2,645,051 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by \$1,756,751. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year.	60,400,000
In May 2003, the San Marcos Public Facilities Authority issued \$21,360,000, 2003 Tax Allocation Revenue Bonds, Series B, to currently refund a portion of the Senior Tax Allocation Bonds, Series 1999, to fully refund the Subordinate Tax Allocation bonds, Series 1999, and to provide funds for certain capital projects. The bonds consists of serial bonds of \$2,360,000 maturing from 2004 to 2009 in annual installments of \$355,000 to \$490,000 and term bonds of \$1,780,000, \$6,465,000 and \$10,755,000 maturing August 1, 2013, 2023 and 2033, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2003 at rates ranging from 1.75% to 5.79%. Bonds maturing on and after August 1, 2014 are subject to redemption in whole or in part at the option of the Authority on any interest payment date after August 1, 2013. The reacquisition price exceeded the net carrying amount of the old debt by \$280,136. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at year end.	18,580,000
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	

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

\$1,210,789 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debts by \$3,567,007. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year. 28,490,000

In May 2005, the San Marcos Public Facilities Authority issued \$33,265,000, 2005 Tax Allocation Revenue Bonds (Project Area No. 1 Refunding and Financing Project), Series B, to refund the Taxable Tax Allocation Refunding Bonds (Project Area No. 1), Series 1999, repay certain loans made by the City to the Agency, and reimburse the Agency for expenditures made in connection with certain redevelopment activities. The bonds consists of serial bonds of \$7,805,000 maturing from 2005 to 2015 in annual installments of \$150,000 to \$925,000 and term bonds of \$5,380,000, \$6,915,000, and \$13,165,000 maturing August 1, 2020, 2025 and 2034, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 3.30% to 5.35%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A discount of \$259,360 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by \$1,815,137. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The reserve requirement was fully funded at the end of the year. 29,700,000

In June 2005, the San Marcos Public Facilities Authority issued \$61,735,000, 2005 Tax Allocation Revenue Bonds (Project Areas No. 2 and No. 3 Financing Project), Series C, to finance certain capital projects of the Agency and the City. The bonds consists of serial bonds of \$23,015,000 maturing from 2006 to 2025 in annual installments of \$880,000 to \$1,410,000 and term bonds of \$4,475,000, \$18,135,000, and \$16,110,000 maturing August 1, 2028, 2035 and 2038, respectively. Interest is payable semi-annually on February 1 and August 1 commencing August 1, 2005 at rates ranging from 2.55% to 5.00%. Bonds maturing on and after August 1, 2016 are subject to redemption in whole or in part at the option of the Authority on any interest payment date on or after August 1, 2015. A premium of \$2,674,921 is being amortized over the life of the debt. The reserve requirement was fully funded at the end of the year. 56,030,000

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

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

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 year. 33,570,000

In August 2006, the San Marcos Public Facilities Authority issued \$6,740,000, 2006 Lease Revenue Refunding Bonds to refund the San Marcos Public Facilities Authority Lease Revenue Bonds, Series 1999. The bonds consist of serial bonds of \$4,140,000 maturing from 2006 to 2021 in annual installments of \$195,000 to \$345,000 and term bonds of \$1,125,000 and \$1,475,000 maturing November 4, 2024 and 2028, respectively. Interest is payable semi-annually on May 1 and November 1 commencing November 1, 2006 at rates ranging from 3.6% to 4.8%. A discount of \$69,998 is being amortized over the life of the debt. The reacquisition price exceeded the net carrying amount of the old debt by \$105,273. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt. The reserve requirement was fully funded at the end of the year. 5,660,000

In January 2011, the 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 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 \$342,425,000

The bond documents for the San Marcos Public Facilities Authority 2003 Tax Allocation Revenue Bonds Series A and B, the 2005 Tax Allocation Revenue Bonds Series A and B, and the 2006 Lease Revenue Refunding Bonds include a Reserved Fund Surety provided by FGIC for the purpose of funding 50% of the reserve requirement for each series of the bonds. Per section 3.04(d) of the indenture for the bonds, if the rating of the claims paying ability of FGIC falls below a rating of "A", the Authority shall either (i) deposit into the account of the Reserve Fund for which the surety was issued an amount equal to the reserve requirement over the ensuing year

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

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
2012	7,260,000	18,029,290	25,289,290
2013	7,555,000	17,728,138	25,283,138
2014	9,520,000	17,377,848	26,897,848
2015	9,905,000	16,972,947	26,877,947
2016	9,745,000	16,522,895	26,267,895
2017-2021	56,615,000	74,445,707	131,060,707
2022-2026	72,475,000	56,893,283	129,368,283
2027-2031	92,035,000	33,196,669	125,231,669
2032-2036	59,050,000	11,048,372	70,098,372
2037-2040	<u>18,265,000</u>	<u>1,165,729</u>	<u>19,430,729</u>
Total	<u>\$342,425,000</u>	<u>\$263,380,878</u>	<u>\$605,805,878</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.

\$ 846,245

In fiscal year 2010-11, the 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 from the Low and Moderate Income Housing Fund in sixty (60) equal monthly installments including interest at 4.5%

1,800,000

Total notes payable \$ 2,646,245

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

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

Year Ending June 30	Principal	Interest	Total
2012	402,839	115,202	518,041
2013	450,207	101,391	551,598
2014	471,868	79,730	551,598
2015	494,578	57,020	551,598
2016	518,388	33,210	551,598
2017-2018	308,365	23,010	331,375
Total	<u>\$ 2,646,245</u>	<u>\$ 409,563</u>	<u>\$ 3,055,808</u>

Cooperation Agreement:

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

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

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

\$ 25,501,990

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

11. PROPERTY TAXES

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

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

12. RETIREMENT

Plan Description:

The City of San Marcos contributes to the California Public Employees Retirement System (PERS). With respect to miscellaneous employees, the City's plan is an agent multiple-employer public employee defined benefit pension plan. With respect to safety employees, the City's plan is a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial reports may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Funding Policy:

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City pays the contribution required of City employees on their behalf and for their account. For the year ended June 30, 2011, the amount contributed by the City on behalf of the employees was \$1,640,228. The City is also required to contribute at an actuarially determined rate. The rates for 2011 were 21.028% for miscellaneous employees, and 24.257% 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.

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

Annual Pension Cost:

For the year ended June 30, 2011, the City's annual pension cost (employer contribution) of \$4,401,574 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. GASB Statement No. 27 requires that the actuarial valuation use data as of a valuation date not more than twenty-four months before the beginning of the employer's fiscal year. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of the valuation date is seventeen years for safety and twenty-four years for miscellaneous employees.

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

SCHEDULE OF FUNDING PROGRESS
 MISCELLANEOUS PLAN

Actuarial Valuation Date	Entry-Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Covered Payroll
6/30/08	\$66,454,307	\$45,696,056	\$20,758,251	68.8%	\$12,386,440	167.6%
6/30/09	76,471,895	49,829,978	26,641,917	65.2	12,579,983	211.8
6/30/10	82,290,473	53,988,712	28,301,761	65.6	12,750,052	222.0

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
6/30/09	21.118%	\$2,638,492	100%	-
6/30/10	20.764	2,728,066	100%	-
6/30/11	21.028	2,742,723	100%	-

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

ANNUAL PENSION COST (SAFETY)

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed	Net Pension Obligation
6/30/09	22.609%	\$1,445,014	100%	-
6/30/10	23.147	1,565,318	100%	-
6/30/11	24.257	1,658,850	100%	-

Defined Contribution Pension Plan:

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

For the year ended June 30, 2011, the City's total payroll and covered payroll was \$1,112,455. The City made employer contributions of \$21,694 (1.9% of current covered payroll), and employees contributed \$61,759 (5.6% of current covered payroll).

13. INSURANCE

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

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

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

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

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

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

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

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

Workers Compensation:

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

For claims arising prior to July 1, 2001, the City was responsible for the first \$250,000 of each loss. For claims arising during the year ended June 30, 2002, the deductible amount was \$400,000. For claims arising between July 1, 2002 and June 30, 2009, the deductible amount

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

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, 2011, the City had \$671,308 on deposit with PASIS and claims payable of \$656,062. Both are included within the General Fund.

14. JOINT VENTURES

a) The San Marcos Fire Protection District (the District) is a member of the North County Dispatch Joint Powers Authority (the JPA). The JPA was formed on June 11, 1984 by the Rancho Santa Fe Fire Protection District, the Solana Beach Fire Department, the Encinitas Fire Protection District, the Vista Fire Department, and the San Marcos Fire Protection District. The purpose of the JPA is to provide dispatching and emergency communication services for fire protection, security, and medical services. Each member provides an annually determined contribution towards the ongoing operation. In the event of dissolution of the JPA, available assets shall be distributed to the member agencies in proportion to the aggregate contribution made by each member agency during the entire term of the agreement. The activities of the JPA are supervised by a board consisting of five directors who are appointed by each member governing bodies. Summarized audited information of the JPA for the fiscal year ended June 30, 2011, the most current available information, is as follows:

Total assets	\$ 3,448,190
Liabilities	<u>(986,987)</u>
Net assets	<u>\$ 2,461,203</u>
Revenues	\$ 3,338,902
Expenses	<u>(3,312,418)</u>
Change in net assets	<u>\$ 26,484</u>

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

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

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

15. 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, 2011
City of San Marcos Community Facilities District No. 88-1, Series 1998, Improvement Area #1, 2, 3	\$ 33,560,000	\$ 23,175,000
City of San Marcos Community Facilities District No. 91-01, Special Tax Bonds, 2004 Series B	3,690,000	2,525,000
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	29,660,000
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	12,900,000
City of San Marcos Community Facilities District No. 2002-01 (University Commons), Special Tax Bonds, Series 2004 (Improvement Area No. 1)	22,500,000	20,180,000
City of San Marcos Community Facilities District No. 99-01, Special Tax Revenue Bonds, 2006 Series B (Improvement Area F2/V2, J, T, V1A)	13,660,000	13,010,000
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>25,050,000</u>
Total outstanding		<u>\$ 126,500,000</u>

The City, the Redevelopment Agency, the San Marcos Public Facilities Authority and the California Mobilehome Financing Authority have issued bonds to provide financing for the acquisition, construction and/or development of various residential dwelling units, industrial facilities, school facilities, facilities for the elderly and rental housing for low and moderate income persons. However, neither the faith and credit nor the general taxing power of the City, Agency or Authorities have been pledged to the payments of the bonds. Furthermore, the City,

CITY OF SAN MARCOS
 Notes to Basic Financial Statements (Continued)
 June 30, 2011

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</u> <u>June 30, 2011</u>
\$2,300,000 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Villa Serena Apartments), 2000 Series A	\$ 1,892,639
\$6,000,000 City of San Marcos Mobile Home Park Revenue Bonds, Series 1999 (Valle Verde)	6,000,000
\$9,304,230 Redevelopment Agency of the City of San Marcos Multifamily Housing Revenue Bonds (Autumn Ridge) Series 2000	8,929,633
\$15,800,000 Redevelopment Agency of the City of San Marcos Variable Rate Demand Multifamily Housing Revenue Bonds (Grandon Village) Series 2002A & 2002A-T	13,390,000
\$44,175,000 California Mobilehome Park Financing Authority Mobile Home Park Revenue Bonds (Palomar Estates East & West) Series 2003A & B	39,085,000
\$56,860,000 San Marcos Public Financing Authority Tax Increment Pass-through Revenue Refunding Bonds, San Marcos Unified School District, 2006 Series A	52,950,000
\$44,640,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Refunding Bonds, Series 2006 A, B, C (Union City Tropics)	41,760,000
\$11,655,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Fresno/Oceano)	10,065,000
\$21,985,000 California Mobilehome Park Financing Authority Mobile Home Parks Revenue Bonds, Series 2001 A, B, C (Rancho Vallecitos)	<u>19,805,000</u>
	<u><u>\$ 193,877,272</u></u>

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

16. 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.

17. DEFEASED BONDS

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

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

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

18. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures exceeded appropriation control levels in the General Fund (\$358,671), the Affordable Housing Assurance Special Revenue Fund (\$125,280), the Street Lighting District Special Revenue Fund (\$520), and the Community Development Block Grant Special Revenue Fund (\$78,150).

19. PLEDGED REVENUES

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

CITY OF SAN MARCOS
Notes to Basic Financial Statements (Continued)
June 30, 2011

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue</u>	<u>Annual Debt Service Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a % of Pledged Revenue</u>
Non Set-Aside Tax Increment:			
Project Area No. 1	\$ 11,886,337	\$ 7,881,886	66%
Project Area No. 2	5,480,048	4,926,179	90
Project Area No. 3	10,692,590	6,896,650	64
Set-Aside Tax Increment	13,144,947	1,192,696	9

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

20. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bill X1 26 into law as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already- incurred obligations, preserve its assets, prepare for the impending dissolution of the agency, and transfer all of its assets to a successor agency that is governed by an oversight board representing the various taxing jurisdictions in the community.

Assembly Bill X1 26 also required each agency to adopt an Enforceable Obligation Payment Schedule and draft an Recognized Obligation Payment Schedule prior to September 30, 2011. Enforceable obligations include bonds, loans, and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill X1 26. Only the amount of tax revenues necessary to fund the payments reflected on the Enforceable Obligation Payment Schedule will be allocated to the successor agencies.

Assembly Bill X1 26 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 Assembly Bill X1 26.

On December 29, 2011, the Supreme Court of the State of California upheld the enforceability of Assembly Bill X1 26. The full impacts of this most recent development and its impact on other funds of the City are not known at this time. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

**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, 2011

	Budgeted Amounts			Variance with Final Budget	
	Original	Final	Actual	Positive (Negative)	
Revenues:					
Taxes and special assessments	\$ 26,032,743	\$ 26,032,743	\$ 26,207,843	\$ 175,100	
Licenses and permits	4,459,549	4,459,549	4,722,075	262,526	
Intergovernmental	1,181,664	1,181,664	1,517,317	335,653	
Charges for services	10,872,941	10,872,941	11,273,011	400,070	
Developer fees			102,204	102,204	
Fines and forfeitures	252,600	252,600	284,452	31,852	
Use of money and property	7,140,879	7,140,879	6,817,267	(323,612)	
Miscellaneous	243,708	243,708	195,645	(48,063)	
Total revenues	<u>50,184,084</u>	<u>50,184,084</u>	<u>51,119,814</u>	<u>935,730</u>	
Expenditures:					
Current:					
General government	12,533,994	12,599,794	14,522,627	(1,922,833)	
Community development	6,343,480	6,343,480	5,514,814	828,666	
Public safety	28,440,026	28,441,526	27,317,174	1,124,352	
Highways, streets and parks	11,271,377	11,271,377	11,508,208	(236,831)	
Culture and recreation	2,647,846	2,666,046	2,711,871	(45,825)	
Capital outlay	<u>446,400</u>	<u>528,862</u>	<u>635,062</u>	<u>(106,200)</u>	
Total expenditures	<u>61,683,123</u>	<u>61,851,085</u>	<u>62,209,756</u>	<u>(358,671)</u>	
Excess (deficiency) of revenues over expenditures	<u>(11,499,039)</u>	<u>(11,667,001)</u>	<u>(11,089,942)</u>	<u>577,059</u>	
Other financing sources (uses):					
Sale of capital assets	5,000	5,000	38,876	33,876	
Transfers in	11,393,120	11,393,120	8,084,359	(3,308,761)	
Transfers out	<u>(140,000)</u>	<u>(140,000)</u>	<u>(51,558)</u>	<u>88,442</u>	
Total other financing sources (uses)	<u>11,258,120</u>	<u>11,258,120</u>	<u>8,071,677</u>	<u>(3,186,443)</u>	
Net change in fund balance	<u>(240,919)</u>	<u>(408,881)</u>	<u>(3,018,265)</u>	<u>(2,609,384)</u>	
Fund balance, beginning	<u>57,644,252</u>	<u>57,644,252</u>	<u>57,644,252</u>		
Fund balance, ending	<u>\$ 57,403,333</u>	<u>\$ 57,235,371</u>	<u>\$ 54,625,987</u>	<u>\$ (2,609,384)</u>	

CITY OF SAN MARCOS
 Schedule of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual
 Low and Moderate Income Housing Special Revenue Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes and special assessments	\$ 13,040,350	\$ 13,040,350	\$ 13,144,947	\$ 104,597
Use of money and property	740,773	740,773	839,159	98,386
Miscellaneous	29,280	1,500	90,053	88,553
Total revenues	<u>13,810,403</u>	<u>13,782,623</u>	<u>14,074,159</u>	<u>291,536</u>
Expenditures:				
Current:				
General government	1,090,751	1,090,751	1,062,920	27,831
Community development	2,222,000	2,222,000	3,781,487	(1,559,487)
Capital outlay	18,972,500	18,972,500	8,060,417	10,912,083
Debt service:				
Interest and fiscal charges			732,003	(732,003)
Cost of issuance			674,238	(674,238)
Total expenditures	<u>22,285,251</u>	<u>22,285,251</u>	<u>14,311,065</u>	<u>7,974,186</u>
Deficiency of revenues over expenditures	<u>(8,474,848)</u>	<u>(8,502,628)</u>	<u>(236,906)</u>	<u>8,265,722</u>
Other financing sources (uses):				
Gain on sale of land held for resale			67,970	67,970
Proceeds of long-term debt			54,605,000	54,605,000
Discount on bonds issued			(1,719,824)	(1,719,824)
Transfers out	<u>(1,192,696)</u>	<u>(1,192,696)</u>	<u>(6,706,720)</u>	<u>(5,514,024)</u>
Net change in fund balance	<u>(9,667,544)</u>	<u>(9,695,324)</u>	<u>46,009,520</u>	<u>55,704,844</u>
Fund balance, beginning	<u>31,297,370</u>	<u>31,297,370</u>	<u>31,297,370</u>	
Fund balance, ending	<u>\$ 21,629,826</u>	<u>\$ 21,602,046</u>	<u>\$ 77,306,890</u>	<u>\$ 55,704,844</u>

CITY OF SAN MARCOS
Note to Required Supplementary Information
June 30, 2011

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 \$167,962 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: Proposition 1B Special Revenue Fund, Center Drive Maintenance District Special Revenue Fund and the California Mobilehome Park Financing Authority Debt Service Fund. Annual budgets are not adopted for the Capital Projects Funds. Therefore, budget and actual financial statements have not been prepared because a comparison of such budgetary amounts to annual revenues and expenditures is not meaningful.

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

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

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

Debt Service Funds

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

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

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

Capital Projects Funds

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

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

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

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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

Permanent Fund

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

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

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Assets			
Cash and investments	\$ 13,299,805		\$ 6,938,222
Cash and investments with fiscal agents		\$ 280,160	707,163
Receivables:			
Taxes and special assessments	26,335		
Accounts	5,403		2,564,819
Interest	28,681		32,399
Notes	4,179,895		
Other	32,937		120,516
Due from other governments	1,546,977		1,492,675
Deposits	52,077		71,893
Land held for resale			858,348
 Total assets	 \$ 19,172,110	 \$ 280,160	 \$ 12,786,035
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 339,374		\$ 310,571
Accrued liabilities	44,063		209,713
Due to other funds	1,220,979	\$ 225,292	1,485,645
Deferred revenue	4,212,832		120,516
Deposits	10,389		567,354
 Total liabilities	 5,827,637	 225,292	 2,693,799
Fund balances:			
Nonspendable:			
Permanent fund			
Restricted:			
Debt service		54,868	
Capital projects			10,092,236
Other purposes	13,344,473		
 Total fund balances	 13,344,473	 54,868	 10,092,236
 Total liabilities and fund balances	 \$ 19,172,110	 \$ 280,160	 \$ 12,786,035

Permanent Fund		
Community Foundation		Total
\$ 25,968	\$ 20,263,995	
	987,323	
	26,335	
	2,570,222	
51	61,131	
	4,179,895	
	153,453	
	3,039,652	
1,218,708	1,342,678	
	858,348	
<hr/>	<hr/>	<hr/>
\$ 1,244,727	\$ 33,483,032	

\$ 137	\$ 650,082	
	253,776	
	2,931,916	
	4,333,348	
	577,743	
<hr/>	<hr/>	<hr/>
137	8,746,865	

1,244,590	1,244,590	
	54,868	
	10,092,236	
	13,344,473	
<hr/>	<hr/>	<hr/>
1,244,590	24,736,167	
<hr/>	<hr/>	<hr/>
\$ 1,244,727	\$ 33,483,032	

CITY OF SAN MARCOS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Revenues:			
Taxes and special assessments	\$ 5,120,789		
Intergovernmental	4,686,185		4,522,004
Developer fees	467,144		3,165,399
Use of money and property	242,856	487,959	76,904
Miscellaneous	112,908		100,000
 Total revenues	 10,629,882	 487,959	 7,864,307
Expenditures:			
Current:			
General government	249,484		
Community development	926,709		
Highways, streets and parks	1,871,590		
Culture and recreation	90,762		
Capital outlay	1,594,335		4,776,079
Debt service:			
Principal	215,000		97,029
Interest and fiscal charges	254,490		52,078
 Total expenditures	 4,732,880	 469,490	 4,925,186
 Excess (deficiency) of revenues over expenditures	 5,897,002	 18,469	 2,939,121
Other financing sources (uses):			
Transfers in	807		51,558
Transfers out	(4,898,166)		(20,000)
 Total other financing sources (uses)	 (4,897,359)		 31,558
 Net change in fund balances	 999,643	 18,469	 2,970,679
 Fund balances, beginning	 12,344,830	 36,399	 7,121,557
 Fund balances, ending	 \$ 13,344,473	 54,868	 10,092,236

Permanent Fund Community Foundation	Total
	5,120,789
	9,208,189
	3,632,543
228,802	1,036,521
3,359	216,267
<u>232,161</u>	<u>19,214,309</u>
	249,484
	926,709
	1,871,590
11,421	102,183
	6,370,414
	312,029
	306,568
<u>11,421</u>	<u>10,138,977</u>
<u>220,740</u>	<u>9,075,332</u>
	52,365
	(4,918,166)
	(4,865,801)
220,740	4,209,531
<u>1,023,850</u>	<u>20,526,636</u>
<u>1,244,590</u>	<u>24,736,167</u>

CITY OF SAN MARCOS
 Combining Balance Sheet
 Non-Major Special Revenue Funds
 June 30, 2011

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Affordable Housing Assurance	Street Lighting District	Senior Nutrition Grant
Assets						
Cash and investments	\$ 1,497,382	438,195	8,983,888	1,990,463		32,710
Receivables:						
Taxes and special assessments			23,727		2,608	
Accounts			5,153		250	
Interest	2,458	854	19,974	3,941	57	52
Notes				3,104,797		
Other		32,937				
Due from other governments	250,790	25,539				13,298
Deposits				52,077		
 Total assets	 <u>\$ 1,750,630</u>	 <u>497,525</u>	 <u>9,032,742</u>	 <u>5,151,278</u>	 <u>2,915</u>	 <u>46,060</u>
 Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 34,375	2,644				5,508
Accrued liabilities	42,432					1,114
Due to other funds					2,915	
Deferred revenue		32,937		3,104,797		
Deposits		10,389				
 Total liabilities	 <u>76,807</u>	 <u>45,970</u>		 <u>3,104,797</u>	 <u>2,915</u>	 <u>6,622</u>
Fund balances:						
Restricted	<u>1,673,823</u>	<u>451,555</u>	<u>9,032,742</u>	<u>2,046,481</u>		<u>39,438</u>
 Total fund balances	 <u>1,673,823</u>	<u>451,555</u>	<u>9,032,742</u>	<u>2,046,481</u>		 <u>39,438</u>
 Total liabilities and fund balances	 <u>\$ 1,750,630</u>	 <u>497,525</u>	 <u>9,032,742</u>	 <u>5,151,278</u>	 <u>2,915</u>	 <u>46,060</u>

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Proposition 1B	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
149		268,050		88,968		13,299,805
					26,335	
					5,403	
		1,173		172	28,681	
		1,075,098			4,179,895	
					32,937	
481,655	465,169				1,546,977	
					52,077	
481,804	1,540,267	269,223	-	89,140	310,526	19,172,110
25,377	2,374	269,096			339,374	
149					368	44,063
456,278	462,795				298,991	1,220,979
	1,075,098					4,212,832
						10,389
481,804	1,540,267	269,096			299,359	5,827,637
-	127	127		89,140	11,167	13,344,473
-	127	127		89,140	11,167	13,344,473
481,804	1,540,267	269,223	-	89,140	310,526	19,172,110

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, 2011

	Gas Tax	Traffic Safety	Community Facilities District 98-02	Affordable Housing Assurance	Street Lighting District	Senior Nutrition Grant
Revenues:						
Taxes and special assessments			4,564,015		538,698	
Intergovernmental	\$ 2,175,739	284,609				94,437
Developer fees		15,619		451,525		
Use of money and property	14,977	7,045	154,029	51,999	875	329
Miscellaneous			18,137			35,434
Total revenues	2,190,716	307,273	4,736,181	503,524	539,573	130,200
Expenditures:						
Current:						
General government				247,859		
Community development				141,375	520	
Highways, streets and parks		1,053,485				90,762
Culture and recreation						
Capital outlay		377,767				
Total expenditures	1,053,485	377,767	-	389,234	520	90,762
Excess (deficiency) of revenues over expenditures	1,137,231	(70,494)	4,736,181	114,290	539,053	39,438
Other financing sources (uses):						
Transfers in						
Transfers out			(4,217,743)		(539,053)	
Total other financing sources (uses)			(4,217,743)		(539,053)	
Net change in fund balances	1,137,231	(70,494)	518,438	114,290		39,438
Fund balances, beginning	536,592	522,049	8,514,304	1,932,191		
Fund balances, ending	\$ 1,673,823	451,555	9,032,742	2,046,481	-	39,438

Community Development Block Grant	HOME Grant	Traffic Congestion Relief	Proposition 1B	Center Drive Maintenance District	Energy Efficiency & Conservation Block Grant	Total
1,189,369	624,062			18,076	317,969	5,120,789
						4,686,185
						467,144
140		12,268		1,334		242,856
		36,000			23,197	112,908
<u>1,189,509</u>	<u>624,062</u>	<u>48,268</u>	<u>-</u>	<u>19,410</u>	<u>341,166</u>	<u>10,629,882</u>
179,574	605,240				1,625	249,484
		818,105				926,709
						1,871,590
888,194					328,374	90,762
<u>1,067,768</u>	<u>605,240</u>	<u>818,105</u>	<u>-</u>	<u>-</u>	<u>329,999</u>	<u>1,594,335</u>
121,741	18,822	(769,837)		19,410	11,167	5,897,002
(121,741)	(18,822)	807	(807)			807
						(4,898,166)
(121,741)	(18,822)	807	(807)			(4,897,359)
-		(769,030)	(807)	19,410	11,167	999,643
		769,157	807	69,730		12,344,830
-	-	127	-	89,140	11,167	<u>13,344,473</u>

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 1,324,703	1,324,703	2,175,739	851,036
Use of money and property	500	500	14,977	14,477
Total revenues	<u>1,325,203</u>	<u>1,325,203</u>	<u>2,190,716</u>	<u>865,513</u>
Expenditures:				
Current:				
Highways, streets and parks	<u>1,130,820</u>	<u>1,130,820</u>	<u>1,053,485</u>	<u>77,335</u>
Net change in fund balance	194,383	194,383	1,137,231	942,848
Fund balance, beginning	<u>536,592</u>	<u>536,592</u>	<u>536,592</u>	<u></u>
Fund balance, ending	<u>\$ 730,975</u>	<u>730,975</u>	<u>1,673,823</u>	<u>942,848</u>

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 300,000	300,000	284,609	(15,391)
Developer fees	15,619	15,619	15,619	
Use of money and property	3,097	3,097	7,045	3,948
Total revenues	<u>318,716</u>	<u>318,716</u>	<u>307,273</u>	<u>(11,443)</u>
Expenditures:				
Capital outlay	<u>549,090</u>	<u>549,090</u>	<u>377,767</u>	<u>171,323</u>
Net change in fund balance	(230,374)	(230,374)	(70,494)	159,880
Fund balance, beginning	<u>522,049</u>	<u>522,049</u>	<u>522,049</u>	
Fund balance, ending	<u>\$ 291,675</u>	<u>291,675</u>	<u>451,555</u>	<u>159,880</u>

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes and special assessments	\$ 4,400,000	4,400,000	4,564,015	164,015
Use of money and property	75,000	75,000	154,029	79,029
Miscellaneous			18,137	18,137
 Total revenues	 4,475,000	 4,475,000	 4,736,181	 261,181
Other financing uses:				
Transfers out	(4,300,000)	(4,300,000)	(4,217,743)	82,257
 Net change in fund balance	 175,000	 175,000	 518,438	 343,438
Fund balance, beginning	8,514,304	8,514,304	8,514,304	
 Fund balance, ending	 \$ 8,689,304	 8,689,304	 9,032,742	 343,438

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Affordable Housing Assurance Special Revenue Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Developer fees	\$ 97,500	97,500	451,525	354,025
Use of money and property	10,000	10,000	51,999	41,999
Total revenues	<u>107,500</u>	<u>107,500</u>	<u>503,524</u>	<u>396,024</u>
Expenditures:				
Current:				
General government	263,954	263,954	247,859	16,095
Community development			141,375	(141,375)
Total expenditures	<u>263,954</u>	<u>263,954</u>	<u>389,234</u>	<u>(125,280)</u>
Net change in fund balance	(156,454)	(156,454)	114,290	270,744
Fund balance, beginning	<u>1,932,191</u>	<u>1,932,191</u>	<u>1,932,191</u>	
Fund balance, ending	<u>\$ 1,775,737</u>	<u>1,775,737</u>	<u>2,046,481</u>	<u>270,744</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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes and special assessments	\$ 535,700	535,700	538,698	2,998
Use of money and property	100	100	875	775
Total revenues	535,800	535,800	539,573	3,773
Expenditures:				
Current:				
Community development			520	(520)
Excess (deficiency) of				
revenues over				
expenditures	535,800	535,800	539,053	3,253
Other financing uses:				
Transfers out	(535,800)	(535,800)	(539,053)	(3,253)
Net change in fund balance				3,253
Fund balance, beginning				
Fund balance, ending	\$ -	-	-	3,253

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 98,000	98,000	94,437	(3,563)
Use of money and property	50	50	329	279
Miscellaneous	35,080	35,080	35,434	354
Total revenues	133,130	133,130	130,200	(2,930)
Expenditures:				
Current:				
Culture and recreation	133,130	133,130	90,762	42,368
Net change in fund balance			39,438	39,438
Fund balance, beginning				
Fund balance, ending	\$ -	-	39,438	39,438

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 977,888	977,888	1,189,369	211,481
Miscellaneous			140	140
Total revenues	\$ 977,888	977,888	1,189,509	211,621
Expenditures:				
Current:				
Community development	42,700	42,700	179,574	(136,874)
Capital outlay	946,918	946,918	888,194	58,724
Total expenditures	989,618	989,618	1,067,768	(78,150)
Excess (deficiency) of revenues over expenditures	(11,730)	(11,730)	121,741	133,471
Other financing uses:				
Transfers out	(135,800)	(135,800)	(121,741)	14,059
Net change in fund balance	(147,530)	(147,530)	-	147,530
Fund balance, beginning				
Fund balance, ending	\$ (147,530)	(147,530)	-	147,530

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 743,520	743,520	624,062	(119,458)
Expenditures:				
Current:				
Community development	737,000	737,000	605,240	131,760
Excess (deficiency) of revenues over expenditures	6,520	6,520	18,822	12,302
Other financing uses:				
Transfers out	(6,520)	(6,520)	(18,822)	(12,302)
Net change in fund balances				
Fund balance, beginning				
Fund balance, ending	\$ -	-	-	-

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Traffic Congestion Relief Special Revenue Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 823,984	823,984		(823,984)
Use of money and property	1,000	1,000	12,268	11,268
Miscellaneous			36,000	36,000
Total revenues	<u>824,984</u>	<u>824,984</u>	<u>48,268</u>	<u>(776,716)</u>
Expenditures:				
Highways, streets and parks	<u>824,984</u>	<u>824,984</u>	<u>818,105</u>	<u>6,879</u>
Excess of revenues over expenditures			(769,837)	(769,837)
Other financing sources:				
Transfers in			<u>807</u>	<u>807</u>
Net change in fund balance			(769,030)	(769,030)
Fund balance, beginning	<u>769,157</u>	<u>769,157</u>	<u>769,157</u>	
Fund balance, ending	<u>\$ 769,157</u>	<u>769,157</u>	<u>127</u>	<u>(769,030)</u>

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 612,623	612,623	317,969	(294,654)
Miscellaneous			23,197	23,197
Total revenues	612,623	612,623	341,166	(271,457)
Expenditures:				
Current:				
General government	75,000	75,000	1,625	73,375
Capital outlay	537,623	537,623	328,374	209,249
Total expenditures	612,623	612,623	329,999	282,624
Net change in fund balance			11,167	11,167
Fund balance, beginning				
Fund balance, ending	\$ -	-	11,167	11,167

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Debt Service Funds
June 30, 2011

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
Assets			
Cash and investments with fiscal agents	\$ 3,631	<u>276,529</u>	<u>280,160</u>
Liabilities and Fund Balances			
Liabilities:			
Due to other funds		225,292	225,292
Fund balances:			
Restricted:			
Debt service	\$ 3,631	<u>51,237</u>	<u>54,868</u>
Total liabilities and fund balances	<u>\$ 3,631</u>	<u>276,529</u>	<u>280,160</u>

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, 2011

	California Mobilehome Park Financing Authority	San Marcos Public Facilities Authority	Total
Revenues:			
Use of money and property		487,959	487,959
Expenditures:			
Debt service:			
Principal		215,000	215,000
Interest and fiscal charges		254,490	254,490
Total expenditures		469,490	469,490
Net change in fund balances		18,469	18,469
Fund balances, beginning	\$ 3,631	32,768	36,399
Fund balances, ending	<u>\$ 3,631</u>	<u>51,237</u>	<u>54,868</u>

CITY OF SAN MARCOS
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Redevelopment Agency Debt Service Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes and special assessments	\$ 42,606,253	42,606,253	42,862,987	256,734
Use of money and property	574,607	574,607	958,360	383,753
Miscellaneous	438,111	438,111	438,111	
Total revenues	43,618,971	43,618,971	44,259,458	640,487
Expenditures:				
Current:				
General government	356,679	356,679	548,026	(191,347)
Tax increment distributions to other governmental agencies	15,841,869	15,841,869	16,266,743	(424,874)
SERAFF payment	4,163,078	4,163,078	4,163,078	
Debt service:				
Principal	9,181,293	9,181,293	9,254,656	(73,363)
Interest and fiscal charges	15,412,127	15,412,127	14,658,783	753,344
Total expenditures	44,955,046	44,955,046	44,891,286	63,760
Excess of revenues over expenditures	(1,336,075)	(1,336,075)	(631,828)	704,247
Other financing sources:				
Long-term debt issued	326,347	326,347	174,110	(152,237)
Transfers in	1,192,696	1,192,696	1,181,230	(11,466)
Total other financing sources	1,519,043	1,519,043	1,355,340	(163,703)
Net change in fund balance	182,968	182,968	723,512	540,544
Fund balance, beginning	35,555,642	35,555,642	35,555,642	
Fund balance, ending	\$ 35,738,610	35,738,610	36,279,154	540,544

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Use of money and property	\$ 494,009	494,009	487,959	(6,050)
Expenditures:				
Debt service:				
Principal	215,000	215,000	215,000	
Interest and fiscal charges	254,490	254,490	254,490	
Total expenditures	469,490	469,490	469,490	
Net change in fund balance	24,519	24,519	18,469	(6,050)
Fund balance, beginning	32,768	32,768	32,768	
Fund balance, ending	\$ 57,287	57,287	51,237	(6,050)

CITY OF SAN MARCOS
Combining Balance Sheet
Non-Major Capital Projects Funds
June 30, 2011

	<u>Transportation Development Act</u>	<u>Public Facility</u>	<u>Capital Improvements</u>
Assets			
Cash and investments	\$ 276,896	5,688,614	708,116
Cash and investments with fiscal agents			
Receivables:			
Accounts			
Interest	379	11,011	
Other		120,516	
Due from other governments			1,492,675
Deposits		71,893	
Land held for resale		858,348	
	<hr/>	<hr/>	<hr/>
Total assets	<hr/> <u>\$ 277,275</u>	<hr/> <u>6,750,382</u>	<hr/> <u>2,200,791</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 5,039	35,276	151,986
Accrued liabilities			1,314
Deferred revenue		120,516	
Due to other funds			567,354
Deposits			
	<hr/>	<hr/>	<hr/>
Total liabilities	<hr/> <u>5,039</u>	<hr/> <u>155,792</u>	<hr/> <u>720,654</u>
Fund balances:			
Restricted for:			
Capital projects	<hr/> <u>272,236</u>	<hr/> <u>6,594,590</u>	<hr/> <u>1,480,137</u>
Total fund balances	<hr/> <u>272,236</u>	<hr/> <u>6,594,590</u>	<hr/> <u>1,480,137</u>
Total liabilities and fund balances	<hr/> <u>\$ 277,275</u>	<hr/> <u>6,750,382</u>	<hr/> <u>2,200,791</u>

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, 2011

	Transportation Development Act	Public Facility	Capital Improvements
Revenues:			
Intergovernmental			1,977,157
Developer fees		3,165,399	
Use of money and property	\$ 3,954	68,592	
Miscellaneous			100,000
Total revenues	3,954	3,233,991	2,077,157
Expenditures:			
Capital outlay	-	621,752	2,225,316
Debt service:			
Principal		97,029	
Interest and fiscal charges		51,880	
Total expenditures	-	770,661	2,225,316
Excess (deficiency) of revenues over expenditures	3,954	2,463,330	(148,159)
Other financing sources (uses):			
Transfers in			51,558
Transfers out		(20,000)	
Total other financing sources (uses)	-	(20,000)	51,558
Net change in fund balances	3,954	2,443,330	(96,601)
Fund balances, beginning	268,282	4,151,260	1,576,738
Fund balances, ending	\$ 272,236	6,594,590	1,480,137

Community Facilities District 99-01	Transportation Sales Tax	Community Facilities District 02-01	Total
	2,544,847		4,522,004
			3,165,399
	4,358		76,904
			100,000
<hr/>	<hr/>	<hr/>	<hr/>
-	2,544,847	4,358	7,864,307
	1,929,011		4,776,079
			97,029
198			52,078
<hr/>	<hr/>	<hr/>	<hr/>
198	1,929,011		4,925,186
(198)	615,836	4,358	2,939,121
		51,558	
		(20,000)	
<hr/>	<hr/>	<hr/>	<hr/>
-	-	-	31,558
(198)	615,836	4,358	2,970,679
<hr/>	<hr/>	<hr/>	<hr/>
712,260	157,152	255,865	7,121,557
<hr/>	<hr/>	<hr/>	<hr/>
712,062	772,988	260,223	10,092,236
<hr/>	<hr/>	<hr/>	<hr/>

CITY OF SAN MARCOS
Combining Balance Sheet
All Agency Funds
June 30, 2011

	1915 Act Assessment District	Deposits	Twin Oaks Reimbursement	Community Facilities District 88-1
Assets				
Cash and investments	\$ 55,897	2,994,324	-	7
Cash and investments with fiscal agents				4,866,768
Receivables:				
Special assessments	110	535	-	18,819
Interest				48,856
Total assets	\$ 56,007	2,994,859	-	4,934,450
Liabilities				
Due to bondholders	\$ 56,007	2,994,859	-	4,934,450
Deposits payable				
Total liabilities	\$ 56,007	2,994,859	-	4,934,450

Community Facilities District 99-1	Community Facilities District 02-01	Total
2,825	25,157	3,078,210
10,313,147	2,732,550	17,912,465
25,278	4,535	48,632
9,607	2,870	61,978
<u><u>10,350,857</u></u>	<u><u>2,765,112</u></u>	<u><u>21,101,285</u></u>
10,350,857	2,765,112	18,106,426
		2,994,859
<u><u>10,350,857</u></u>	<u><u>2,765,112</u></u>	<u><u>21,101,285</u></u>

CITY OF SAN MARCOS
 Combining Statement of Changes in Assets and Liabilities
 All Agency Funds
 For the Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<u>1915 ACT Assessment District</u>				
Assets:				
Cash and investments	\$ 54,880	1,017	97	55,897
Interest receivable	97	110	97	110
Total assets	<u>\$ 54,977</u>	<u>1,127</u>	<u>97</u>	<u>56,007</u>
Liabilities:				
Due to bondholders	<u>\$ 54,977</u>	<u>1,087</u>	<u>57</u>	<u>56,007</u>
<u>Deposits</u>				
Assets:				
Cash and investments	\$ 2,580,815	1,745,422	1,331,913	2,994,324
Interest receivable	535	535	535	535
Total assets	<u>2,580,815</u>	<u>1,745,957</u>	<u>1,331,913</u>	<u>2,994,859</u>
Liabilities:				
Deposits payable	<u>\$ 2,580,815</u>	<u>3,033,464</u>	<u>2,619,420</u>	<u>2,994,859</u>
<u>Twin Oaks Reimbursement</u>				
Assets:				
Cash and investments	\$ 21,642	1,051	22,693	-
Interest receivable	1,047	1,047	1,047	-
Total assets	<u>\$ 22,689</u>	<u>1,051</u>	<u>23,740</u>	<u>-</u>
Liabilities:				
Deposits payable	<u>\$ 22,689</u>	<u>23,315</u>	<u>46,004</u>	<u>-</u>

(Continued)

CITY OF SAN MARCOS
 Combining Statement of Changes in Assets and Liabilities
 All Agency Funds (Continued)
 For the Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<u>Community Facilities District 88-1</u>				
Assets:				
Cash and investments	\$ 630	2,738,865	2,739,488	7
Cash and investments with fiscal agents	4,863,619	2,887,859	2,884,710	4,866,768
Special assessments receivable	23,825	18,819	23,825	18,819
Interest receivable	50,301	48,856	50,301	48,856
Total assets	<u>\$ 4,938,375</u>	<u>5,694,399</u>	<u>5,698,324</u>	<u>4,934,450</u>
Liabilities:				
Due to bondholders	\$ 4,938,375	2,956,457	2,960,382	4,934,450
<u>Community Facilities District 99-1</u>				
Assets:				
Cash and investments	\$ 13,073	6,652,209	6,662,457	2,825
Cash and investments with fiscal agents	10,281,293	6,680,569	6,648,715	10,313,147
Special assessments receivable	38,803	25,278	38,803	25,278
Interest receivable	8,575	9,607	8,575	9,607
Total assets	<u>\$ 10,341,744</u>	<u>13,367,663</u>	<u>13,358,550</u>	<u>10,350,857</u>
Liabilities:				
Due to bondholders	\$ 10,341,744	6,775,154	6,766,041	10,350,857

(Continued)

CITY OF SAN MARCOS
Combining Statement of Changes in Assets and Liabilities
All Agency Funds (Continued)
For the Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<u>Community Facilities District 02-01</u>				
Cash and investments	\$ 2,920	1,937,587	1,915,350	25,157
Cash and investments with fiscal agents	2,723,381	1,895,628	1,886,459	2,732,550
Special assessments receivable	5,006	4,535	5,006	4,535
Interest receivable	2,539	2,870	2,539	2,870
Total assets	\$ 2,733,846	3,840,620	3,809,354	2,765,112
 Liabilities:				
Due to bondholders	\$ 2,733,846	1,886,526	1,855,260	2,765,112
 <u>Total - All Agency Funds</u>				
 Assets:				
Cash and investments	\$ 2,673,960	13,076,151	12,671,901	3,078,210
Cash and investments with fiscal agents	17,868,293	11,464,056	11,419,884	17,912,465
Special assessments receivable	67,634	48,632	67,634	48,632
Interest receivable	62,559	61,978	62,559	61,978
Total assets	\$ 20,672,446	24,650,817	24,221,978	21,101,285
 Liabilities:				
Due to bondholders	\$ 18,068,942	11,619,224	11,581,740	18,106,426
Deposits payable	2,603,504	3,056,779	2,665,424	2,994,859
 Total liabilities	\$ 20,672,446	14,676,003	14,247,164	21,101,285

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 These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time.	102
Revenue Capacity These schedules contain information to help the reader assess one of the City's most significant local revenue source, the property tax.	112
Debt Capacity 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.	118
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	128
Operating Information 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.	131

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		
	2004	2005	2006
Governmental Activities:			
Invested in capital assets, net of related debt	\$ 261,321,180	\$ 307,123,731	\$ 341,437,352
Restricted/expendable for:			
Capital projects	13,503,228	28,457,759	-
Low and moderate income housing	44,824,880	56,344,305	67,616,923
Landscape Maintenance	3,542,787	4,876,677	6,888,685
Other purposes	2,252,019	3,104,720	3,287,401
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	10,903,431	(4,329,030)	7,941,869
Total governmental activities net assets	<u>\$ 337,347,525</u>	<u>\$ 396,578,162</u>	<u>\$ 428,172,230</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 26,803,440	\$ 30,590,054	\$ 30,219,195
Unrestricted	\$ (1,124,068)	3,518,958	3,859,791
Total business-type activities net assets	<u>\$ 25,679,372</u>	<u>\$ 34,109,012</u>	<u>\$ 34,078,986</u>
Primary Government:			
Invested in capital assets, net of related debt	\$ 288,124,620	\$ 337,713,785	\$ 371,656,547
Restricted/expendable for:			
Capital projects	13,503,228	28,457,759	-
Low and moderate income housing	44,824,880	56,344,305	67,616,923
Landscape Maintenance	3,542,787	4,876,677	6,888,685
Other purposes	2,252,019	3,104,720	3,287,401
Restricted/nonexpendable	1,000,000	1,000,000	1,000,000
Unrestricted	9,779,363	(810,072)	11,801,660
Total primary government net assets	<u>\$ 363,026,897</u>	<u>\$ 430,687,174</u>	<u>\$ 462,251,216</u>

Note:

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

Fiscal Year					
2007	2008	2009	2010	2011	
\$ 376,880,228	\$ 430,516,043	\$ 460,101,619	\$ 484,423,039	\$ 499,416,669	
81,735,288	99,574,127	115,805,089	120,917,457	119,927,089	
8,722,189	8,662,907	8,999,420	8,514,304	9,032,742	
3,937,485	4,012,114	3,904,177	4,378,971	6,026,400	
1,000,000	1,000,000	905,850	1,023,850	1,244,590	
13,628,356	8,782,155	2,504,296	(11,409,150)	(6,504,167)	
<u>\$ 485,903,546</u>	<u>\$ 552,547,346</u>	<u>\$ 592,220,451</u>	<u>\$ 607,848,471</u>	<u>\$ 629,143,323</u>	
 \$ 29,836,841	 \$ 29,454,485	 \$ 29,072,130	 \$ 28,689,775	 \$ 28,307,420	
<u>2,586,159</u>	<u>3,464,423</u>	<u>6,698,002</u>	<u>8,442,809</u>	<u>8,052,471</u>	
<u>\$ 32,423,000</u>	<u>\$ 32,918,908</u>	<u>\$ 35,770,132</u>	<u>\$ 37,132,584</u>	<u>\$ 36,359,891</u>	
 \$ 406,717,069	 \$ 459,970,528	 \$ 489,173,749	 \$ 513,112,814	 \$ 527,724,089	
81,735,288	99,574,127	115,805,089	120,917,457	119,927,089	
8,722,189	8,662,907	8,999,420	8,514,304	9,032,742	
3,937,485	4,012,114	3,904,177	4,378,971	6,026,400	
1,000,000	1,000,000	905,850	1,023,850	1,244,590	
16,214,515	12,246,578	9,202,298	(2,966,341)	1,548,304	
<u>\$ 518,326,546</u>	<u>\$ 585,466,254</u>	<u>\$ 627,990,583</u>	<u>\$ 644,981,055</u>	<u>\$ 665,503,214</u>	

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

	Fiscal Year			
	2004	2005	2006	2007
Expenses:				
Governmental Activities:				
General government	\$ 7,924,933	\$ 8,712,101	\$ 10,209,504	\$ 12,936,083
Community development	4,732,002	9,493,749	4,559,304	6,445,848
Public safety	17,841,928	19,739,954	23,522,750	25,457,293
Highways, streets and parks	18,547,037	37,769,998	50,801,530	39,763,214
Culture and recreation	2,084,840	2,448,993	2,728,120	2,940,238
Interest on long-term debt	11,837,828	13,778,060	15,377,060	17,108,204
Total governmental activities expenses	62,968,568	91,942,855	107,198,268	104,650,880
Business-type activities:				
Creekside Marketplace	35,734	771,116	1,170,953	1,136,959
Utility	288,947	47,908	20,395	
Total business-type activities expenses	324,681	819,024	1,191,348	1,136,959
Total primary government expenses	63,293,249	92,761,879	108,389,616	105,787,839
Program Revenues:				
Governmental Activities:				
Charges for services:				
General government (3)	4,371,792	4,753,376	5,233,634	6,116,176
Community development (3)	9,193,518	8,411,715	5,787,928	2,996,263
Public safety	5,867,367	6,395,110	6,846,519	7,191,131
Highways, streets and parks (2) (3)	5,725,413	5,197,553	6,452,402	6,768,511
Culture and recreation (2)	1,075,941	1,210,905	1,372,086	1,502,296
Operating grants and contributions	1,856,922	2,151,934	2,533,966	2,802,258
Capital contributions and grants	95,098,532	65,927,749	30,747,184	38,214,638
Total governmental activities program revenues	123,189,485	94,048,342	58,973,719	65,591,273
Business-type activities:				
Charges for services:				
Creekside Marketplace	404,410	3,435,437	3,954,995	4,192,527
Total business-type activities program revenues	404,410	3,435,437	3,954,995	4,192,527
Total primary government program revenues	123,189,485	97,483,779	62,928,714	69,783,800
Net (expenses) revenues:				
Governmental activities	2,105,487	(48,224,549)	(39,059,607)	(26,056,254)
Business-type activities	2,616,413	2,763,647	3,055,568	3,066,739
Total primary government net (expenses)/revenues	4,721,900	(45,460,902)	(36,004,039)	(22,989,515)

Notes:

- (1) The City implemented GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", in fiscal year 2003. Therefore, ten years of data is not available.
- (2) Amounts have been restated to reflect lighting and landscaping expenditures as part of highways, streets, and parks instead of culture and recreation.
- (3) Beginning in fiscal year 2009-2010, all costs relating to the construction inspection function are reported under community development instead of highways, streets, and parks. Also, the storm water management function is under general government instead of highways, streets, and parks.

Fiscal Year				
2008	2009	2010	2011	
\$ 14,175,161	\$ 14,639,790	\$ 15,990,955	\$ 18,106,693	
4,912,297	4,815,602	6,366,892	5,739,531	
27,983,233	28,733,922	28,603,083	28,216,005	
30,364,607	26,532,368	25,046,164	26,408,488	
3,008,578	3,124,741	3,014,690	3,079,743	
17,742,768	15,984,417	15,307,372	16,325,714	
98,186,644	93,830,840	94,329,156	97,876,174	
 1,002,389	 1,072,662	 1,207,245	 1,296,182	
1,002,389	1,072,662	1,207,245	1,296,182	
 99,189,033	 94,903,502	 95,536,401	 99,172,356	
 7,347,275	 7,121,094	 8,017,989	 7,569,325	
2,037,057	1,501,973	1,568,683	2,131,886	
7,582,159	8,293,907	7,623,734	7,266,747	
6,664,978	6,744,066	6,793,677	7,150,548	
1,544,763	1,590,115	1,825,778	1,837,906	
2,505,258	2,135,832	2,392,703	3,547,679	
44,448,900	18,916,094	25,090,511	15,027,697	
72,130,390	46,303,081	53,313,075	44,531,788	
 4,069,128	 3,789,846	 3,639,134	 3,523,109	
4,069,128	3,789,846	3,639,134	3,523,109	
 76,199,518	 50,092,927	 56,952,209	 48,054,897	
 (47,527,759)	 (41,016,081)	 (41,016,081)	 (53,344,386)	
2,717,184	2,431,889	2,431,889	2,226,927	
 (44,810,575)	 (38,584,192)	 (38,584,192)	 (51,117,459)	

(Continued)

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

	Fiscal Year			
	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets:				
Governmental activities:				
Taxes:				
Property taxes	5,076,282	9,261,347	11,502,364	12,716,298
Tax increment, net	22,038,807	27,029,309	34,534,046	41,975,892
Sales taxes	13,385,026	14,906,391	16,329,030	16,153,930
Transient occupancy taxes	278,980	282,909	327,632	363,885
Franchise taxes	1,600,211	1,845,266	1,995,384	2,210,341
Gain on sale of capital assets				
Motor Vehicle license fees	3,082,158	1,515,555	476,482	448,352
Investment income	3,186,199	5,906,949	9,259,909	15,899,432
Other	2,449,079	2,158,669	2,405,041	2,022,793
Transfers	(26,803,440)	(5,781,245)	2,988,729	5,000,000
Total governmental activities	<u>24,293,302</u>	<u>57,125,150</u>	<u>79,818,617</u>	<u>96,790,923</u>
Business-type activities:				
Investment income	10,272	31,982	195,056	288,446
Transfers	26,803,440	5,781,245	(2,988,729)	(5,000,000)
Total business-type activities	<u>26,813,712</u>	<u>5,813,227</u>	<u>(2,793,673)</u>	<u>(4,711,554)</u>
Total primary government	<u>51,107,014</u>	<u>62,938,377</u>	<u>77,024,944</u>	<u>92,079,369</u>
Change in Net Assets:				
Governmental activities	26,398,789	8,900,601	40,759,010	70,734,669
Business-type activities	29,430,125	8,576,874	261,895	(1,644,815)
Total primary government	<u>\$ 55,828,914</u>	<u>\$ 17,477,475</u>	<u>\$ 41,020,905</u>	<u>\$ 69,089,854</u>

Fiscal Year				
2008	2009	2010	2011	
13,146,445	12,718,633	12,490,217	12,373,080	
45,397,153	45,214,569	21,315,468	36,294,755	
15,615,135	13,432,391	12,269,791	13,091,860	
383,001	330,412	298,459	610,460	
2,148,183	2,442,412	2,482,704	2,677,551	
	3,180,648		67,970	
356,472	283,349	246,496	382,275	
11,275,635	6,226,240	4,397,830	4,583,907	
1,628,030	3,372,210	1,943,136	1,390,381	
2,750,000		1,200,000	3,167,000	
92,700,054	87,200,864	56,644,101	74,639,239	
179,169	134,040	130,563	167,380	
(2,750,000)		(1,200,000)	(3,167,000)	
(2,570,831)	134,040	(1,069,437)	(2,999,620)	
90,129,223	87,334,904	55,574,664	71,639,619	
45,172,295	46,184,783	15,628,020	21,294,853	
146,353	2,565,929	1,362,452	(772,693)	
<u>\$ 45,318,648</u>	<u>\$ 48,750,712</u>	<u>\$ 16,990,472</u>	<u>\$ 20,522,160</u>	

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

	Fiscal Year			
	2002	2003	2004	2005
General Fund:				
Pre-GASB 54:				
Reserved for:				
Noncurrent assets	\$ 7,950,000	\$ 11,699,500	\$ 11,812,000	
Prepaid items	365,320	380,038	377,225	\$ 414,987
Deposits	550,724	562,587	571,066	583,314
Unreserved, designated	11,480,000	18,974,195	26,985,000	44,232,034
Unreserved, undesignated	3,300,665		87,323	5,367,873
GASB 54:				
Nonspendable				
Restricted				
Unassigned				
Total General Fund	<u>23,646,709</u>	<u>31,616,320</u>	<u>39,832,614</u>	<u>50,598,208</u>
All Other Governmental Funds:				
Pre-GASB 54:				
Reserved for:				
Noncurrent assets	22,859,183	16,162,467	15,631,543	13,650,334
Prepaid items	11,560			
Deposits				
Low and moderate income housing	12,557,544	15,756,971	19,020,746	25,165,312
Landscape maintenance	526,888	910,510	1,319,468	1,572,128
Debt service	10,285,845	11,420,167	8,904,716	4,994,488
Capital projects	34,866,105	53,264,147	47,801,292	123,338,627
Other purposes		1,000,000	1,000,000	1,000,000
Unreserved, reported in:				
Special revenue funds	3,061,170	2,715,922	6,020,196	8,597,890
Debt service funds	(16,953,711)	(15,977,920)	(5,498,649)	14,256,219
Capital projects funds	(1,955,701)	8,192,525	(1,913,516)	(5,883,850)
Permanent fund		113,782	104,770	88,283
GASB 54:				
Nonspendable				
Restricted				
Unassigned				
Total all other governmental funds	<u>65,258,883</u>	<u>93,558,571</u>	<u>92,390,566</u>	<u>186,779,431</u>
Total governmental funds	<u>\$ 88,905,592</u>	<u>\$ 125,174,891</u>	<u>\$ 132,223,180</u>	<u>\$ 237,377,639</u>

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 477,867	\$ 1,247,217	\$ 492,546	\$ 558,711	\$ 1,000,066	
607,328	637,832	723,685	771,931	1,001,672	
52,052,115	37,344,377	36,814,029	37,521,231	36,200,000	
5,461,289	6,208,292	6,045,355	6,058,840	5,995,245	
					\$ 19,463,456
					35,162,531
<u>58,598,599</u>	<u>58,834,987</u>	<u>57,472,884</u>	<u>58,307,982</u>	<u>57,644,252</u>	<u>54,625,987</u>
13,210,952	13,090,353	2,702,903	8,112,147	28,282,658	
		542,923	640,408	102,982	
33,719,308	46,474,660	59,766,836	35,347,108	10,056,506	
3,420,234	2,324,008	5,368,912	5,845,298	5,845,298	
4,660,884	4,682,091	4,625,869	10,850,533	12,941,982	
131,608,970	120,276,053	90,471,205	68,302,091	45,462,977	
1,000,000	1,000,000	1,000,000	905,850	1,023,850	
8,441,925	12,544,241	9,489,562	10,127,713	6,468,443	
28,238,856	40,577,486	34,366,082	32,924,058	16,466,613	
(13,963,277)	(19,311,650)	212,545	(5,658,656)	(6,026,005)	
147,814	249,217	98,318			
					8,072,206
					157,687,313
<u>210,485,666</u>	<u>221,906,459</u>	<u>208,645,155</u>	<u>167,396,550</u>	<u>120,625,304</u>	<u>165,759,519</u>
<u>\$ 269,084,265</u>	<u>\$ 280,741,446</u>	<u>\$ 266,118,039</u>	<u>\$ 225,704,532</u>	<u>\$ 178,269,556</u>	<u>\$ 220,385,506</u>

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

	Fiscal Year				
	2002 (1)	2003	2004	2005	2006
Revenues:					
Taxes and special assessments	\$ 36,818,590	\$ 43,981,688	\$ 56,601,047	\$ 71,181,516	\$ 87,121,780
Licenses and permits	4,930,546	4,871,768	6,466,027	6,179,840	5,116,926
Intergovernmental	10,752,787	11,487,938	9,841,835	14,537,688	15,192,674
Charges for services	6,498,391	10,663,696	11,188,371	11,495,652	11,544,038
Developer fees	8,036,042	18,068,287	10,910,960	12,589,123	8,809,768
Fines and forfeitures	130,045	137,912	141,438	131,081	169,261
Use of money and property	6,827,996	6,081,552	6,477,568	9,380,735	13,474,072
Contributions from property owners	16,210,264	5,302,996	17,567,040	31,808,603	
Miscellaneous	2,260,826	3,548,668	4,059,192	2,502,536	6,158,895
Total Revenues	92,465,487	104,144,505	123,253,478	159,806,774	147,587,414
Expenditures:					
Current:					
General government (3)	6,379,969	6,576,034	6,933,237	7,958,025	8,835,833
Community development (3)	4,505,543	7,463,021	8,450,713	10,164,579	6,903,003
Public safety	13,142,206	14,735,620	17,014,795	18,739,876	22,454,034
Highways, streets and parks (2) (3)	7,225,463	7,915,752	7,676,236	9,065,061	11,953,716
Culture and recreation (2)	1,809,148	2,047,676	1,995,952	2,221,286	2,424,190
Tax increment distrib. to other gov. agencies	7,606,288	9,232,309	12,199,149	16,644,360	20,603,185
SERAF payment	27,787,440	40,816,183	51,577,449	49,655,461	67,138,844
Capital outlay					
Debt service:					
Principal retirement	8,444,664	9,516,478	3,910,503	7,908,488	4,900,575
Interest and fiscal charges	10,977,909	10,863,390	10,879,082	14,154,572	13,420,348
Payment to bond escrow agent		7,033,707		5,031,723	
Cost of issuance	1,669,647	2,671,395		3,166,552	935,126
Total expenditures	89,548,277	118,871,565	120,637,116	144,709,983	159,568,854
Excess/(deficiency) of Revenues Over Expenditures	2,917,210	(14,727,060)	2,616,362	15,096,791	(11,981,440)
Other financing sources (uses):					
Long-term debt issued	56,951,436	94,101,743	4,375,123	129,992,578	40,717,247
Gain on sale of land held for resale	16,306	90,645	45,304	48,167	69,577
Premium on bonds issued		2,645,051		3,885,710	
Discount on bonds issued	(128,495)			(259,360)	(116,318)
Payment to bond escrow agent	(52,171,345)	(45,848,180)		(42,020,421)	
Sale of capital assets	1,395,920	7,100	11,500	23,554	17,500
Transfers in	14,220,560	5,551,195	6,500,817	5,051,872	10,497,941
Transfers out	(14,044,119)	(5,551,195)	(6,500,817)	(6,664,372)	(7,497,941)
Total other financing sources (uses)	6,240,263	50,996,359	4,431,927	90,057,728	43,688,006
Net Change in Fund Balances	\$ 9,157,473	\$ 36,269,299	\$ 7,048,289	\$ 105,154,519	\$ 31,706,566
Debt service as a percentage of noncapital expenditures	34.15%	29.42%	18.11%	23.28%	14.43%

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					
2007	2008	2009	2010	2011	
\$ 94,466,701	\$ 97,363,686	\$ 94,097,283	\$ 87,852,421	\$ 87,336,566	
4,753,491	3,907,123	4,229,537	4,274,969	4,722,075	
9,093,528	6,587,388	10,406,686	6,816,194	10,725,506	
11,486,338	11,429,757	11,783,938	11,341,050	11,273,011	
5,774,108	1,776,517	3,773,174	2,860,402	3,734,747	
181,280	269,365	292,642	279,735	284,452	
19,676,632	19,925,978	11,422,319	9,248,874	9,656,305	
11,424,122					
3,500,561	1,452,870	4,444,346	3,358,490	1,984,750	
160,356,761	142,712,684	140,449,925	126,032,135	129,717,412	
11,867,052	12,733,906	13,333,406	14,825,068	17,457,897	
6,888,307	8,761,007	43,870,002	17,085,690	10,223,010	
24,441,222	26,225,302	27,392,057	27,461,612	27,317,174	
12,371,008	15,223,370	15,455,033	14,040,659	13,379,798	
2,708,416	2,556,853	2,822,593	2,763,210	2,814,054	
19,001,916	18,747,685	18,086,645	37,060,348	16,266,743	
				4,163,078	
55,027,905	46,197,846	39,281,839	38,456,751	26,289,568	
6,571,846	11,079,781	9,481,695	9,325,010	9,566,685	
16,988,635	19,984,462	15,911,227	15,221,332	15,782,349	
214,172				674,238	
156,080,479	161,510,212	185,634,497	176,239,680	143,934,594	
4,276,282	(18,797,528)	(45,184,572)	(50,207,545)	(14,217,182)	
8,752,626	1,441,826	730,998	330,709	54,779,110	
100,328				67,970	
(69,998)				(1,719,824)	
(6,440,273)					
38,216	30,541	3,991,821	1,241,860	38,876	
17,690,782	32,041,467	6,772,976	8,056,903	14,843,444	
(12,690,782)	(29,291,467)	(6,772,976)	(6,856,903)	(11,676,444)	
7,380,899	4,222,367	4,722,819	2,772,569	56,333,132	
\$ 11,657,181	\$ (14,575,161)	\$ (40,461,753)	\$ (47,434,976)	\$ 42,115,950	
18.21%	23.41%	15.80%	16.08%	22.07%	

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

City (1)						
Fiscal Year Ended June 30	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Direct Tax Rate (3)	
2002	\$ 3,710,146,845	\$ 200,211,006	\$ (154,109,549)	\$ 3,756,248,302	0.0883	
2003	4,291,608,109	199,482,734	(171,516,035)	4,319,574,808	0.0883	
2004	5,013,232,710	241,767,386	(203,515,600)	5,051,484,496	0.0883	
2005	6,099,717,310	263,146,015	(225,472,172)	6,137,391,153	0.0883	
2006	7,546,999,066	306,344,173	(258,902,856)	7,594,440,383	0.0883	
2007	8,917,662,485	332,372,762	(288,440,819)	8,961,594,428	0.0883	
2008	9,707,243,947	316,267,589	(336,468,219)	9,687,043,317	0.0883	
2009	9,612,859,892	336,188,166	(406,413,814)	9,542,634,244	0.0883	
2010	8,948,612,795	343,678,128	(433,607,449)	8,858,683,474	0.0883	
2011	8,829,981,997	343,767,058	(432,933,115)	8,740,815,940	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.

Redevelopment Agency (RDA) (2)

Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Direct Tax Rate
\$ 1,812,600,311	\$ 140,329,846	\$ (71,481,256)	\$ 1,881,448,901	1.00 %
2,206,633,313	139,608,220	(84,166,378)	2,262,075,155	1.00
2,768,984,226	182,013,455	(106,577,232)	2,844,420,449	1.00
3,570,231,758	200,742,283	(123,731,296)	3,647,242,745	1.00
4,632,364,100	243,702,276	(135,521,826)	4,740,544,550	1.00
5,625,496,019	269,320,651	(156,913,713)	5,737,902,957	1.00
6,159,597,590	95,505,864	(204,434,763)	6,050,668,691	1.00
6,099,738,611	278,835,976	(250,921,128)	6,127,653,459	1.00
5,695,351,795	285,488,163	(275,552,686)	5,705,287,272	1.00
5,593,688,336	285,261,217	(274,668,889)	5,604,280,664	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		San Marcos		San Diego County	Other	Total
			Unified School District	Fire Protection District	San Diego County	Other			
2002	0.0883 %	0.0883 %	0.3805 %	0.0632 %	0.2709 %	0.1971 %	1.0000 %		
2003	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2004	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2005	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2006	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2007	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2008	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2009	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2010	0.0883	0.0883	0.3805	0.0632	0.2481	0.2200		1.0000	
2011	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
0.0284	1.0284
0.0257	1.0257
0.0238	1.0238
0.0238	1.0238
0.0346	1.0346
0.0349	1.0349
0.0432	1.0432
0.0470	1.0470
0.0439	1.0439
0.0559	1.0560

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

Taxpayer	2011			2002		
	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	\$ 125,612,876	1	1.44 %			
Hunter Industries Inc.	94,336,523	2	1.08	\$ 40,311,769	1	0.90 %
Willmark Communities Inc.	85,870,244	3	0.98			
Camden USA Inc.	83,836,873	4	0.96			
Urban Villages San Marcos LLC	61,461,822	5	0.70			
San Elijo Hills Development Company	42,844,168	6	0.49			
Ralphs Grocery Company	34,947,981	7	0.40			
Ventas Realty LP	39,661,767	8	0.45			
Autumn Terraces LLC	33,326,350	9	0.38			
Woodland Parkway Development LLC	32,432,139	10	0.37			
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>\$ 634,330,743</u>		<u>7.26 %</u>	<u>\$ 244,517,397</u>		<u>5.44 %</u>

Source: HDL Coren & Cone.

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal			Delinquent Collections (2)	Total Collections to Date			
		Year of the Levy		Percentage of Levy		Amount	Amount	Percentage	
		Year	Amount						
2003	\$ 4,377,349	\$ 4,262,231	97.37	\$ 67,568	\$ 4,329,799			98.91 %	
2004	5,058,512	4,880,776	96.49	77,745	4,958,521			98.02	
2005	6,256,364	5,882,189	94.02	78,862	5,961,051			95.28	
2006	6,908,062	6,472,381	93.69	133,657	6,606,038			95.63	
2007	6,837,608	6,368,465	93.14	184,632	6,553,097			95.84	
2008	6,773,119	6,341,932	93.63	167,455	6,509,387			96.11	
2009	6,183,776	5,932,421	95.94	241,543	6,173,964			99.84	
2010	5,575,114	5,363,998	96.21	227,310	5,591,308			100.29	
2011	5,604,503	5,413,368	96.59	226,828	5,640,196			100.64	

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
2002	\$ 310,000	\$ 64,090,000	\$ 110,290,000	\$ 8,068,150	\$ 1,566,408
2003	160,000	60,595,000	148,910,000	5,330,645	1,198,032
2004	-	58,995,000	148,430,000	6,218,329	756,191
2005	-	57,645,000	230,450,000	2,498,934	1,447,350
2006	-	56,435,000	264,975,000	1,846,648	1,305,963
2007	-	55,490,000	260,715,000	1,436,910	753,855
2008	-	54,170,000	255,715,000	1,231,685	377,845
2009	-	52,805,000	250,555,000	1,035,245	-
2010	-	51,395,000	245,215,000	943,274	-
2011	-	49,925,000	292,500,000	2,646,245	-

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
\$ 18,945,185	\$ 8,710,984	\$ 211,980,727	10.03	%	3,323
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	9.69		4,419

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

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

Note:

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

Source: City Finance Department.

		Percent of Assessed Value	
	Total	(1)	Per Capita
\$	174,690,000	4.389 %	2,739
	209,665,000	4.596	3,120
	204,018,933	3.930	2,804
	268,844,233	4.613	3,504
	290,757,260	4.171	3,643
	270,945,423	3.475	3,275
	270,893,049	3.151	3,258
	252,835,409	3.064	3,014
	267,201,405	3.200	3,694
	313,016,405	3.200	3,694

CITY OF SAN MARCOS
Direct and Overlapping Debt
As of June 30, 2011

2010-11 City Assessed Valuation: \$8,840,785,740
Redevelopment Incremental Valuation: 5,604,290,638
Adjusted Assessed Valuation: \$3,236,495,102

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Percentage Applicable (1)	Outstanding Debt June 30, 2011	Estimated Share of Overlapping Debt
Metropolitan Water District	0.180%	\$ 227,670,000	\$ 409,806
Palomar Community College District	4.203%	322,528,901	13,555,890
San Marcos Unified School District Improvement District No. 1	33.895%	11,998,019	4,066,729
San Marcos Unified School District Community Facilities District No. 2	100.00%	1,735,000	1,735,000
San Marcos Unified School District Community Facilities District No. 3	100.00%	1,820,000	1,820,000
San Marcos Unified School District Community Facilities District No. 4	89.262%	22,760,000	20,316,031
Other School Districts	Various	306,721,597	104,829
Palomar Pomerado Hospital	5.623%	481,514,998	27,075,588
City of San Marcos	100.00%	0	0
San Marcos Community Facilities District No. 88-1	100.00%	23,175,000	23,175,000
San Marcos Community Facilities District No. 91-01	100.00%	2,566,570	2,566,570
San Marcos Community Facilities District No. 99-01	100.00%	80,916,427	80,916,427
San Marcos Community Facilities District No. 2002-01	100.00%	20,180,000	20,180,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			195,921,870

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

San Diego County General Fund Obligations	0.944%	385,650,000	3,640,536
San Diego County Pension Obligations	0.944%	820,288,160	7,743,520
San Diego County Superintendent of Schools Obligations	0.944%	19,992,500	188,729
Palomar Community College District General Fund Obligations	4.203%	6,275,000	263,738
San Marcos Unified School District General Fund Obligations	39.203%	56,128,327	22,003,988
Other School District Certificates of Participation	Various	100,805,000	62,298
City of San Marcos General Fund Obligations	100.00%	49,925,000	49,925,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			83,827,809

COMBINED TOTAL DEBT (2)

\$ 279,749,679

(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.

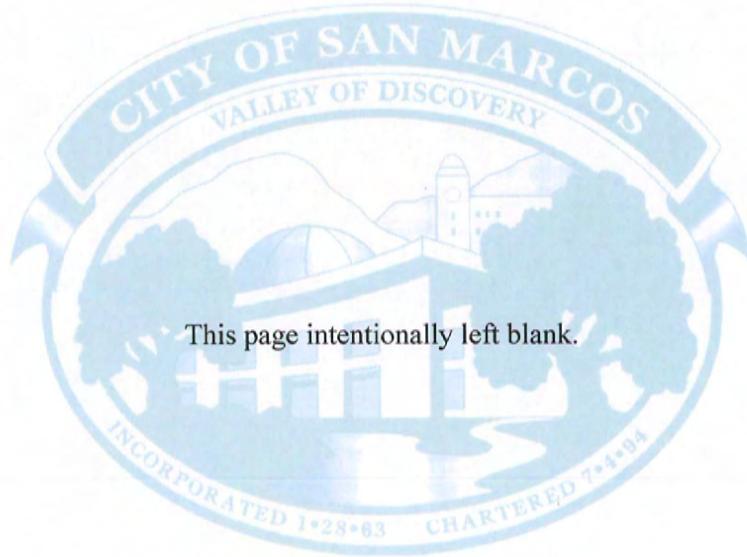
Ratios to 2010-11 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.22%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$49,925,000)	1.54%
Combined Total Debt	8.64%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0



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

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

Note:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Fiscal Year						
2006	2007	2008	2009	2010	2011	
\$ 7,853,343,239	\$ 9,250,035,247	\$ 10,023,511,536	\$ 9,949,048,058	\$ 9,292,290,923	\$ 9,173,749,055	
25%	25%	25%	25%	25%	25%	
1,963,335,810	2,312,508,812	2,505,877,884	2,487,262,015	2,323,072,731	2,293,437,264	
15%	15%	15%	15%	15%	15%	
294,500,371	346,876,322	375,881,683	373,089,302	348,460,910	344,015,590	
<u>\$ 294,500,371</u>	<u>\$ 346,876,322</u>	<u>\$ 375,881,683</u>	<u>\$ 373,089,302</u>	<u>\$ 348,460,910</u>	<u>\$ 344,015,590</u>	
0.000%	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		
2002	\$ 4,919,063	\$ 270,000	\$ 923,428	4.12	\$ 16,255,389	\$ 2,480,000	\$ 7,607,749	1.61	
2003	6,045,339	285,000	910,671	5.06	19,820,881	2,180,000	7,836,869	1.98	
2004	7,927,695	295,000	897,050	6.65	25,918,030	1,205,000	8,181,909	2.76	
2005	10,155,237	310,000	882,536	8.52	33,083,005	2,275,000	9,314,440	2.85	
2006	12,829,183	330,000	866,861	10.72	41,711,486	2,375,000	10,503,910	3.24	
2007	14,249,035	340,000	850,170	11.97	46,212,559	5,015,000	13,801,859	2.46	
2008	14,974,683	355,000	832,604	12.61	48,616,665	5,770,000	13,966,026	2.46	
2009	14,737,707	375,000	813,101	12.40	47,937,014	5,945,000	13,783,236	2.43	
2010	13,536,113	400,000	791,379	11.36	44,165,941	6,140,000	13,580,656	2.24	
2011	13,144,947	425,000	1,499,668	6.83	42,862,987	6,350,000	13,354,716	2.18	
									21,384,763

Note:

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

Revenue Bonds - City

Debt Service

Revenue	Principal	Interest	Coverage
\$ 589,443	\$ 120,000	\$ 469,443	1.00
1,948,073	1,485,000	463,073	1.00
506,404	130,000	376,404	1.00
504,514	135,000	369,514	1.00
507,234	145,000	362,234	1.00
461,903	255,000	206,903	1.00
472,887	195,000	277,887	1.00
475,509	205,000	270,509	1.00
472,728	210,000	262,728	1.00
469,490	215,000	254,490	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)
2002	31.20	60,656	5.32	\$ 2,112,894,183	\$ 34,719	4.90
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	84,734	1.14	(1)	(1)	10.07

(1) Personal income and per capita personal income data for 2011 are unavailable.
 (2) Final unemployment rate for 2011 is unavailable; rate presented is average unemployment rate for 9 months of 2011.
 (3) Data presented is for San Diego/Carlsbad/San Marcos economic area.

Sources:

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

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

Employer	2011			2002		
	Number of Employees	Rank	Percent of Total Employment (1)	Number of Employees	Rank	Percent of Total Employment (1)
Hunter Industries, Inc.	819	1	2.93%	450	2	1.65%
United Parcel Service	448	2	1.60%	427	3	1.56%
Oncore Manufacturing Services	332	3	1.19%			
Wal-Mart	312	4	1.12%			
Lusardi Construction Co	300	5	1.07%			
PCL Construction Inc.	300	6	1.07%			
Fry's Electronics	299	7	1.07%			
So. CA Permanente Med Group	278	8	0.99%			
Costco Wholesale	251	9	0.90%	249	4	0.91%
Vanpike, Inc.	246	10	0.88%			
24 Hour Fitness	232	11	0.83%			
CA State University SM Foundation	230	12	0.82%			
RB III Associates, Inc.	205	13	0.73%			
Fluid Components Intl., LLC	195	14	0.70%	165	11	0.60%
Hollandia Dairy Inc.	190	15	0.68%	222	9	0.81%
Signet Armorlite, Inc.	188	16	0.67%	529	1	1.94%
Hughes Circuits Inc	178	17	0.64%			
Regal Entertainment Group	150	18	0.54%			
Home Depot	142	19	0.51%			
Falmat Inc.	130	20	0.46%			
South Coast Framers				230	5	0.84%
Walker Wood Products, Inc.				225	6	0.82%
Stonecraft Industries LLC				224	7	0.82%
Jacques Gourmet				223	8	0.82%
Ortho Organizers, Inc.				173	10	0.63%
Quadra Med Corporation				160	12	0.59%
Napp Systems, Inc.				150	13	0.55%
K-Tech Machine, Inc.				145	14	0.53%
Edward SM 18 Stadium Cinema				130	15	0.48%
Rex Industries				125	16	0.46%
Natural Alternatives				123	17	0.45%
Amistar Corp.				118	18	0.43%
American Concrete				114	19	0.42%
Judd Wire				112	20	0.41%
Total	<u>5,425</u>		<u>19.40%</u>	<u>4,294</u>		<u>15.73%</u>

Note:

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

Source: City of San Marcos Business License Directory.

Bureau of Economic Analysis U.S. Department of Commerce.

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

Function/Program:	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	35	35	33	35	37	45	51	50	60	59
Community development	36	34	33	38	44	43	40	37	44	39
Public safety (1)	54	55	64	72	85	84	91	94	101	97
Highways, streets and parks (2)	64	67	69	73	76	87	77	66	71	76
Culture and recreation (2)	125	106	128	153	137	126	141	126	137	145
Total	314	297	327	371	379	385	400	373	413	416

Notes:

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

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

Source: City Finance Department.

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

<u>Function/Program</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Government:					
Number of business licenses issued	5,450	5,161	5,436	5,320	5,330
Number of requests for public information	112	160	176	211	202
Number of new hires including part-time	128	98	71	98	93
Number of invoices processed	14,616	11,208	11,256	19,296	13,020
Public Safety:					
Police:					
Contracts with the San Diego County Sheriff's Department for full service law enforcement					
Fire:					
Number of emergency calls	6,880	6,911	6,955	7,184	6,928
Number of fire inspections	1,495	1,459	1,852	2,211	2,101
Highways and Streets:					
Number of street lights added in current year	172	25	17	14	36
Number of traffic signals added in current year	7	3	4	3	3
Miles of streets swept	14,770	14,770	14,770	14,976	14,976
Miles of centerline streets added	24	-	-	-	5
Storm drain structures cleaned and repaired	113	114	116	389	474
Culture and Recreation:					
Number of facility rentals	486	670	669	857	757
Number of swim program participants	13,221	17,688	19,714	30,110	34,494
Number of adult sports participants	20,503	21,204	25,961	31,772	35,105
Number of youth sports participants	10,366	11,126	12,108	17,610	18,105
Number of senior nutrition program meals served	22,500	16,426	15,708	13,126	13,295
Community Development:					
Number of building permits issued	836	502	458	454	618
Approximate number of building inspections conducted	41,076	21,554	14,501	24,819	24,888
Number of new business licenses issued	1,505	1,307	1,225	1,131	878

Note:

- (1) Water and sewage treatment services are provided by the Vallecitos Water District.
- (2) Years prior to fiscal year 2005-06 have not been presented because data for those years is not readily available.

Source: Various City Departments.

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

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Public Safety:						
Police (1)						
Fire						
Number of fire stations	3	3	3	3	4	4
Number of emergency vehicles	21	26	26	29	32	33
Highways and Streets:						
Miles of streets	175	175	175	200	212	236
Number of street lights	2,202	2,202	2,267	2,383	2,428	2,600
Culture and Recreation:						
Parks	22	24	25	27	27	28
Acres of park land	261	279	317	331	336	366
Pools	2	2	2	2	2	2

Note:

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

Sources: Various City departments.

2008 2009 2010 2011

4	4	4	4
35	33	40	31

236	236	236	241
2,625	2,645	2,659	2,695

28	30	32	33
373	373	377	379
2	2	2	2

